

TREND, STRUCTURE AND PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NEPAL

A Thesis

Submitted to the Central Department of Economics,

Tribhuvan University, Kirtipur, Kathmandu, Nepal

in Partial Fulfillment of the Requirements

for the Degree of

MASTER OF ARTS

in

ECONOMICS

By

KAMALA SUBEDI

Central Department of Economics

Tribhuvan University, Kirtipur,

Kathmandu, Nepal

JULY, 2013

Date:-2070.04.14

LETTER OF RECOMMENDATION

This thesis entitled “TREND, STRUCTURE AND PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NEPAL has been prepared by Kamala Subedi under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfillment of the requirements of the Degree of MASTER OF ARTS in ECONOMICS.

Mr. Resham Bahadur Thapa
Thesis Supervisor
Central Department of Economics
Tribhuvan, University, Kirtipur
Kathmandu, Nepal

Date: - July 29, 2013

APPROVAL SHEET

We certify that this thesis entitled “TREND, STRUCTURE AND PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NEPAL submitted by Kamala Subedi to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirement for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

Thesis Committee

Associate Prof. Dr. Ram Prasad Gyanwaly _____

Head of Central Department of Economics

(Chairman)

Prof. Dr. Madhavi Singh Shah _____

(External Examiner)

Mr. Resham Bahadur Thapa _____

(Thesis Supervisor)

Date: - September 11, 2013

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to Mr. Resham Bahadur Thapa of Central Department of Economics, Tribhuvan University, Kirtipur for his scholarly guidance, valuable suggestions and encouragement without which this study would not exist in this form. I am deeply indebted to him.

I would like to express my sincere gratitude to the Central Department of Economics, Kirtipur and its family. My sincere thanks goes to my brother Mr. Santosh Bhandari for providing me the valuable support in the whole thesis work.

The completion of this thesis would have been impossible without whole-hearted support of my Mother Mrs. Durga Subedi. I am very much grateful to my husband Suresh Pokharel and sister Hemanta for their continuous inspiration in my academic field. I am highly indebted to my parents for their love, inspiration, and encouragement.

Finally, I wish to thank to all my colleagues for good wishes to complete this work successfully.

I am alone responsible for any mistakes and errors occurred in preparing this thesis.

July 2013

Kamala Subedi
Kirtipur, Kathmandu

TABLE OF CONTENTS

| Title | Page No |
|----------------------------------|----------------|
| RECOMMENDATION LETTER | i |
| APPROVAL SHEET | ii |
| ACKNOWLEDGEMENT | iii |
| TABLE OF CONTENTS | iv |
| LIST OF TABLES | viii |
| LIST OF FIGURES | ix |
| ACRONYMS AND ABBREVIATION | x |

CHAPTER I INTRODUCTION

| | |
|-------------------------------|---|
| 1.1 Background | 1 |
| 1.2 Statement of the Problem | 3 |
| 1.3 Objectives of the Study | 4 |
| 1.4 Significance of the Study | 4 |
| 1.5 Limitations of the Study | 4 |
| 1.6 Organization of the Study | 5 |

CHAPTER II REVIEW OF LITERATURE

| | |
|---|----|
| 2.1 Conceptual framework | 6 |
| 2.1.1 Concept and Definition of Foreign Direct Investment | 6 |
| 2.1.2 Determinants of Foreign Direct Investment | 9 |
| 2.1.3 Motives of FDI in Nepal | 13 |
| 2.1.4 Benefits of FDI to LDCs | 15 |
| 2.2 Foreign Direct Investment in Nepalese context | 17 |
| 2.2.1 Brief history | 17 |

| | |
|------------------------------------|----|
| 2.2.2 Recent trend in FDI in Nepal | 19 |
| 2.2.3 Policy Framework | 20 |
| 2.2.4 Institutional Arrangements | 22 |
| 2.2.5 Review of Nepalese Studies | 24 |

CHAPTER III METHODOLOGY OF THE STUDY

| | |
|----------------------------------|----|
| 3.1 Data and Information | 29 |
| 3.2 Sources of Data | 29 |
| 3.3 Data Processing and Analysis | 29 |
| 3.4 Time Period of the Study | 29 |
| 3.5 Conclusion | 29 |

CHAPTER IV POLICIES RELATING TO FOREIGN DIRECT INVESTMENT IN NEPAL

| | |
|--|----|
| 4.1 Foreign Direct Investment in Nepal | 30 |
| 4.1.1 Foreign Investment and Technology Act, 1981 | 30 |
| 4.1.2 Foreign Investment and Technology Transfer Act, 1992 | 31 |
| 4.1.2.1 Provision Relating to Visa | 32 |
| 4.1.2.2 Settlement of Disputes | 32 |
| 4.1.2.3 Procedures for Repatriating Facilities | 33 |
| 4.1.2.4 Visa Arrangement | 34 |
| 4.1.2.5 Land Facilities | 36 |
| 4.1.2.6 Convertible Foreign Exchange Facilities | 36 |
| 4.1.2.7 Procedural Arrangements | 36 |
| 4.1.3 One Window Policy 1992 | 37 |
| 4.1.4 Industrial Policy 1992 | 38 |
| 4.1.5 Tenth Five-Year Plan (2002-2007) | 39 |
| 4.1.6 FDI under the Three Year Interim Plan | 41 |

CHAPTER V

TREND AND STRUCTURE OF FOREIGN DIRECT INVESTMENT IN NEPAL

| | |
|--|----|
| 5.1 Trend of FDI in Nepal | 44 |
| 5.1.1 Year wise flow of foreign direct investment in Nepal | 45 |
| 5.1.2 Change in Foreign Direct Investment in Nepal | 47 |
| 5.1.3 Increase in Employment Creation Due to Foreign Direct Investment | 48 |
| 5.2. Structure of FDI in Nepal | 50 |
| 5.2.1. Structure of FDI District Wise in Nepal | 50 |
| 5.2.2. Structure of FDI Sector Wise in Nepal | 50 |
| 5.2.3 Scale-wise Flow of Foreign Direct Investment in Nepal | 52 |
| 5.2.4 Country wise Flow of Foreign Direct Investment in Nepal | 53 |

CHAPTER VI

PROSPECTS AND CHALLENGES OF FDI IN NEPAL

| | |
|--|----|
| 6.1 Prospects of FDI in Nepal | 55 |
| 6.1.1 Background | 55 |
| 6.1.2 Hydro-power | 56 |
| 6.1.3 Tourism Industry | 57 |
| 6.1.4 Electrical and Electronic Industries | 58 |
| 6.1.5 Mineral Exploration and exploitation | 58 |
| 6.1.6 Readymade Garments | 60 |
| 6.1.7 Carpet Industries | 62 |
| 6.1.8 Leather goods industries | 62 |
| 6.1.9 Air services | 64 |
| 6.1.10 Pharmaceutical Industries | 64 |
| 6.1.11 Agro and Forest Based Industries | 64 |
| 6.2 Challenges of FDI in Nepal | 67 |

CHAPTER VII

SUMMARY, FINDINGS AND RECOMMENDATION

| | |
|--------------|----|
| 7.1 Summary | 71 |
| 7.2 Findings | 73 |

| | |
|---------------------|-----------|
| 7.3 Recommendations | 75 |
| REFERENCES | 78 |
| APPENDIX | |

LIST OF TABLES

| | Page No |
|--|----------------|
| Table No. 5.1 Trend of FDI in Nepal | 46 |
| Table No. 5.2 Percentage change in FDI | 47 |
| Table No. 5.3 Percentage change of Total Employment | 49 |
| Table No. 5.4 Number of Industries Approved for Investment by District (Up to FY 2010/2011) | 50 |
| Table No. 5.5 Sector Wise Foreign Direct Investment in Nepal | 51 |
| Table No. 5.6 Number of Industries Approved for Foreign Investment by Category | 52 |
| Table No. 5.7 Number of Industries Approved for Foreign Investment by Scale | 52 |
| Table No. 5.8 Number of Industries Approved by Country of Origin | 53 |

LIST OF FIGURES

| | Page No |
|---|----------------|
| Figure No. 5.1 Trend of FDI in Nepal | 48 |
| Figure No. 6.1 Export of Readymade Garments (1990/91-2005/06) | 60 |
| Figure No. 6.2 Export of Carpets (Hand Knotted Woolen) during (1990/91-2005/06) | 62 |
| Figure No. 6.3 Export of Hides and Skins (1995/96-2005/06) | 63 |

ACRONYMS AND ABBREVIATIONS

| | |
|---------|---|
| ADB | Asian Development Bank |
| APEC | Association of Petroleum Exporting Countries |
| ASEAN | Association for South East Asian Nations |
| BITS | Bilateral Investment Treaties |
| BOI | Board of Investment |
| CBS | Central Bureaus of statistics |
| CEDA | Centre for Economic Development and Administration |
| CEDECON | Central Department of Economics |
| DOI | Department of Industry |
| ESAP | Enhanced Structural Adjustment Program |
| FDI | Foreign Direct Investment |
| FI | Foreign Investment |
| FITTA | Foreign Investment and Technology Transfer Act |
| FNCCI | Federation of Nepalese Chamber of Commerce and Industry |
| FNM | First Ninth Month |
| FY | Fiscal Year |
| GATT | General Agreement on Tariff and Trade |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GNP | Gross National Product |

| | |
|----------|--|
| HDI | Human Development Index |
| HDR | Human Development Report |
| IMF | International Monetary Fund |
| Ktm | Kathmandu |
| LDCs | Least Developed Countries |
| M.A. | Master of Arts |
| MDGs | Millennium Development Goals |
| MIGA | Multilateral Investment Guarantee Agency |
| MNCs | Multinational Companies |
| MOF | Ministry of Finance |
| MOI | Ministry of Industry |
| MW | Mega Watt |
| NEA | Nepal Electricity Authority |
| NIDC | Nepal Industrial Development Corporation |
| NPC | National Planning Commission |
| NRB | Nepal Rastra Bank |
| NRN | Non- resident Nepali |
| OECD | Organization of Economic Co-operation and Development |
| R&D | Research and Development |
| RNAC | Royal Nepal Airlines Corporation |
| Rs. | Rupees |
| SAARC | South Asian Association for Regional Co-operation |
| SAFTA | South Asian Free Trade Area |
| SAP | Structural Adjustment Program |
| T.U. | Tribhuvan University |
| TNC | Transnational Co-operations |
| TRIPS | Trade-Related intellectual property Rights |
| UK | United Kingdom |
| UN | United Nations |
| UNCED | United Nations Conference on Environment and Development |
| UNCITRAL | United Nations Commission on International Trade Law |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Program |
| UNHDR | United Nations Human Development Report |

| | |
|-----|------------------------------------|
| UNO | United Nations Development Program |
| USA | United States of America |
| WTO | World Trade Organization |
| WB | World Bank |