CHAPTER I

INTRODUCTION

1.1 Background of the Study

A Himalayan country wedged between two emerging economic powers, India in the east, west and south with an open border and China in the north, Nepal is a least-developed, landlocked and economically vulnerable nation. The total population of Nepalis 26,494,504, the total number of household is 5,427,302 and the average annual growth rate of the population is 1.35 percent(CBS, 2011).

Nepalese economy is passing through the critical phase of low level equilibrium trap circumscribed by poverty and stagnation. The economy is the manifestation of an acute disguised employment and subsistence farming with limited prospect for mechanization where foreign direct investment (FDI) have continued to play a critical role over the years in sustaining the economy. Microeconomic indicators exhibit that Nepal's economic status is vulnerable in terms of per capita income, commercial viability of natural resources, the extent of poverty and the status of manufacturing sector.

The developing countries have been trying to attract foreign direct investment in different sectors. The majority of foreign direct investment is concentrated in some more advanced countries and middle income developing countries whereas the low income countries have been able to attract proportionately less investment. The reasons for high concentration of foreign direct investment in these countries are their economic characteristics such as large domestic market, rich natural resources and scope for export-oriented production. On the other hand, the small countries with limited internal market and with poor natural resources have been facing difficulty in attracting foreign direct investment. International Monetary Fund (IMF) states that countries with small internal markets, poor natural resources, a relatively underdeveloped infrastructure and limited possibilities for manufacture exports may not be able to attract substantial direct investment even with liberal regulations and generous incentives.It should, however, be remembered that the large countries with rich natural resources also cannot attract FDI if their policies are restrictive.

Foreign direct investment plays significant role to accelerate the economy to increase of capital formation, technology transfer and production process as well. FDI is viewed as an instrument for exploring the resources, promoting industrial growth, enhancing the competitiveness of the domestic firms; and also promoting export particularly in developing countries. FDI maintains relatively open economies, stable macro-economic conditions and limited restrictions on foreign exchange transactions. The world FDI has increased its importance by transferring technologies and establishing marketing and procuring networks for efficient production and sales internationally (Shujiro,1998).

Foreign investments are of substantial importance for both the host country and foreign investors. For the host country, foreign direct investment contributes to the growth of business activities, increase export, and employment, transfer of technology and knowhow, management skills as well as to initiation or acceleration of the economic growth and development of the country (Rijal,2010).

Foreign direct investment offers extra-ordinary opportunity for developing countries to achieve faster economic growth through trade and investment. The experiences of emerging market economy Brazil, Russia, China, Vietnam, Thailand, and India postulate this fact clearly. In developing Asia, FDI is the most important source of capital from abroad.

The increasing flow of FDI in developing economy is found crucial in expanding the extent of infrastructure development. The fastest growing economy China and India are moving towards the emerging power of the world. Similarly, Latin American country Brazil, Mexico, Asian and African economies and South Korea, Singapore, South Africa are exercising market economy utilizing the flow of FDI.

The inflow of FDI in Nepal began in the early 1980s through the gradual opening up of the economy. This was primarily due to Nepal’s more liberal trade policies, which comprised tariff rate reductions, the introduction of a duty drawback scheme, the adoption of a current account convertibility system and liberalization of the exchange rate regime. A reversal in the rising trend took place from the beginning of the 2000s. All in all, FDI inflow is the lowest in Nepal even when compared with other landlocked countries (The World Bank, 2017).

The economic growth of any country depends upon the proper utilization of existing resources of that country through mobilization of capital, technology, and manpower. The natural as well as cultural assets of Nepal offer many substantial opportunities to investors. Since Nepal lacks a huge investment, foreign direct investment (FDI) is the better option to attain the goal of economic growth. The main source for investment is national saving but in Nepal, low saving and high expenditure is creating a large saving-investment gap. So, there is lack of sufficient amount of saving for investment. Furthermore Gross Domestic Product (GDP) growth is quite low, on the one hand, and, in another hand, increasing import has been resulting increasing trade deficit. In such a condition, FDI plays a vital role to boost economic growth in Nepal.

FDI is the outcome of mutual interest of multinational firms and host countries. It is the main source of external finance, which means the country with limited amount of capital can receive finance beyond national borders from wealthier country.

In the world, the concept of FDI came along with the process of liberalization in economy. The inflow of FDI in Nepal began in early 1980s through gradual opening up of economy. Government of Nepal has begun carrying out policy and regulatory changes in industry, trade, finance and stock exchange to promote foreign investment and technology transfer in the country.

According to Department of Industry (DoI), Nepal is ranked 150th in FDI potential index but at the bottom among SAARC Nations, Nepal attracted FDI worth NRs.1,991.92 million in FY 2013/14 against 19,936.23 million in FY 2012/13. Manufacturing sector attracts investors from India, the US, Korea, Singapore, and service sector attracts investors from China. Thus, FDI is essential to pave the way for development of underdeveloped countries like Nepal.

1.2 Statement of the Problem

With the backup of globalization, liberalization and privatization Nepal has been attempting to attract FDI since 1990. It has made couple of efforts in increasing the inflow of FDI including amendment of laws, initiating investment/friendly programs, enforcing private sector via public-private partnership, providing incentives and facilities to the industries under industrial Enterprise Act and Foreign Investment and Technology Transfer Act, providing term loans, credits, and subsidy for industrial development, providing infrastructures like utility services and other facilities. Besides, the government as well as private institutions is working collaboratively in making investment/friendly situation. The recent BIPPA agreement made between Nepal and India can be taken as an example of joint effort of government and private sector.

Moreover, GoN has enacted dozens of acts aiming to accelerate FDI inflow. Industrial Policy 2010), Industrial Enterprise Act, Foreign Exchange Act and Regulations, Immigration Rules, Customs Act, Industrial Enterprises Act, Foreign Investment and Technology Transfer Act, Electricity Act, and Privatization Act are the major legal attempts made by GoN. Despite these attempts, FDI inflows in Nepal is not adequate (Biggs,2000). The World Bank andFNCCI(2000) states "*A key finding of this report is that government policy and its implementation are currently the greatest obstacles for doing business in Nepal"*. This argument clearly hints on the leakage of the GoN in pursuing the FDI policy.

As the main attracting factor for FDI are market, infrastructure, and technology, political, social and legal provision. But in Nepal, limited resource mobilization capacity, liquidity crisis in recent years, a resilient financial sector, poor manpower, improper planning, ineffective implementation of policies, political instability, etc. have been the major reasons for dismal of FDI. Besides this, Nepal is still facing some problem for FDI because of lack of direct access to the seaports, difficult land transport and lack of trained personnel scarce raw materials, insufficient power and water supply, inadequate and obscure commercial legislation and unclear rules regarding labor relation. Due to all those problems,the government of Nepal has not been able to promote foreign investment in desired extent.So, Nepal has been consider to be the country with the limited level of investment climate.

With the liberalization and privatization policies undertaken in the 1990s, Nepal should have been able to attract more FDI and private capital flows. But present scenario reveals that the ability of Nepal to attract private capital and FDI has been less than anticipated. Despite the ample facilities and liberal legal provisions, the disappointing flow of FDI to Nepal has emerged as a problem. This study focuses on the following research questions:

- What is the present status and the overall structure of FDI in Nepal?
- What is the role of FDI to create employment opportunities in Nepal?

1.3. Objectives of the Study

The general objective of the study is to analyse thepresent status and the role of FDI in Nepal.

The specific objectives of the thesis are as follows:

1. To explore the present status and the overall structure of FDI in Nepal,
2. To assessthe role of FDI in employment generation in Nepal.

1.4 Significance of the Study

There is a considerable change in the attitude of both developing and developed countries towards FDI. They both consider FDI as a most suitable form of external finance. Nowadays, increase in competition for FDI inflows particularly developing nation like Nepal is vital.

Foreign direct investment is the major concern of Nepalese economy. From the First Plan to till date share of FDI has significant contribution in plan formulation process. Major portion of development expenditure has been covered by FDI. Unlike this, implementation of plans and programs are always found in problems due to weak political willpower. Government mechanisms are found inefficient in grasping the FDI and utilizing properly. At this context, it is necessary to have a glimpse at the overall scenario of FDI and efficacy of its utilization part. This assessment may help development actors by providing right way to channelize the FDI in the days to come.

The main goal of the least-developed country like Nepal is to attain high rate of economic growth. AsNepal is a least-developed country, it lacks sufficient amount of investment for the mobilization of available resources. Their foreign capital and technology can act as engine of socio-economic growthwhich accelerates capital formation, helps to alleviate poverty, mobilizes the natural resources available in the country, creates employment opportunities, increases the production at national level, it increases GDP and curtails import which helps to reduce trade deficit. Hence, keeping concern on benefit of FDI, the government of Nepal will have to exercise more to attract FDI.

Since FDI plays vital role for the economic development of Nepal, the rationale behind this study is to create knowledge and provide general information about the need and trends of FDI in Nepal as well as introduce readers and concerns authorities with the findings of this study.

From this study, it is largely hoped that the readers will get adequate and reliable information about the nature, present structural condition and status of FDI in Nepal.

It is also envisaged that this study has helpful for the general readers as well as academic researchers and interested people for their further research study in this field.

1.5 Limitations of the Study

This study has following limitations:

- Only secondary data have used in this research study. So, the reliability and validity of the study depends upon the quality of data.
- The result depends on the reliability and validity of secondary data.
- Short run analysis is adopted for this research study.

1.6 Definition of Key Terms Used in the Study

Investment: New capital addition to a firm's capital stock. Although capital is measured at a given point in time (a stock), investment is measured over a period of time (a flow). The flow of investment increases the capital stock.

Capital: Goods produced by the economic system that are used as inputs to produce other goods and services in the future.

Capital Market: The input/factor market in which households supply their savings, for interest or for claims to future profits, to firms that demand funds to buy capital goods. .

Foreign Direct investment (FDI): According to the second edition of encyclopedia of economics, FDI is the acquisition of managerial control by a citizen or corporation of a home nation over corporation of some 'other host nation. Corporation that widely engaged in FDI are called "Multinational Companies", "Multinational Enterprises" or "Trans-National Corporation".

Foreign investment and technology transfer act (FITTA-1992) defines 'Foreign Investment' as investment made by a foreign investor in any industry in the form of share, reinvestment of the earnings derived from the investment and, investment of loan or loan facilities.

Technology Transfer: The term 'Technology Transfer' is defined by Foreign and Technology Transfer Act 1992 as transfer of technology to be made under any agreement between an industry and a foreign investor on the following matters:

- Use of any technological right, specialization, formula, process, parent or technical knowhow foreign origin.
- Use of any trademarks of foreign ownership.
- Providing any foreign technical consultancy, management and marketing services.
- The term 'foreign investors' is defined as any foreign person; firm, company orinternational institution which has invested money or technology transferred.

- **Multi National Company (MNC):** MNC is defined as a corporation or enterprises that conducts and controls productive activities in more than one country.
- **Home Country:** Home country is defined as the FDI investing country.
- **Host Country:** Host country is defined as the FDI receiving country.
- **Trans-National Country (TNC):** TNC is a synonym of Multi National Company (MNC) known as global corporation or International Corporation.
- **Multi-National Enterprises:** Multinational Enterprises is a synonym of Multinational Company.
- **Developing Countries:** The countries of Asia, Africa, the Middle East, Latin America and East Europe and the Former Soviet Union which are mainly characterized by low levels of living, high rates of population growth, low per capita income and generally, economic and technological dependence on developed countries.
- **Economic Growth:** the steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income.
- **Savings:** The portion of disposable income not spent on consumption by households plus profits retained by firms.
- **United Nations Conference on Trade and Development (UNCTAD):** A body ofNations, whose primary objective is to promote international trade and commerce with a principal focus on trade and balance of payments problems of ping nations.

- **International Monetary Fund (IMF):** An autonomous international financial institution that originated in the Bretton Woods conference of 1994. Its main purpose is to regulate the international monetary exchange system, which also stems from the conference but has since been modified.
- **Globalization:** The increasing integration of national economies into expanding international markets.
- **Gross Investment:** The total value of all newly produced capital goods (Plant, equipment, housing and inventory) produced in a given period.
- **Capital Formation:** Increasing the stock of real capital, which obviously helps in raising the level of production of goods and services.
- **Foreign Aid:** Foreign aid refers to the international transfer made at concessional terms rather than at market rates for promoting economic development. The transfer includes both grants and loans.
- **Privatization:** Selling public assets (Corporations) to individuals for private, business interests.
- **Private Foreign Investment:** The investment of private foreign funds in the economy of a developing nation, usually by multinational corporations.

1.7 Organization ofthe Study

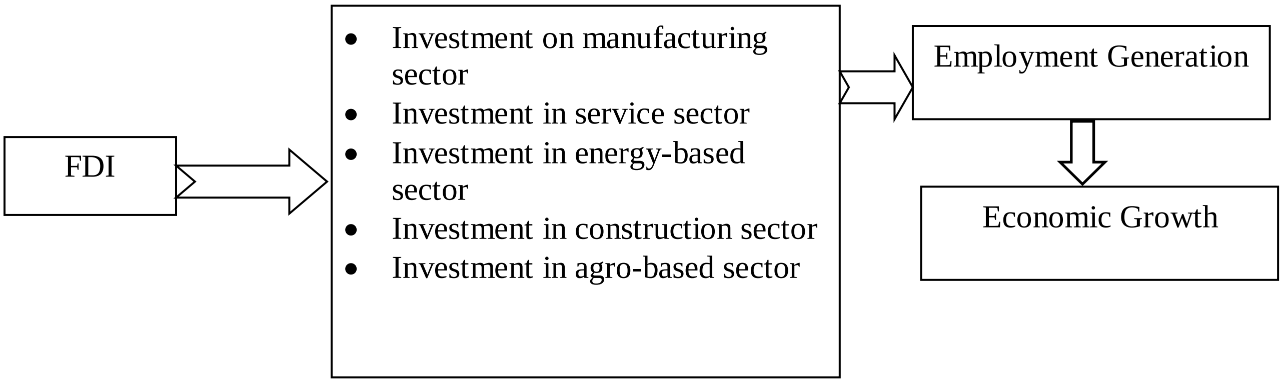
This study has included six major chapters. In the first chapter, background of the study, statement of the problem, objectives of the study, significant of the study, limitations of the study and definition of some key terms also have been explained.The second chapter reviews some literatures, books, articles, reports, etc. In this chapter, the theoretical conceptof foreign direct investment has been reviewed. The research methodology analyzes in the third chapter, which provides information regarding the nature and sources of data used in this study. The fourth chapter highlights the present status of FDI and structure in Nepal. A brief historical background of FDI in Nepal is also given.The fifth chapter has highlighted the role of FDI in Nepal. The sixth chapter concludessummary of findingsand recommendations are made on the basis of the study that might be helpful in formulating policies. References are presented after the contents of the last chapter of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

In the line with the objective of the study, this study has based on the FDI in Nepal. This research has focused on studying the major factors that are critical to foreign direct investment in Nepal and explore ways to overcome those obstacles.



Direct impact of FDI has been shown on the area of investment of various sectors. When FDI increases the investment, it directly affects on employment generation and its output is ultimately economic growth of the nation (NRB, 2018).

2.2 FDI Policy in Nepal

The GoN introduced new Foreign Investment Policy, 2015 by replacing the policy of 1992 with an objective of making economy more dynamic and competitive by maintaining trade balance through export promotion and import management, and by attracting foreign investment, technology, skills and knowledge in the priority sectors. The new policy incorporates the changing context of portfolio investment, non-resident Nepalese investment, special economic zones, labor relation issues, and mobilization of debt instruments in domestic and foreign currencies. The foreign investment policy aims to achieve the sustainable economic growth and generate employment, enhance investment in the regional and national development, fill the gap of increasing investment demand, increase the domestic production and productivity and establish Nepal as an attractive destination for FDI by creating investment friendly environment.

2.3International Review

Various scholars and organizations have made researches and documents refereeing FDI in developing countries. Some of the literatures relating to this study has reviewed.

The McGraw Hill Encyclopedia of Economics (1994) edited by Douglas Greenland, comprises of an article by Graham Edward entitled 'FDI: General Agreement on tariff and Trade, Joint Venture, multinational Corporation, Nationalization of Industry, Protectionism' that describes FDI as the acquisition of the managerial control by a citizen or corporation of a home nation over the corporation of some other host nation. Corporations that widely engage in FDI are called 'Multinational Companies', 'Multinational Enterprise' or 'Transnational Corporation'. The term is something of misnomer: when FDI takes place investment in economic sense may or may not occur. If, for example, a US company acquires ownership of the ongoing British firm, FDI is seemed to have taken place, however, no net creation of productive capital and, hence, no economic investment has occurred. By contrast, if the same US Company creates *denovo* subsidiary in Great Britain, building new plants and equipment, then both FDI and economic investment have taken place.

Foreign direct investment is regarded as a factor that drives economic growth of the country. Many governments from developed countries believed that FDI can helped them get through stagnation and even circumvent the poverty trap. In this context, the detail analysis of the inflows of FDI has provided invaluable information.

UN (2010) explained that the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Investment Measures (TRIMs) set out certain rules on investment and services. While GATS provides for national treatment, Most Favored Nations(MFNs) treatment, and market access in the area of services, there are numerous exceptions, and it does not cover manufacturing. TRIMs is also limited to certain prohibitions on performance requirements, such as local content requirements and import-export equilibrium requirements. The scope of WTO rules in the areas of investment and services is therefore limited.

Against this background, liberalization and rule-setting in the fields of investment and services are taking place in the framework of FTAs (Free Trade Agreements) or bilateral agreements. Countries with a high degree of concern in the area of investment (countries with a large amount of investment, those whose investments are concentrated in resource-based sectors, etc.) are concluding bilateral investment agreements or are including chapters dealing with investment and services in their FTAs.

Furthermore, bilateral investment agreements may incorporate clauses for investment protection or investment liberalization, or both. In addition to national treatment and MFN treatment following the approval of the investment, investment protection normally provides for compensation for expropriation, fair and equitable treatment, and the resolution of conflicts between the nation and the investor in the event of nationalization. Investment liberalization incorporates national treatment, MFNs treatment, and the prohibition of performance requirements prior to the approval of the investment, among other elements. National treatment, MFN treatment are covered in both GATS and TRIMs, and the prohibition of certain performance requirements is covered in TRIMs, but investment agreements extend these elements to the manufacturing sector, and make them binding at a bilateral level. The WTO does not provide for the resolution of conflicts between the investor and the host country. Investment agreements thus incorporate wide-ranging "WTO-plus" content.

Sauvant and Reimer (2012) clarified that one cannot safely infer from FDI stocks the true level of VA (value added) by foreign affiliates in a country. Finding that FDI stocks are twice as large in country A than in country B does not necessarily mean that the actual level of affiliate VA in A is twice as large as in B, since foreign affiliates in A may obtain much of their financing from their parents while those in B may be rely mostly on local external sources. Similarly, a downward trend in a country's FDI stocks can either indicate that it is becoming less attractive to foreign firms or that it's financial markets are becoming more efficient and its exchange rate more stable. Because some of the hypothesized determinants of foreign affiliate activity are significantly correlated to the mismatch between FDI stocks and actual affiliate activity, studies that have used FDI stocks to measure the latter may have obtained misleading results as well.

FDI stocks and flows are perfectly appropriate measures of a country's inflow and outflow of financial capital and their cumulative size, but they should not be used to measure host-country foreign affiliate activity.

Didwania and Malhan (2013) concluded in order to liberalize Foreign Investment in India and to attract more number of foreign Investors the Government attempts to maintain a practice to continuously review the Foreign Investment policy. The acceptance of the recommendations to increase the Foreign Investment Limits in the respective sectors will not only attract Foreign Investment in India but will also provide growth opportunities to Indian Companies who can collaborate with Foreign Companies to start business in various new sectors. The withdrawal of requirement of Government Approval for Investment in different sectors will also act as an incentive to initiate various business prospects and will expedite the launch of new projects.

One of the earliest attempts to introduce market imperfections in the theory of FDI was made by Hymer (1976). The author has argued that the investing firm must have some advantages specific to its ownership which are sufficient to outweigh the disadvantages they faced in competing with indigenous firms in the host country. These exclusive advantages imply the existence of some kind of market failure. This is because in a perfectly competitive world, all firms are competing equally and have no advantage over others. FDI cannot take place in such a world. However, as other writers (Hood & Trijuens, 1993) have pointed out, the existence of ownership advantages does not necessitate production abroad, for the foreign firm can exploit its advantage through licensing or through producing at home and exporting. To explain the choice of FDI over producing at home and exporting, it is necessary to take into account local-specific factors such as trade barriers and market characteristics.

Internalization theory also focused on market imperfections. But these imperfections are in the markets for intermediate inputs and technology. Intermediate inputs in this context are not just semi-processed materials but more often are types of knowledge incorporated in patents and human capital, among others (Hood & Young, 1984). Imperfections in markets for intermediate inputs create difficulties and uncertainty for the firm to fully exploit its advantages. A profit-maximizing firm faced with such imperfections will try to overcome these in the external market by internalizing them in their operation, either through backward or forward integration. There are a number of such imperfections that are considered important in stimulating internalization. An example is government intervention in the form of tariff, taxation, and exchange rate policies that create difficulties in the firm's sourcing activities and in exploiting location-specific advantages. All these factors stimulate firms to internalize.

The explanations of FDI have been based upon static advantages, either specific to firms or specific to a location. However, the relative importance of these advantages will change over time as the product develops through its life cycle. As a consequence the firm's choice between export, FDI and licensing might also hang.

Vernon (1966) developed the product cycle model to deal with such dynamic aspects of FDI activities. Initially, Vernon attempted to explain US investment in Europe during the post-war period by answering two questions. The first concerns why innovations occur in developed countries and the second concerns why they are transferred abroad. Vernon tried to answer these questions by relating the product life cycle, which is divided into three stages progressing from the 'new' to the 'mature' and ultimately the 'standardized' product, to the location decisions made by firms and the choice between exports and overseas production. Although the product cycle hypothesis has several weaknesses and might be an oversimplification of reality, it has provided an explanation of why innovations occur mostly in developed countries, while at the same time it explains both trade and investment flows.

Dunning (1993) discussed that the product cycle hypothesis is only a partial explanation. He developed an eclectic approach to the problem. The principal hypothesis of this eclectic theory is that a firm will engage in FDI if the following three conditions are met: (a) It possesses ownership advantages over firms of other nationalities in serving particular markets. These advantages are specific to the firm. It must be more beneficial to the firm to exploit the advantages itself rather than to sell or lease or license them to foreign firms that are to internalize its advantages through an extension of its activities rather than externalizing them. (c) Given (a) and (b) are satisfied, it must be profitable for the firm to combine these advantages with some factors in the foreign country. The key point of the eclectic theory is that any one of these advantages may be necessary but not sufficient to give rise to FDI. It is necessary to consider all three conditions together. The author concludes that all forms of FDI can be explained by the above three conditions.

The Investment Development Path (IDP) theory was introduced by Dunning (1981) as an extension of Eclectic Paradigm, to explain the net outward investment position of countries in relation to their development stages. The Eclectic Paradigm suggests that the direct investment stock of countries is determined by three factors: ownership, location and internalization (OLI) advantages. According to the IDP theory, the country passes through five main development stages determined by the changes in the OLI parameters of domestic firms of the country. These changes affect the international investment position of the country with respect to its development.

Hymer (1966) introduced microeconomic theory on international production. Hymer noted four discrepancies as noted by Heledd Straker (Understanding the global firm), (i) the older theory suggested that flow of capital was one directional, from developed to underdeveloped countries, whereas in reality, in the post-war years, FDI was two – way between developed countries, and (ii) a country was supposed to either engage in outward FD or receive inward FDI only. Hymer observed that MNEs, in fact moved in both directions across national boundaries in industrialized countries, meaning countries simultaneously received inward and engaged in outward FDI, (iii) the level of outward.

Caves (1971) has classified multi plants into three groups:

i. **Horizontal multi plant enterprises:** multi plants which produces the same types of goods from its plants and serve across the geographic markets and they can control with lower costs and higher productivity to exist in the market.

ii. **Vertically integrated MNEs:** Such MNEs produce goods as the input for other plants to reduce the costs and reduce the uncertainties of products.

iii. **Portfolio diversification and the diversified MNEs:** The author also argues MNEs purses profits by moving equity from countries its return is to low income countries where it is high. The firm's make profit because of the activity.

Buckley and Casson (1976) suggested that multinationals came into existence because of market imperfections created the opportunity to internalize transactions within a firm. Rather than conduct business externally between two firms- in separate countries, it made sense to instead maximize profits by doing business internally across national boundaries. Two things are important here (i) firms would choose the least cost location and (ii) firms would internalize until the cost outweighed the benefits.

- In reality, all multinational enterprises (MNEs) do not choose the least cost location to internalize the profit from abroad. Cultural, regulatory and environmental factors are also considered by the entrepreneur to set up MNEs instead of cost factors (Jigme, 2006)

Vernon (1966) suggested that Product Life Cycle (PLC) theory is another development in theory of internalization in FDI literature. According to Vernon, the form of entry into foreign market depends on stages of product life. Products pass through introductory phase, growth, maturity and decline phase. Many firms launch in new products where the products are developed and FDI will local market-oriented. In latter stage, when products become standardized and mass production prevails. Cost considerations in the context of increased competition will pressure on MNEs to relocate its production to less advanced countries with comparative advantage of cheap labor. Hence, FDI in the later phase of PLC will be export oriented, influenced cheaper labor force. In the decline stage of PLC, the product innovating country becomes the net importer of the products.

- PLC theory is applicable for some products but it is not applicable for the vertically integrated MNEs. Some critics say that sometimes entrepreneurs purchase foreign assets prior to actually launching the products (Jigme, 2006).

Kojima(1978) focused the FDI move abroad due to the location advantage because hence, FDI should move from industries in countries which have less comparative advantage to the host countries where better comparative advantages re prevailing and not realized yet.

Duce (2003) stated that foreign direct investment reflects the aim of obtaining a lasting interest by a resident entity of once economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise) the lasting interest implies the existence of long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprises and all subsequent capital transaction between them and among affiliated enterprises, both incorporated and unincorporated.

IMF's Balance of Payment Manual (1993) defined the owner of 10 percent or more of a company's as a direct investor. The guideline is not a fast rule, as it acknowledges that smaller percentage may entail a controlling interest in the company. But the IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form share holdings. Thus, when a non-resident who previously had no equity in a resident enterprise purchases 10 percent or more of the shares of that enterprise from a resident, the price of equity holdings acquired should be recorded as direct investment. From this movement, any further capital transactions between these two companies should be recorded as direct investment.

IMF (2008) expressed that FDI is a category international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long term relationship between the direct investor and the direct investment enterprise. A direct investment relationship is established when the direct investor has acquired 10% or more of the ordinary shares or voting power of an enterprise abroad.

UN (2008) defined that FDI is investment made to acquire a lasting interest in or effective control over and enterprise operating outside of the economy of the investor., FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvestment earnings and intra-company loans, net of repatriation of capital and repayment of loans.

OECD Benchmark definition (2013) stated that FDI is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the director is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The 'lasting interest" is evidenced when the direct investor owns at least 10 percent of the voting power of direct investment enterprise. Direct investment may also allow the direct might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise.

Direct investment enterprise are corporations, which may either b subsidiaries, in which over 50 percent of the voting power is held, or associated, I which between 10 percent and 50 percent of the voting power is held, or they may be quasi-corporations such as branches which are effectively 100 percent owned by their respective parents. The relationship between the direct investment enterprises may be complex and bear little or no relationships are inedited according to criteria of the framework for direct investment relationships.

Winkler (2013) found out that foreign investor characteristics matter for FDI linkages and supplier assistance, but the size and direction of the relationship depends on the measure of FDI spillover potential we used. For example, a multinational's presence in the host country is negatively associated with the share of domestically sourced inputs if the firm has been in the country for at least 20 years, but positively related with the percentage of domestic workers. Other foreign firm characteristics, on the other hand, show a less ambiguous picture. Market-seeking FDI, for example, shows a positive relationship with the share of sales to the host country as well as the probability of supplier assistance. And suppliers with the largest investor from SSA are associated with a larger share of sales to the local market and a higher likelihood of supplier assistance. Suppliers with the largest investor from Asia also sell a significantly larger share of output to the local market, but offer significantly less assistance to their domestic suppliers

Thomsen (1999) presented the policy mechanism of ASEAN countries. According to him at a time of continuing financial crisis in Asia, the question of the appropriate policies for recovery and for future sustainable development is paramount. One area of particular importance is the treatment of foreign investors. Foreign direct investment (FDI) has played a leading role in many of the economies of the region, particularly in export sectors, and has been a vital source of foreign capital during the crisis. The four countries reviewed in this study - Indonesia, Malaysia, the Philippines and Thailand - have all to varying degrees welcomed inward investment for its contribution to exports. As a result, although only a small share of total investment or employment in each economy, FDI has been a key factor driving export-led growth in Southeast Asia. Foreign firms have by no means been the only actors, but they have played a leading role in those sectors with the fastest export growth such as electronics. Through such investment, host economies have rapidly been transformed from agriculture and the exploitation of raw materials into major producers and exporters of manufactured goods.

For many years, Malaysia and Thailand were among the most open in the developing world to foreign investment. They were quick to recognize the powerful role that foreign investors could play in fuelling export-led growth, and they were well-placed to attract such investment during the years of regional structural adjustment in the late 1980s. Partly as a result of FDI inflows, the two countries were among the world's fastest growing economies before the crisis. At the same time, however, the years leading up to the crisis revealed a growing disquiet in some ASEAN countries about their continuing ability to attract FDI in the face of competition from countries such as China. Related to the issue of possible investment diversion, questions were also raised about whether FDI inflows were contributing sufficiently to technology transfer and industrial upgrading.

In the wake of the financial crisis which has swept through the region, it is useful to look once again at the experience of various ASEAN countries and the role of foreign investors in their economic development. In all four countries, development strategies include a selective approach to investment promotion with a clearly circumscribed role for foreign direct investors. Such partial openness allows foreign firms to contribute to rapid economic growth driven by exports, but it has been less adept at delivering sustainable development. In many cases, indigenous capabilities have not been developed sufficiently in those export sectors dominated by foreign multinational enterprises (MNEs), leaving the host country vulnerable to hang in investor sentiment and to growing competition for such investment from other countries. This study draws on the experience of the ASEAN4 countries to suggest that a more balanced treatment of foreign investors which allows foreign MNEs to play a greater role in the domestic economy could yield substantial benefits in terms of restoring investor confidence and placing economic development in the ASEAN4 on a more sustainable basis in the future.

Asafo (2007) presented the importance of FDI in South African economy. As he argues" this study focuses on FDI and its importance to the economy of South Africa. Recognizing that FDI, notwithstanding the type, can contribute to economic growth and development, most countries including South Africa are constantly working to attract it, and hence its demand has become highly competitive. However, FDI does not go without some negative effects, such as conflicts between host and investor country, and the creation of damaging competition to local firms. These negative effects could be minimized if policies and strategies for the promotion and attraction of FDI is part of, and integrated into, general economic development and economic reform policies, and not seen in isolation. Although South Africa has implemented strategies to attract more FDI, a refinement of some of these policies is needed if the country is to be successful in this regard.

Thomo (2010) insisted that FDI should have the power to create employment opportunities. His research work "An investigation of the impact of inward FDI skill development and job creation in south Africa" shows the challenges being faced by South Africa. Two of the most serious challenges facing South Africa today are the availability of skills and unemployment. Inward FDI has been promoted by the IMF and the World Bank as a solution for sustained growth in developing countries. This growth impact can be achieved through a combination of FDI benefits which include access to foreign funds, adoption of superior technology, skills transfer and job creation. A number of researchers have investigated the impact of FDI and have come up with different conclusions. The purpose of this study is to investigate the impact of inward FDI on skills development and job creation in South Africa. Telephonic interviews were conducted with 3 multinational companies based mainly in the Gauteng Province during August 2010. A qualitative approach was used in the methodology by comparing the data collected across the companies that participated in the survey. The study concluded that inward FDI has a positive impact on skills development and job creation in South Africa and therefore significantly impacts economic growth.

Alam (2010) provided some measures to make FDI cost effective. As he argue the empirical literature offers regional integration arrangements reduce trade costs among partner countries this reduction in cost not only increase trade but also act as a stimulus to increase FDI flow. South Asian Association for Regional cooperation (SAARC) was established in 8th December 1985 with the seven South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) but after 25 years of its establishment very low level of intra-regional trade (less than 5%) and in case of FDI the major source is outward flow than intra-regional flow. Despite the major difference among the member countries in different macroeconomic parameter there is a scope of potential for intra-regional FDI inflow. In this study different research papers was presented with respect to regional trade and integration was studies. The major focus is on SAARC economic integration and FDI status. The study one other economic integration areas and FDI inflow was suggested for future research. Majagaiya (2009) has presented the effect of different form of FDI in the economic development of Nepal.

All Foreign Investment, Remittance, Grant and Pension and others have become a lifeline for economic development in developing countries and have contribution to the Gross Domestic Product (GDP). In the recent decade, Nepal has been achieving Remittances Pension, Grant and FDI Parall. Not so far research has been done for comparison of contribution to GDP by Remittances and FDI. This paper focuses the contribution of Remittance, FDI, and remittance, Grants and Pension to national GDP using time series analysis of data.

FDI may have wider and technological benefits through its spill-over effects, it could also discourage the development of technological know-how by and in local firm and institutions, to the detriment of the growth of domestic producers and the national economy.

The possible benefits of FDI include the transfer of technology to individual firms and technological spill-over to the wider economy; increased productive efficiency due to competition from multinational subsidiaries; improvement in the quality of the factors of production including management in other firms and not just the host firm; benefits to the balance of payments thought the inflow of investment funds; increase in exports; increase in savings and investment, and hence faster growth of output and employment, consumers may benefit both form lower prices of goods and the introduction of new or better quality goods.

“The benefits of FDI consists of (a) transfer of technology (b) transfer of capital (c) enhancement of managerial capacity and skills, (d) access to world market, and (e) employment opportunities” (Dahal & Aryal, 2000).

“Foreign direct investment has come to be widely recognized over the past decade as a major potential contributor to growth and development. It can bring capital, technology, management know–how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer – term commitment to the host economy” (Ricupero & Cattaui, 2003).

“Foreign direct investment (FDI) can play a key role in the economic growth & development process. The importance of FDI for development has dramatically increased in recent years. FDI is now considered to be an instrument through which economies are being integrated at the level of production into the world of globalization by bringing a package of assets, including, capital, technology, managerial capacities and skills, and access to foreign markets. It also stimulates technological capacity-building for production, innovation and entrepreneurship within the larger domestic economy through catalyzing backward and forward linkages" (UNCTAD, 1996).

Indian joint ventures account for more than 35 percent of the total projects. The joint ventures of the US, Japan, China, Germany and South Korea are also prominent in the structure of FDI. Shift in the policy of the government especially after 1990 have signaled to foreign investors that Nepal is open for business. Private operations have been allowed in some sectors that were previously government monopolies such as telecommunication and civil aviation. Licensing and regulations have been simplified and 100 percent foreign ownership is allowed. New banking institutions and nascent stock exchange provide alternative sources of investment capital. Multinational investors based or looking to expand in the growing Indian market have also expressed an interest in Nepal. However, foreign investors complain about complex and opaque government procedures and a working level attitude that is more hostile than accommodating.

FDI is considered as an important tool for economic development in a developing country. If the investing country is wealthier than the host country then capital will flow to the host country. It contributes to growth of GDP; create employment generation, technology transfer, human resource development, etc. It is also perceived that FDI can play a significant role to reduce poverty of a developing country.

Foreign Direct Investment can be defined as investment in which a firm acquires a substantial controlling interest in a foreign firm or set up a subsidiary in a foreign country (Chen, 2000). IMF (2009) and OECD (2013) defined FDI as a long-term investment by a foreign investor in an economy where higher volume of investment. According to the Balance of Payment Manual (1977, 1993), FDI refers to investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.

In the developing world, the East Asian countries - South Korea, Hong Kong, Taiwan and Singapore were the first to use effectively the FDI from TNCs to achieve economic development. After opening up their economy towards FDI, these countries emerged as 'Asian Tigers' and witnessed rapid economic developed within a relatively short period of time. In recent years, many countries have introduced open door policy to attract FDI with a view to increase investment, employment productivity and economic development (Agiomirgianakis, 2013). A number of empirical studies have shown that developed and developing countries both desire to attract FDI. Developing countries always are in disadvantage in terms of technology, capital, and human resources at the early stage of development. In FDI literature it is already recognized that FDI not only brings capital for productive development to the host economy, it also transfers a considerable amount of technical and managerial knowledge and skills, which is likely to spill over to domestic enterprise in that economy (Balasubramanyam, 1996; Kumar & Podhan, 2002). It is recognized that FDI can contribute to the growth of GDP, Gross Fixed Capital Formation (GFCF) (total investment in a host economy) and balance of payments (Baskaran, 2008).

Most Developing countries are always at a disadvantaged position in terms of technology and in this regard FDI contribute to transfer technology and can contribute towards income, production, prices, employment, economic growth, development and general welfare of the host country (Kok, 2009).

Agiomirgianakis (2013) suggested that as FDI increases the total output of the host country, it eventually contributes to the economic development of the host country. To achieve industrial expansion a country should produce high quality products and accomplish market efficiency. To facilitate this technological development is imperative. A developing country like Bangladesh that is at an early stage of development has to rely on FDI as an important vehicle to bring in technological development. Hence, it is perceived that FDI is capable of increasing the technical capabilities of the host country.

Sun (2008) examined that FDI has extensively helped economic growth in China by enriching domestic capital formation, increasing exports, and creating new employment. Khoda (2003) has stated that FDI can raise domestic capital, engender employment by using underutilized labour, build up organizational formation as well as managerial standards of the host country, transfer technology, get better internal and overseas marketing network and also assist to improve the technical expertise of the Government. It is argued that "MNEs are subject to use up more on

Reconstruction and Development (R&D) abroad than at home and their foreign affiliates act comparatively better in terms of productivity" (Chen, 2010, p. 37). Mmieh (2014) studied on the FDI experience in Ghana reveals that the economic reform has contributed to attracting significant multinational investment. They also stated that changes to policies and regulations have helped to increase FDI inflow in China, India, Korea and Mexico.

The year 1990 was considered as the year of liberalization of laws, rules, regulations which influenced the foreign direct investment of developing countries. World Development Report(2016) has concluded that development perspective had changed significantly. Bangladesh opened up its economy in 1990 and started drawing the attention of foreign investors. Mortoza (2007) have empirically shown that liberalization of trade had an impact on FDI in Bangladesh. As per Investment Handbook (2007) of Bangladesh Board of Investment (BoI) it is now simpler to do business in Bangladesh than many developing economies. Report of 'Doing Business' jointly published by the World Bank and IMF ranked Bangladesh in the 68th position in terms of starting business among 175 economies. The World Bank (2005) has advocated that Bangladesh can attain physical capital, technology transfer, sharpen the competitiveness among domestic investors through the proper utilization and allocation of resources. In 1990, the economy of Bangladesh has made remarkable advancement in terms of Gross Domestic Product (GDP) growth, which was around 5 percent. The 4th survey of FDI inflow by BOI in Bangladesh stated that the cost of investment in Bangladesh has become cheaper compared to the previous years.

Mandal (2003) found that FDI inflow to Bangladesh is constrained by six factors: (i) Political instability, (ii) Sluggish steps towards privatization, (iii) High business cost, (iv) Tax hazards, (v) Threats related to finance, and (vi) Incompetent or futile capital market.

Other studies also identified infrastructural, bureaucratic, environmental factors and political instability as constraints that restrict the inflow of FDI (Mian & Alam, 2006; Kafi, 2007). According to Musila (2006), it is important to maintain political, sound macroeconomic stability and a favorable policy regime to successfully attract a large volume of FDI. Alam(2006) empirically showed that the macroeconomic environment in Bangladesh is congenial for attracting foreign investment. Since the inception of BEPZA it has been playing a very important role for economic development of

Bangladesh through export promotion, employment creation, technology transfer, and development of forward and backward linkages of industries and so on. SWOT analysis of Bangladesh economy by Salman (2009) has suggested that the Bangladesh has huge investment opportunities, but it has to develop and exploit it properly. The study highlighted that as Bangladesh has access to major export markets such as the EU, Canada, Japan, New Zealand, and Australia, it is essential to diversify products if the country intend to avail the benefits from trade concessions. But, according to WEFs Global Competitiveness Report (2016-2017) Bangladesh ranks 111 out of 134 countries in terms of business environment and “the business climate in Bangladesh is poor and less competitive in global context and the environment is deteriorated in 2007. It also pointed out that the ranking deteriorated compared to the previous year when it ranked 107 out of 131 countries.

Blomström and Koko (2013) and Borenzstein, (2016) discussed that the contributions of FDI to the development of a country are widely recognized as filling the gap between desired investments and domestically mobilized saving, increasing tax revenues, and improving management and technology, as well as labor skills in host countries. These could help the country to fight its way out of poverty. Empirical studies suggest that FDI provides a source of capital and complements domestic private investment.

Some studies (Blomström & Kokko, 2013;& Chen & Démurger, 2015) concluded that FDI contributes to total factor productivity and income growth in host economies, over and above what domestic investment would trigger. These studies find, further, that policies promote indigenous technological capability, such as education, technical training, and R&D, increase the aggregate rate of technology transfer from FDI and that export promoting trade regimes are also important prerequisites for positive FDI impact. For instance, the study by Borenzstein, (2016) using data on FDI received by developing countries tested the effect of FDI on economic growth in a cross-country regression framework. They found some indications that FDI has a positive effect on economic growth, but this impact was dependent on the human capital stock in the host economy. However, there is growing empirical evidence suggesting that the impact of FDI on economic growth is not automatic.

Borenzstein, (2016) showed that for FDI to contribute to economic growth, the host country must have achieved a minimum threshold level of development in education, technology, infrastructure, financial markets, and health. Thus, FDI contributes to economic growth only when the host country has reached a developmental level capable of absorbing the advanced technology that it brings. Excessive FDI may not be beneficial. Through ownership and control of domestic companies, foreign firms know more about the host country's productivity, and they could overinvest, at the expense of domestic producers. Possibility exists that the most solid firms will be financed through FDI, leaving domestic investors stuck with low productivity firms. Such "adverse selection" is not the best economic outcome.

2.4 National Review

Agrawal (2014) studied on economic impact of foreign direct investment in south Asia by under talkingtime-services, cross-section analysis of panel data from five South Asian Countries, India, Pakistan, Bangladesh, Sri Lanka, and Nepal that there exist complementarily and linkages effects between foreign and national investment. Further he argues that the impact of FDI inflows on GDP growth rate is negative prior to 1980, mildly positive for early eighties and strongly positive over the late eighties and early nineties. The result of the analysis carried out by Klohpaidboon(2008) on the impact of FDI on growth performance in investment receiving countries through a case study at Thailand for the period 1920-2000. Shows that thegrowth impact of FDI tends to be greater and export promotion trade regime compared to an import substitution regime.

Dahal and Aryal (2003) studied that the impact of foreign direct investment and transfer of technology in Nepal examine the role of FDI in economic development of Nepal. This study is based on primary and secondary data and information derived from both Nepal and India. The main objective of the study is to examine the effects of FDI on revenue, employment, trade and industrialization of Nepal. This study concludes that India both have liberalized foreign investment policies that would help promote FDI to Nepal. In Nepal total investment is found NRs.83.7 billion, total fixed capital equal to NRs.69.7 billion and joint ventures provided employment to 93,325 people during the period of 1993 to 2017. Nepal received highest magnitude of FDI in manufacture sector and the magnitude of India's FDI is 35 percent of the total FDI in Nepal. The study identify that the potential area of FDI in Nepal are hydropower, tourism especially travel-trek and hotels. Infrastructure, education, and health services. IT and software, food processing and biodiversity especially forest and herbal products etc. In this way FDI from India helps to rise the economic activities of Nepal.

Pant (2010) examined the role and determinants of FDI in service sectors of Nepal with especial reference of healthcare sector. The prime objective of this study was to examine the practices of service sector investment. The study concluded that for Nepal to capture the benefit of investment liberalization, it must continue enhancing the existingfacilitating mechanism, the determinants of FDI along with the incentives in the services sector. Ensuring a stable domestic environment will be much more important to win confidence among investors.

In Nepal, the main determinants of FDI inflows are quality of infrastructure, level of skill and human capital, regulatory environment and incentives.Nepal had attracted moreFDI in different sectors. It had positive impacts on exports, particularly Garments, and economic growth. FDI has also enabled the country to export non-traditional manufactured products such as micro-transformers and personal consumer's products, Investment was mainly in low technology, labor intensive production. The impact of FDI had also been modest, primarily in job creation. According to study FDI inflows was constraint by political instability, outdate foreign investment policies, rigid labour regulation and poor physical infrastructure. This situation remains constraint due to political instability.

FDI is considering beneficial in view of its contribution to technological transfers, enhancement of managerial capabilities and new opportunities for market access. FDI, particularly in the form of equity investment, adds to the capital stock of thecountry and thus enables the recipient country to achieve faster economic growth through momentum in capital formation. Increases in FDI are also seen as leading to increase in exports by creating international markets through new marketing and organizational skills.

The inflow of FDI in Nepal began in the early 1980s through the gradually opening up the economy. But the FDI inflows in Nepal are very poor to compare with other Asian underdeveloped countries.

FDI in Nepal highly concentrated in the manufacturing sector, which accounted for slightly more than 45 percent of approved FDI project. Tourism is second, accounting for almost 205 present of total FDI project, followed by the service sector with percent of FDI projects. Other sectors have just received 10 percent FDI projects.

Adhikariand Sharma (2006) evaluated the role of FDI in economic development of Nepal. The objective ofthis study is to examine the nature, trend and determinants of FDI in Nepal and develop-ent implications of FDI in late-comer countries in order to place the Nepalese Experience. The study shows the trend and patterns of FDI during 1988-2001. The study based on the descriptive analysis, This study shows that under the new policy regime, foreign firms have played a role in different export oriented industries, but their export are largely depends upon the Generalized System of Preferences and Quotas rather than the country's comparative advantage. The majority of foreign firms are involved in import substitution activities characterized by high capital intensity. Consequently, the contribution of FDI to employments generation has been eligible. It seems that FDIattracted to 'Easy profit' activities import substitution manufacturing as well as the quota-protected industry) has failed to make a significance contribution to productivity growth in the Nepalese manufacturing sector.

Sharma (2008) found out that Nepal is an ideal destination for FDI owing to its rich natural endowment abundant and cheap labor force, huge market in neighboring countries, growing internal market, a well-developed banking and non-banking financial institutions to cater investor's need for finance, fully convertible current account, preferential entry of products in India and investor friendly government policy. Investment opportunities are open to almost every sector of economy from tea to mining industries. Tourism is the biggest business in the world and there is hardly a country that does not seek either tourists or investment in tourism. Uniquely, Nepal offers some of the most spectacular tourist attractions in the world. Similarly, Nepal is the second richest country in water resources. Therefore there is a greater prospect of attracting FDI for the proper exploitation of water resources, especially, for generating hydroelectricity. Likewise, mineral exploration and exploitation in some of the areas of the country offer promising prospects for FDI. Good prospect exist for the establishment of pharmaceutical industries, leather industries, carpet industries, industries for readymade garments, tea industries and agro and forest-based industries with foreign collaboration in Nepal.

MoCS (2009) accepted that India is the foremost country in terms of having FDIs in Nepal, which is obviously due to its close proximity and traditional economic relation with Nepal and duty-free access of Nepalese products to India. The same is true in the case of China, although duty-free access to Chinese market is not available to Nepalese products. Similarly, in the case of other major countries, long diplomatic relations and people-to- people contacts have played a vital role in inviting foreign investments into Nepal.

GoN (2011) in BIPPA Agreement between government of Nepal and India defines investment means every kinds of asset established or acquired, including changes in the form of such investment, by investor of one contracting party in accordance with the laws of the other contracting party in the territory of the latter and particular, though not exclusively, includes:

- Movable and immovable property as well as other rights related thereto such as mortgages, liens or pledges;
- Shares in and stock and debenture of a company and any other similar forms of participation in a company;
- Claims to money or to any performance under contract having a financial value;
- Intellectual property rights, in accordance with the relevant laws of the respective contracting party;
- Business concessions conferred by law or under contract, including concessions to search for and extract oil and other minerals.

Furthermore, it defines investors as any national or company of a contracting party that has made an investment in the territory of the other contracting party.

Ghimire (2011) explored that the current scenario of foreign direct investment in Nepal. The main objective of this study is to show the present scenario of FDI in Nepal. This study shows that foreign investment is most important resource for the economic development of the country. It helps to stimulate competition, productivity and innovation. Further, it generates income and employment opportunities resulting in higher wages, competitive price, more revenue, skill and technology transfer and increased foreign exchange earnings. This study is based upon the descriptive analysis. The descriptive analysis concluded that capital is one of the prerequisites of economic development which have to either provide from the internal source or to be managed by the external sources. FDI is one ofthe major external sources to fulfill the capital gap. However, the inflows of FDI in Nepal are very low.

Adhikari (2013) examined foreign direct investment in Nepal and its current status, prospects and challenges the trend of FDI inflows in South Asian countries. South Asia as whole has been receiving reasonable good amount of FDI, although the total FDI received by the region represents a measure 2.6percent of the global FDI inflow, even with in this, 80 percent of FDI went to India., leaving other seven countries in the region with share of remaining 20 percent. It is disheartening to note that despite a recent growth in FDI achieved by Nepal, the country still receives the lowest amount of FDI in the region.

Available latest data for FDI reflect that 835 foreign investment projects are registered in Nepal comprising all categories of industries, worth a total of investment equal to NRs. 83.7 billion. The total fixed capital is estimated to be NRs. 69.7 billion, while the total foreign direct investment (FDI) marked NRs. 22.6 billion as of July 2017. FDI is likely to provide employment to 92, 325 people (DoI, 2017).

Thapa (2013) stated with a growing number of foreign investors expressing interest in setting up cargo business in Nepal, the government is planning to introduce new criteria for the registration of the business by foreigners. According to the author the Department of Industry (DoI) is preparing to fix an investment sealing of at least NRs.50 million and impose a provision that requires foreigners to assure that they would bring in new technologies. The imposition of the new criteria, according to DoI officials, is essential as foreign investors are registering cargo business with nominal investment.

The liberalization policy of Nepal opened the way for the inflow of FDI after 1990. As the then Government of Nepal has accorded a top priority to attract foreign direct investment (FDI). Article 26 (12) of the Constitution of the Kingdom of Nepal 1990 states that the state shall, for the purposes of national development, pursue a policy of taking measures necessary for the attraction of foreign capital and technology, while at the same time promoting indigenous investment (Constitution of the Kingdom of Nepal, 1990, p.19).

Article 51(d10) of the Constitution of the Nepal 2015 states that to encourage foreign capital and technological investment in areas of import substitution and export promotion, in consonance with national interest, and encourage and mobilize such investment in infrastructure building.

The Ninth Plan (1997/98-2001/02) has the objectives to ensure the safe entry of foreign capital, technology and managerial and technical skills particularly for the development of industry, tourism, water resources and infrastructure; to accelerate the process of industrialization through mobilization of foreign investment and private sector participation; to promote export in the international market by improving production, productivity and quality; and to raise the living of the people by expanding the opportunities for gainful employment and income generation. Thus, special emphasis had been given in the Ninth Plan to mobilize foreign investment to meet the increasing investment need of the country through the creation of investment-friendly environment (Ninth Plan, 1992). The Tenth Plan (2002/03-2006/07) also aims to meet increasing investment requirements and invite modern technology and management (Tenth Plan, 2002).

According to the 13th Plan (2013/14-2015/16), one of the principle policies is the promotion of domestic and foreign investment for the country's economic development. The primary objective of foreign investment included augmenting foreign investment level by broadening the industrial base, seeking foreign aid to supplement resources required for a sustainable high economic growth and employment generation, and enhancing technology and management skill transfer. However, not much could be achieved as per the objective.

Promulgation of the Industrial Policy 1992, The Foreign Investment and One Window Policy 1992, The Foreign Investment and Technology Transfer Act 1992 and Industrial Enterprises Act 1992 were the significant steps toward attracting foreign investment in Nepal that played a crucial role in importing foreign capital and transfer of advance technology and efficient management. Besides, Finance Act 2001, The Immigration Rules of 1994, The Customs Act 1997, The Electricity Act 1992, The Copyright Act 1965 and Patent Design and Trade Mark Act 1996 have been instrumental to accelerate the pace of economic development of Nepal.

Dangal (2014) studied the need, nature and extent of FDI in Nepal, observed the laws and policies and other general determinants of FDI including motivating factors affecting decision to invest in Nepal, problems and prospects of FDI in Nepal. His study supported by both primary and secondary sources revealed foreign investment scenario in Nepal has been dismal. Despite it's free market reforms and incentives, Nepal has attracted only a small portion of FDI flowing to South Asia. The analysis of flow of FDI in the country reveals that it commenced to flow remarkably into Nepal from the time when democratically elected first government of Nepali Congress adopted liberal policies in the matter of getting private domestic or foreign investors involved into the economic activities of a country.

Timilsina and Mahato (2015) explained that the foreign direct investment is a means of industrialization, which would lead to diversify the economy for a durable, social, psychological and institutional framework. To quote them, “foreign investment is considered important for the industrialization of Nepal. Some basic features associated with the direct foreign investment are that it will attract capital, technology, and expertise furthermore it will help to share risks, exploit resources presently and provide access to export market, all these factors are either in short supply or absent in Nepal”.

DoI (2017) in its procedural manual for FDI clarified the Thirteenth Plan (Three Year Plan) is now being implemented since mid-July 2017. The plan seeks to achieve a higher rate of sustained economic growth of 6 percent per annum by enhancing the competitive capability of industry and commerce sector. To achieve this target, greater emphasis has been given to the participation of private sector and the involvement of People at community level. The plan takes account of the need to attract foreign investment to meet the three-year capital requirement. The following policies have been spelt out, among others, for the industrial sector in the Twelfth Plan:

- Strengthening of legal, policy and institutional arrangements to facilitate the foreign investments.
- Foreign investments will be encouraged in those areas where the country has comparative advantage.
- Local and newly developed technologies will be encouraged for industrial development.
- Foreign investment will be attracted in infrastructures like hydropower, tourism and transportation.

The Three Year Interim Plan (2007-2010) has accorded priority to foreign investment. It aims to increase the level of foreign investment through the expansion of industrial base and, to receive resources in the complementary basis for the generation of employment opportunities and high, broad-based and sustainable economic growth. Similarly, it aims to increase the Technology and Management Transfer.

The Plan has committed to policy reforms. One-Window Committee would be made more active and provide the basic facilities to the investors. Some of the major policies adopted by this plan are as follows:

1. Diplomatic agencies situated in foreign countries shall be mobilized to encourage the volume of FDI.
2. Proper policy will be developed in order to attract the capital, skills and technology of NRNs.
3. Foreign investment shall be encouraged in "Venture Capital".
4. Foreign investors are permitted to own up to 100 percent equity share in medium and large scale industries.
5. A high level Investment Promotion Board will be established to facilitate the foreign direct investment. This Board will help to provide project approval, license, tax concessions and so on.
6. Investment with foreign collaboration shall be encouraged in different areas such as, electricity generation, tourism, especially to build airport, air services, agriculture, education and health, fiscal services, information technology and bio-technology relating industries.

NTIS (2018) noted that FDI in Nepal is particularly low when compared to other LDCs. This is in no small part due to weak infrastructure, poor labor relations, political instability, and governance issues that affect the country. A number of these issues are being addressed very seriously among political parties as the country processed with its transition to a new political regime. Some will take time to resolve as they require substantial time and financial commitment. Improvements suggested in the study include:

- Amending the draft Special Economic Zones (SEZs) bill to be followed by its voting and implementation. Proposed amendments include removing the 75 percent export requirement for enterprises based in the zone, though duties and tariffs for domestic production would remain. Also, the proposal is to replace the positive list with a negative list,

- Creating a designed institution-Board of Investment (BoI)- to promote investment in Nepal,
- Establishing a professional one-stop investor facilitation service in the BoI after-care policy advocacy through the Nepal Business Forum (NBF),
- Developing capacity to conduct investment promotion in the BoI,
- Developing an investment promotion action plan for the BoI based on a clear industrial policy.

To sum up, the literature review suggests that FDI is an important tool for the economic growth in a developing country such as Bangladesh. Literature review also revealed that there are contradicting perceptions, facts, and findings about the investment environment and doing business in Bangladesh. In the next section we will propose an analytical framework to evaluate the FDI flow in Bangladesh and to analyze the perceptions and experiences of two target groups: the policy makers and the foreign investors.

2.5 Research Gap

Varies studies conducted by several researches reviewed in the present study has different objectives, methodologies, findings and recommendations. Large number of variables which appear significant in some cases appear insignificant in other cases. Some studies have produced conflicting results. In context of Nepal, there are a few studies which analyze the Acts and Regulations of FDI in flows and show the status and contribution of FDI in Nepal. So, this study intends to link and fill gaps on the literature of past at academic level covering large span of time series annual data. Therefore, an in-depth study of status, contribution and policy analysis with FDI inflows in Nepal is utmost importance and it is expected that it will contribute extra-knowledge in the existing field.

All the researches mentioned in the review of literature are concerned with definition, structure of FDI, importance of FDI in developing country, its attracting factor, overall economic situation of Nepal and how FDI can play vital role to overcome all the problems and boost up economy. However, the role of FDI is crucial for employment generation. Therefore, this research will be conducted on the topic role of FDI in employment generation in Nepal.

CHAPTERIII

RESEARCH METHODOLOGY

3.1 Research Design

The research design to be followed in the study is descriptive as well as analytical. The analytical type of research design has been followed for clarifying the existing trends in different parameters pertaining to FDI in Nepal, on the basis of the collected data and facts. The descriptive type of research design hasto be used to make the analyzed facts more meaningful and useful for the purpose.

This has been an empirical study on role of foreign direct investment in employment generation of Nepal. As the objective of the present study, this study explains the present status of FDI and employment generation by FDI in Nepal. Since the type of research design covers in this study are both descriptive and analytical in nature and the study has been totally based on secondary data.

3.2 Nature and Sources of Data

The nature of this study is descriptive as well as analytical. The secondary data has collected from various sources such as Department of Industry, Ministry of Industry, Investment Board, Central Library of TU, MoF, NIDC, CBS, CEDA Library, NRB, DoI, MoF, FDI Department, NPC, World Bank Reports, UNCTAD Reports, published as well as unpublished reports, books and documents, various articles, research papers, journals, NGOs/INGOs' reports and publications dealing in the subject matter the study, websites, etc. Secondary data has further processed and analyzed to find out the past trend and structure of FDI in Nepal.

Department of Industry (DoI), Ministry of Industry, Commerce and Supplies (MoICS), TU Central Library, Federation of Nepalese Chambers of Commerce (FNCCI), Ministry of Finance (MoF), Center for Economic Development and Administration (CEDA), Central Bureau of Statics (CBS), various public libraries, the websites of various global and national institutions like- WTO, IMF, UNCTAD, NRB and other academic/educational websites.

3.3 Tools and Techniques of Data Collection

The quantitative data have collected, processed and analyzed to get the answer of the research questions and to fulfill the objectives of the study.

3.4Data Processing Procedures

A master sheet of information have prepared and the raw data or information has been tabulated. On the basis of this master sheet of information, further grouping, sub-grouping, and classification of data has done to make it fairer and to meet the objectives of the study. It helps the research to analyze the result of collected data and then to be interpreted the findings.

All the relevant data and statistics have been collected from related sector and divided under different headings and later tabulated according to the need of the study. The table prepared and presented in the study is derived from DoI, industrial statistics and economic surveys of Nepal.

3.5 Methods of Data Analysis

The study is based on quantitative data.Various statistical tools have used to meet the objective of the study. Especially these analytical tools have used to estimate the economic effect of the foreign direct investment in development of different sectors of Nepal. The correlation analysis has been used to show the relationship between FDI inflows in different sectors and economic growth of these sectors.

The tabulated data has been analyzed and interpreted with the help of different statistical tools such as: pie chart, bar diagram, averages and percentages. An analytical part of the study focus on the systematic presentation of data in sector-wise, country-wise, and scale-wise. The sector-wise flow of FDI shows that, which one sector is most preferable to the foreigners and country itself. The year-wise flow of FDI is shown to see the trend of FDI in Nepal upto 2017. Also the country-wise flow of FDI gives us the information about the flow of FDI from various countries. Similarly, scale-wise flow of FDI gives us which one scale of industry is necessary in the country.

3.6 Analysis and Interpretation of Data

In order to produce convincing logical conclusion and to rule out alternative interpretations, the data collected from different sources to process, analyze and interpret them to drive meaningful conclusion.

The various data collected from different sources have been compiled, condensed, analyzed and presented in the form of tables and diagrams, graphs and charts. In order to exclude the irrelevant unnecessary data and process them as per thesis requirements.Data have been edited and properly tabulated. The data has arranged, grouped and accordingly entered into appropriate tabular form. Moreover, simple one-way table has been used to present the data, which has been followed by an in-depth interpretation.

3.7 Dependent and Independent Variables

- **FDI:** FDI in this research included only inward FDI flows to various sector of the economy from abroad MNCs, and private investors in Nepalese economy. Employment generation and economic growth has been dependent variables.

- **Independent Determinants:**How FDI impacts economic growth depends upon a large degree, on the type and volume of FDI. Hence, it is crucial to understand what attract FDI, how this changed over time, and what these changes in determinants and types of FDI mean for differential growth prospects. Investment on different sectors like manufacturing sector, service sector, energy-based sector, construction sector, agro-based sector and tourism sector has been primarily taken as independent variables in this research.

CHAPTER IV

PRESENT STATUS AND STRUCTURE OF FOREIGN DIRECT INVESTMENTIN NEPAL

Foreign Direct Investment (FDI) occurs when an investor based in one country acquires an asset in another country with the intent to manage that asset. Theories of FDI suggest that national and foreign private-sector enterprises, if permitted to operate in competitive market conditions, offer developing countries the best prospects for faster national economic growth. FDI is considered beneficial in view of its contribution to technological transfers, enhancement of managerial capability and new opportunities for market access. It includes the transfer of intangible assets such as trademark, technology and business management as well as the authorization given to the investor to control the investment.

Increase in FDI is seen as leading factor to increase exports by creating international markets through new marketing and organizational skills. Therefore, it is not unusual for economists to emphasize the importance of FDI in fueling economic growth. In fact, since the early 1950s, FDI has been recognized as the most crucial factor in enhancing economic development and ensuring a reasonable standard of living for countries which have been the recipient of FDI. South Korea, Singapore, and Taiwan have been examples of nations outside the OECD countries that have benefitted greatly from FDI. In recent years, China and India have made remarkable progress in attracting FDI and in realizing technological and economic successes.

4.1 Status of FDI in Nepal

Available latest data for FDI reflect that 2,335 foreign investment projects are registered in Nepal comprising all categories of industries, worth of total investment equal to NRs.1,645,101 million. The total fixed capital is estimated to be NRs.139,858 million as of FY 2011/12. FDI is likely to provide employment to 164,482 people in Nepal. Out of total projects (2,335), 756 are service related projects comprising worth of total investment NRs.28,070 million. FDI in service sector is likely to provide employment to 35,942 people in Nepal (Industrial Statistics 2016/17). Similarly 743 projects are manufacturing industries with NRs.58,152 million project cost.

The main sources of FDI are multinational companies, which are based in industrial countries. The benefits of FDI consists of transfer of technology, transfer of capital, enhancement of managerial capacity and skills, access to world market, raising employment opportunities and economic growth. In Nepal, government's efforts to attract FDI began with policy reform. It must develop, legislate and implement a range of polices that support a favorable business and investment climate. Government has played role in promoting foreign investment-investor services that contains two functions: promote investment opportunity, and facilitate the investment process. Thus, the government of Nepal has spent abundance of resources to attract FDI to gear up our economy.

As per the Industrial Act, 1992, there existed a provision to establish the one window service (OWS) hose aim was to provide all services required by foreign investors under one roof. The policy listed two types of services to be provided by the OWS (a) permission, facilities and other administrative services under the foreign investment and technology transfer Act, 1992 and (b) Other infrastructures facilities like land, registration, electricity, water, telecommunication etc. and other services as required by investors. However OWS was not successful to addressing the true need of the investors. An industrial promotion Board was formed under the chairmanship of the minister of industries on the basis of foreign investment and industrial Act, 1992. The principle objectives of the Board were (a) providing necessary co-operation in developing and implementing policies, (b) Developing guidelines in meeting the aim of liberal, open and competitive economic policies under taken by the country, and (c) Coordinating between the policy level and the implementation level of the industrial policy.

Nepal formed a Board of Investment (BoI) under the chairmanship of the Prime Minister in 2001. The BOI was established for promoting domestic as well as foreign investment and making it more transparent and reliable. However, the BoI has not been functioning smoothly as per its objectives. A powerful institutional arrangement with appropriate policy helps to promoting and attracting FDI in Nepal.

To sum up there have been gradual, sincere and sustained efforts on the part of policy makers to give a boost to the FDI inflows in to Nepal in the post liberalization period.

4.2 Inflows of FDI in SAARC Countries

Table 4.1 exhibits the FDI inflows in SAARC countries. The table shows the low inflows of FDI in Nepal to compare with India, Pakistan, Bangladesh and Sri Lanka. The FDI inflows in Nepal is negative during 2000 , Which is US $ -0.48 similarly , In terms of the FDI potential index , Nepal ranks the lowest in the region , i.e., 175 out of 182 countries ranked globally (UNCTAD, 2017) .

Table 4.1

Trend in FDI Inflows SAARC Countries

Name of the Country/Year	2013	2014	2015	2016	2017
Bangladesh	8.51	3.23	578.64	913.3	990.00
Bhutan	0	1.60	0	25.84	15.91
Nepal	0.30	5.94	-0.48	86.74	91.98
Maldives	-0.13	5.60	22.26	216.47	293.98
India	79.16	236.69	3597.66	21125.45	25542.84
Pakistan	63.63	278.33	309	222	846.75
Sri-Lanka	49.90	43.35	172.95	477.60	775.50

Source: UNCTAD, World Investment Report, 2017

4.3Inflows of FDI in Nepal after Liberalization (1990 Onward)

In order to understand the impact of macroeconomic stabilization policy, structural adjustment program and the changes in the foreign investment policy on the FDI inflows, quantitative information is needed on broad dimensions of FDI and its distribution across sectors and regions. However there is a considerable amount of ambiguity on the quantitative data of FDI in Nepal. The secondary data sources, which published the FDI data in Nepal, are not similar. There is inconsistency in the data given by different sources. The present study had diagnosed the FDI data given by the ministry of industry to access the trend of FDI inflows in Nepal. This chapter deals with analysis of secondary data related to foreign direct investment. In this section of the study, the researcher has attempted to present and explain the results of these data. The major objective of this study is to analyze the nature, composition and trend of FDI inflows in Nepal. The data collected were presented and analyzed here with detail elucidation of the results.

Structure of foreign direct investment in Nepal has been examined for the period of FY 2013/14 to 2016/17. The efforts have been made to analyze the details of foreign investment projects in Nepal- year wise, sector wise and category wise for the same period. The nature composition and trend of FDI inflows in Nepal can be explored under the following heads.

4.4Inflows of FDI byScale-wise Industry

According to industrial policy of Nepal 2010, the industry having fixed investment up to 50 million is taken as small scale industries and fixed capital having NRs. 50 million to NRs. 150 million and above NRs. 150 million are taken as medium scale and large scale industries respectively .

Table 4.2

Licensed Industriesfor FDI on Project Cost Basis

(NRs. in million)

Types of Industries	Number of Industries	Total Project Cost	Total Fixed Cost	Foreign Direct Investment
Large Scale Industries	195	12,456.81	11,273.97	5,216.92
MediumScale Industries	262	1,888.74	1,337.53	898.10
Small Scale Industries	1,878	2,064.47	1,374.27	1,399.98
Total	2,335	164,101.00	139,858.00	7,5150.00

Source: Department of Industry, Government of Nepal, 2016/17

Table 4.2 exhibits that the total number of industries with foreign capital in Nepal marked 2,335 as of 2017. The date reflects that the size of total project cost is NRs. 164,101 million and FDI accounts for NRs. 75,150 million during the period of 2013/14-2016/17. The industries with FDI by the end of FY 2016/17 on the project cost basis 195 (8.4 percent) are large scale industries, 262 (11.2 percent) are medium scale industries and 1878 (80.4 percent) are small scale industries. Out of total foreign investment of NRs. 75,150 million, share of large scale industry has been the highest with 69.4 percent while those of medium and small scale industries are 18.6 percent 12 percent respectively.

4.5 FDI Projectsin Nepal Year-wise and Growth Rate of FDI

The growth rate of FDI inflows in Nepal was not significant until 1990 due to the regulatory policy framework. However, under the new policy regime, it has excepted to get momentum and assume a much larger role in catalyzing Nepal economic development. It can be observed from table 4.3 that shows the actual FDI inflows in Nepal during FY 1993/94-2016/17

Table 4.3

Foreign Investment Project in Nepal by Year-wise

(NRs. in Million)

Fiscal Year	No. of Industry	Total Project Cost	Total Fixed Cost	FDI Inflows (Y)	Trend Value of FDI (Y_c)	Fluctuation ($Y-Y_c$)
Up to 1993/1994	58	5,106	4,272	450	-138.89	588.89
1994/1995	30	2,438	2,140	399	145.50	253.50
1995/1996	23	864	691	406	429.83	-23.83
1996/1997	38	3,506	2,902	598	714.36	-116.83
1997/1998	64	17,886	16,211	3,084	998.55	2,085.45
1998/1999	38	3,733	3,176	1,379	282.00	97.00
1999/2000	19	1,627	1,248	478	1,567.27	-1089.27
2000/2001	47	10,047	9,399	2,220	1,851.00	369.00
2001/2002	77	8,559	6,692	2,396	2,135.99	260.01
2002/2003	77	5,573	5,146	2,000	2,420.35	-420.35
2003/2004	50	5,324	4,380	1,666	2,707.71	-1041.71
2004/2005	71	2,669	1,910	1,418	2,989.07	-1571.07
2005/2006	96	7,918	6,122	3,103	3,273.43	-170.43
2006/2007	77	3,319	1,560	1,210	3557.79	-2347.79
2007/2008	74	4,922	3,608	1,794	3,842.15	-2048.15
2008/2009	78	4,324	3,766	2,765	4,126.51	-1361.51
2009/2010	63	1,796	1,149	1,636	4,410.87	-2,774.87
2010/2011	116	4,121	3,279	2,606	4,695.23	-2089.23
2011/2012	188	3,426	2,651	3,186	4,979.59	-1793.59
2012/2013	213	20,406	16,898	6,255	5,548.31	706.69
2013/2014	231	9,418	7,530	6,255	5,548.31	706.69
2014/2015	171	13,954	14,988	9,100	5,832.67	3,267.33
2015/2016	209	11,250	9,375	10,051	6,117.03	3,933.97
2016/2017	227	11,912	10,738	7,141	6,401.39	739.61
Total	2,335	164,101	139,858	75,150	-	-

Source: Department of Industry, Government of Nepal, 2016/17

Table 4.3 manifests that the number of foreign investment projects in Nepal marked 2,335 for the period FY2013/14-2016/17. Total project cost is estimated to be NRs.164,101 million, Total fixed cost is estimated to be NRs.139,858 million, whereas FDI is equal to 75, 150 million. The size of FDI as very minimal NRs.450 million up to FY 41,989 due to the regulatory policy framework, which increased to NRs.7141 million in 2016/17 and marginally decreased to NRs.2910 million from FY 2014/15 to FY 2016/17.

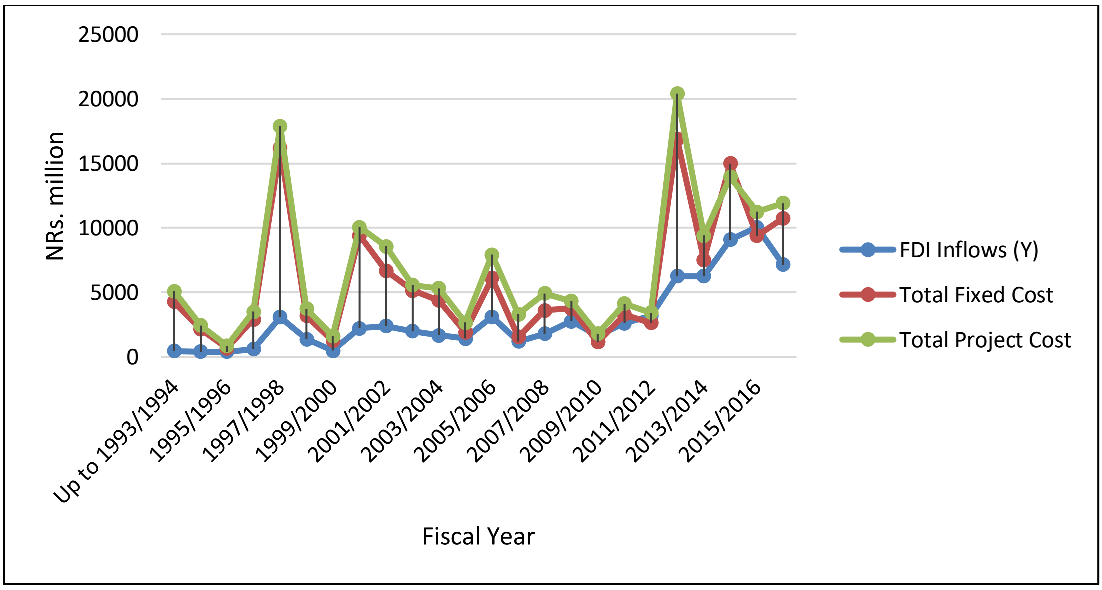
The trend value of FDI inflows in Nepal shows the high fluctuation in FDI inflows in the study period are the various reason. One of the strong reasons for the fluctuation is the political instability and conflict. The Maoist movement started from 1995 in the political in the country and from the same time FDI inflows started to have negative impact. The Maoist movement continued for 11 years till 2006, it is found the high fluctuation in FDI inflows. But when Maoist movement ended, FDI inflows started to increase, So, the political instability and conflict was the major reason for fluctuation FDI inflows in the country. The other reason may be the frequent change in policies, corruption, bureaucratic complexity, insufficient infrastructure and so on.

The short-term fluctuation value of FDI inflows in Nepal shows Negative trend during

The trend of FDI inflows in different fiscal year has been shown in following trend line:

Figure 4.1

Foreign Investment Projects in Nepal by Year-wise



Source: Based on the Table 4.3

Figure 4.1 depicted the trend of FDI inflows during a period of FY 2013/14-2016/17there was not constant trend of FDI inflows during this period. The inflows of FDI in FY 2015/16 was high to compare other fiscal years.

4.6 Sector-wise FDI Pattern

An analysis of Sector wise FDI stock over the study period shows that, manufacturing, service, energy based, construction and agriculture sector attracted FDI in Nepal.

Table 4.4

FDI Projects Nepal by Category - wise

(NRs. in million)

Types of Industries	No. of Industries	Total Project cost	Total Fixed Cost	Foreign Investment	Percentage of FDI
Agriculture	75	1,849	1,246	1,055	1.40
Construction	42	3,605	2,683	2,763	3.68
Energy based	51	45,769	45,214	17,516	23.31
Manufacturing	743	58,152	43,373	26,544	35.32
Mineral	43	5,334	4,354	3,062	4.08
Service	756	28,070	23,042	14,973	19.92
Tourism	625	22,321	19,946	9,238	12.29
Total	2,335	164,101	139,858	75,150	100

Source: Department of Industry, Government of Nepal, 2016/17

Table 4.4 shows that the magnitude of FDI is highest in manufacturing sector that marked NRs.26,544 million, which is 35.32 percent of total. WithNRs. 17,516 million (23.31 percent) energy based occupied second position to attract FDI in Nepal. In the context of FDI service sector received third priority that leveled to NRs. 14,973 million (19.92 percent), while tourism sector occupied fourth position to attract FDI to the tune of NRs.9,238 million, which is 12.29 percent of total. Construction (3.68 percent), agriculture (1.04 percent) and mineral sectors (4.08 percent) received lowest priority in obtaining FDI. Thus highest percentage of FDI inflows is in manufacturing sector and lower percentage of FDI inflows in agriculture sector.

Structure of FDI reflects that the number of total Industries under different categories marked 2,335 in Nepal during FY 2013/14-2016/17. Out of total number of Industries 5,110, 2,335 industries are the foreign based capital, which is the 45.69 percent of the total industry in Nepal (MoF, 2017).

Total investment is found to be NRs. 164,101 million, total fixed capital equal to NRs. 139,858 million and total FDI is NRs. 75,150 million. Total amount of total project cost is NRs. 584,096.5 million at the end of FY 2016/17. Thus out of total project cost FDI occupied 12.87 percent of project cost up to FY 2016/17.

Table 4.5

Foreign Investment Projects in Nepal bySector-wise

(NRs. in million)

Types of Industries	No.	Total Project Cost	Total Fixed Cost	Foreign Investment	% of FDI
Agriculture and Forestry	75	1,849	1,246	1,055	1.4
Manufacturing	879	112,860	95,623	49,885	66.38
Service sectors	1,381	49,392	42,989	24,210	32.22
Total	2,335	164,101	139,858	75,150	100

Source: Department of Industry, Government of Nepal, FY 2016/17

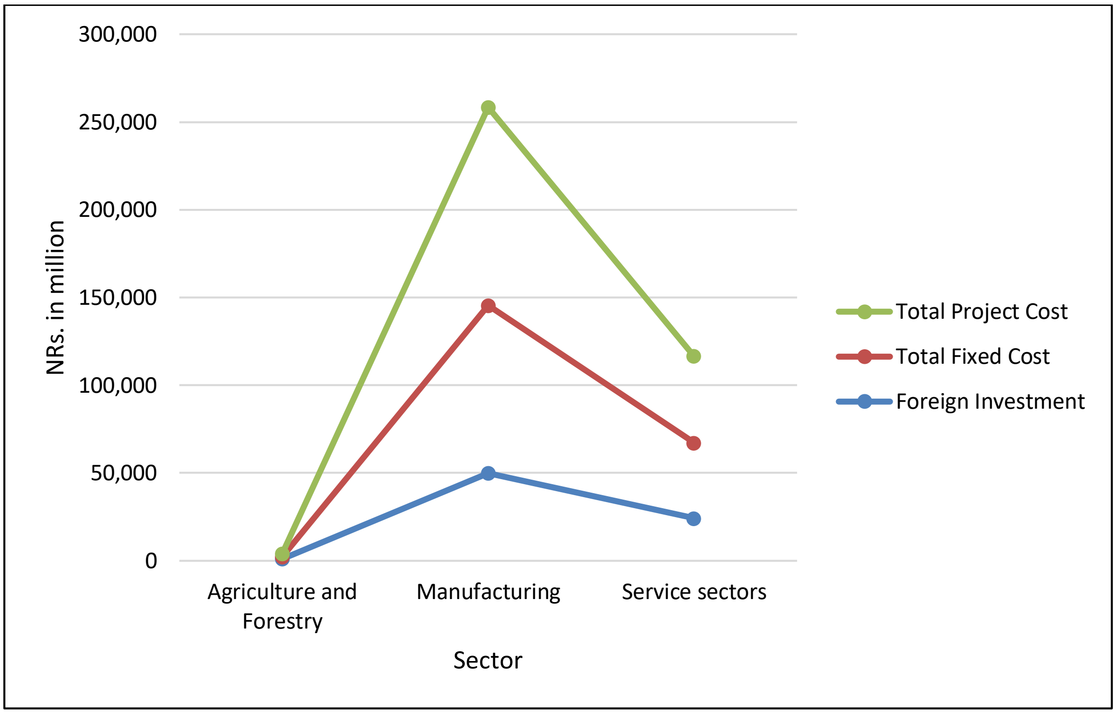
(Note: manufacturing refers to the sum of construction, energy based, manufacturing and mineral and service sectors refers to the sum of service and tourism sectors)

Table 4.5 indicates that there were 879 manufacturing units receiving FDI. Manufacturing sector received top priority to attract FDI to the level of NRs. 49,885 million, which is 66.38 percent of total during the period FY 2013/14-2016/17. Service sectors included 1,381 industries, which received NRs. 24,210 million, Agriculture sectors only received the NRs. 1,055 million FDI which is the minimum magnitude of FDI inflows in Nepal.

Structure of FDI reflects that the number of total Industries under different categories marked 2,335 in Nepal during FY 2013/14-2016/17. Out of total industries, 75 are agro-based industries and 49,392 are service based industries. The statistical data reflects that highest number of FDI based industries are service industries in Nepal.

Figure 4.2

FDI Projects in Nepal by Sector-wise



Source: Based on the Table 4.5

Table 4.5 indicates that there were 879 manufacturing units receiving FDI. Manufacturing sector received top priority to attract FDI to the level of RS. 49,885 million, which is 66.38 percent of total during the period FY 2013/14-2016/17. Service sectors included 1,381 industries, which received NRs.24,210 million FDI and agriculture sector only received NRs.1.4 million of FDI.

The total project cost of the FDI based industries is 164,101 million. Out of total project cost FDI occupied 45.69 percent. Out of total FDI manufacturing sector occupied 66.38 percent. Similarly, out of total FDI service sector occupied 32.33 percent. On the average all of the industry related to FDI occupied the more than 45 percent of foreign capital on their total projects cost in different sector.

While FDI in agriculture sector was very low amount (1.4 percent of total FDI) but it occupied 57.06 percent of total projects cost during the period FY 2013/14-2016/17.

Table 4.6

Inflows of FDI in Different Sectors of Nepal

(NRs. in million)

Year	FDI in Agriculture Sector	Growth Rate of FDI (%)	FDI in Manufacturing Sector	Growth Rate of FDI(%)	FDI in Service Sector	Growth Rate of FD(%)
Up to 1993/1994	-	0	470.19	0	377.89	0
1994/1995	-	0	399.09	-9.15	7.19	-0.98
1995/1996	5.43	0	362.75	-0.09	229.66	30.94
1996/1997	-	-1	1,516.42	3.18	1,567.24	5.82
1997/1998	28.19	1	991.88	-0.35	358.59	-0.77
1998/1999	12.8	-0.54	411.92	-0.58	52.87	-085
1999/2000	26.97	1.12	1,769.08	3.29	423.82	7.02
2000/2001	1.39	-095	846.22	-0.51	1,547.92	2.65
2001/2002	-	-1	394.7	-1.14	1,605.58	0.03
2002/2003	4.7	1	1,259.85	2.20	401.88	-0.74
2003/2004	-	-1	513.02	-0.59	904.59	1.25
2004/2005	10	1	22,211.61	3.31	880.95	-0.02
2005/2006	4.9	-0.51	967.57	-0.56	237.18	-0.73
2006/2007	-	-1	1,129.78	0.17	603.99	1.54
2007/2008	-	0	1,020.36	-0.09	1,744.44	1.89
2008/2009	7.38	1	1,245.93	0.22	382.46	-0.78
2009/2010	-	-1	1,108.7	-0.11	1,497.61	2.92
2010/2011	5	1	1,975.66	0.78	1,205.32	-019
2011/2012	107.35	20.47	8,145.37	3.13	1,559.88	0.29
2012/2013	302.07	1.82	3,953.95	-0.51	1,999.08	0.28
2013/2014	10	-0.96	7,466.35	0.89	1,623.64	-018
2014/2015	367.12	35.71	7,580.46	0.02	2,163.14	0.33
2015/2016	162.20	-0.56	4,143.71	-0.45	2,835.00	0.31
2016/2017	170.20	4.7	4,245.78	2.40	3,035.00	6.59
Total	12,252.00	-	541,30.78	-	27,245.00	-

Source: Department of Industry, Government of Nepal, 2016/17

(Note: percentage growth rate is calculated)

Table 4.6 exhibits that the amount of FDI inflows of different sectors (agriculture, manufacturing, service) during FY 1993/94-2016/17. Manufacturing sector received top priority to attract FDI to the level of NRs.49,885 million, which is 66.38 percent of total FDI inflows in Nepal. Foreign Capital received in the service sector is equal to 24,210 million. It is the 32.23 percent of total FDI inflows in Nepal. Similarly agriculture sector received lo amount of FDI to the level of NRs. 1,055 million, which is the 1.39 percent of total FDI inflows in Nepal. It is important to note that agriculture and forestry sectors attracted less FDI in flows in Nepal.

The table 6.4 shows that data to FDI inflows in agriculture and forestry sectors reveal the poor situation of FDI as it is in some year zero and in some year very low amount of inflows. The growth rate of FDI inflows in the sector calculated in above table has also shown the inconsistent trend of FDI inflows and highly insignificant growth rate whatever is there. The highest FDI inflows in volume during the study period are NRs.367.12 million in this sector which is also marked as the highest growth rate i.e. 35.71 times in FY 2015/2016. The growth rate of FDI inflows in the sector is negative in the most of the year in study period and very insignificant in other period even if it is positive except in FY 2015/16. This has proved that agriculture sector is unable to attract significant level of foreign capital and other resources though this sector has very significant and important role in national economy.

Data relating to FDI inflows in manufacturing sector are also presented which have also shown inconsistent trend. The volume of FDI inflows in this rector as well, highly fluctuated as the lowest volume of FDI is NRs. 362.75 million and highly volume is NRs. 8,145.37 million in FY 1995/96 and FY 2012/13 respectively. The growth rate of FDI inflows in this sector is also inconsistent and highly fluctuated. The growth rate in most of the year during the study period is negative. The highest growth rate of FDI inflows in the sector is 3.31 in FY 2000/01. Though this sector has more FDI inflows in volume compared to agriculture and forestry sector and the service sector, it is insignificant and thus the data indicates the inconsistent and highly fluctuated inflow of FDI in this sector.

The table 4.6 presents that FDI inflows in the service sector in Nepal. hileanalysing the trend of FDI inflows in this sector, it also seems highly fluctuated and inconsistent. The inflows of FDI in volume in this sector are very insignificant up to FY 1994/95. Then it is found that the sector is attracting the FDI but not consistently. During the study period, the lowest amount of FDI inflows is NRs. 2,835 million in FY 2016/17. The growth rate of FDI inflows in this sector is also highly fluctuated. Out of the total study years, the growth rate of FDI inflows are positive rate of FDI inflows are negative. The highest growth rate of FDI inflows in service sector is 30.94 in FY 1996/97 but the volume in nominal. From FY 2009/10, the volume of FDI inflows are increasing but the growth rate is very nominal again. Thus the growth rate if FDI inflows in different sector is not so much encouraging and consistent. This indicates that the above listed sectors of Nepalese economy are their unattractive for FDI inflows or still to be developed.

4.7Sources of FDI

An analysis of the origin of FDI in to Nepal shows that (after the restoration of democracy) the new policy has broadened the source of FDI in to Nepal. There were 70 countries in FY 2016/17 as compared to 21 countries in 1994/95. Thus the number of c countries investing in Nepal increased during the period of study. Nevertheless, still a lion's share of FDI comes from only a few countries.

An analysis reveals the fact that during the study period beginning from 1988 /89, developing countries, such as India, China South Korea and many others made their appearance on the list of major investors in Nepal. The developing countries investing in Nepal can be grouped in to two sets. The first set in represented by those developing countries that have developed their industrial base with the help of technology imported from the industrialized world and now in a position to import technology and capital to the Nepalese enterprises' India, China, South Korea are some examples. On the other hand the second set of developing countries is those that have not so fare developed their industrial base to that extent, such as Mauritius, Bangladesh etc. Since the tax rates in these countries are very low, the multinational corporations headquartered in other countries developed as well as developing are found diverting their receipt of funds on different account to these tax haven countries, In other words, these countries ply as a hot for easy positioning of the multinational companies., This ay they possess huge investable surplus a party of which has found its way in to Nepal.

The following table shows the inflows of FDI in Nepal from developed as well as developing countries:

Table 4.7

Country-wise FDI Projects in Nepal

S.N.	Name of Country	No. of Industries	Total Project Cost (NRs. in Million)	Foreign Investment (NRs. inMillion)	No. of Employees
1.	India	525	66,613	34,810	58,161
2.	China	478	14,558	7,861	26,651
3.	USA	198	14,120	5,139	12,876
4.	South Korea	171	10,452	6,422	6,820
5.	Japan	167	3,264	1,220	6,986
7.	UK	110	4,733	1,582	8,726
8.	Germany	80	2,348	930	3,870
9.	France	57	649	350	2,273
10.	Netherland	39	1,350	624	3,193
11.	Australia	36	474	44	1,018
12.	Switzerland	36	780	365	813
12.	Bangaldesh	31	562	298	4,332
13.	Singapore	26	6,026	1,765	2,330
14.	Canada	25	5,082	2,167	1,926
15.	Italy	24	1,484	1,341	615
16.	Denmark	21	766	199	969
17.	Russia	20	294	157	880
18.	Hong Kong	19	1,862	741	2,616
19.	Pakistan	17	2,179	157	2,451
20.	Malaysia	17	764	317	528
21.	Australia	16	210	83	591
22.	Spain	13	155	107	365
23.	Beklgium	12	66	54	395
24.	Norway	12	8,117	1,136	726
25.	Philippines	11	1,181	97	1,663
26.	Turkey	11	593	605	418
27.	Thailand	11	1,032	116	1,159
28.	New Zealand	9	297	30	2,069
29.	Iran	9	40	33	199
30.	Taiwan	9	415	175	596
31.	Sweden	8	30	28	223
32.	Poland	7	138	55	194
33.	Bermuda	6	1,995	118	1,474
34.	UAE	6	1,977	1,056	765
35.	Ireland	6	724	341	320
36.	Mauritius	5	2,980	2,895	922
37.	Brazil	5	540	521	524
38.	Bri.Virg. Is	5	2,790	1,012	1,098
39.	Finland	5	25	20	149
40.	South Africa	5	47	47	137
41.	Sri Lanka	5	93	51	129
42.	Kyrgyzstan	4	37	23	175
43.	Six country	18	259	391	786
44.	Five country	10	1,082	356	539
45.	Seventeen country	17	224	147	667
Total	70	2,335	164,101	75,150	164,482

Source: Department of Industry Government of Nepal, 2016/17

Table 4.7 shows that the number of Indian joint ventures industry is highest (525) in Nepal followed by China (478), USA (198), South Korea (171), Japan(167), the UK (110), Germany(80), France(57), the Netherlands (39), Austria(36), and Switzerland (36) so on. Seventeen countries have invested only one project in Nepal. The magnitude of FDI from India is NRs.34810 million, which is 46.32 percent of total FDI inflows in Nepal. The size of FDI from major countries such as China marked NRs.7861 million (10.46), followed by South Korea NRs.6422 million (8.54 million), the USA NRs.5139 million(6.83 percent), Canada NRs.2167 million (2.88 percent), Singapore NRs.1765 million (2.02 percent) inflows of total foreign capital. I this way the FDI inflow from India is the largest 46.32 percentage and other six countries like China, South Korea, the USA, Canada, Singapore and Uk collectively shared 33.08 percent of the total actual FDI inflows in Nepal. It implies that only seven countries accounted for well over 79. 4 percent of the FDI inflows during the study period.

Structure of FDI reflects that the number of total industries marked 2335 in Nepal during FY 1989/90-2011/12. Total investment is found to be NRs.164101 million, FDI inNRs.75150 million. Nepal received highest magnitude of FDI (10051 million) in FY 2010/11. During the period manufacturing sector received a to prority of FDI in terms of total project cost. India has the highest number of projects in the list of 70 countries that provided FDU to Nepal. The magnitude of FDI from India is 46.32 percent of the total during the same period.

4.8 National Laws for FDI Promotion, Protection, and Regulation

At the end of FY 2016/2017 (Nepal's fiscal year runs from mid-July to mid-July), there were 2,108 foreign investment projects in Nepal, worth a total of approximately US$ 2.61 billion, according to official GoN statistics. India was by far the most important foreign investor in Nepal with 501 ventures, accounting for nearly 47.6 percent of total foreign investment. Ten of the 20 largest foreign enterprises in Nepal had Indian investment. China with 401 ventures ranked second, accounting for 10.34 percent, and the USA with 174 ventures ranked third, accounting for 7.28 percent of total foreign investment. Japan, South Korea, and the United Kingdom are also prominent sources of foreign investment.

Reform of laws and regulations has allowed the growth of private operations in sectors that were previously government monopolies, such as telecommunications and civil aviation. In FY 2010/11, the GoN also opened some service sectors to foreign investment. Licensing and regulations have been simplified, and 100-percent foreign ownership is now allowed in the travel and tourism sector, and the production of cigarette and alcohol. Government policy also permits 51 percent foreign investment in consultancy services, such as management, accounting, engineering and legal services, and retail chain stores and franchises having presence in more than two countries. New banking institutions and a small stock exchange provide alternative sources of investment capital. On January 1, 2010, per its accession commitments to the World Trade Organization (WTO), Nepal opened the domestic banking sector to foreign banks, which are now allowed to engage in wholesale, but not retail, banking. Foreign banks operating branches in Nepal can invest only in major infrastructure projects.

The Government has opened the hydropower generation sector to private development, including foreign ownership. In August FY 2016/17, the Ministry of Energy announced the new Hydropower License Management Procedure, which promised to award licenses for hydropower projects above 10 MW through a competitive process. However, the process for obtaining licenses for hydropower projects remains cumbersome, and the new policy has created uncertainty about pending license applications. Unreasonable delay in the evaluation of hydropower survey license applications, a poor security environment, corruption, and political instability also discourage long-term investment in this sector. Additionally, Parliament has yet to approve the Nepal Electricity Regulatory Commission Act, designed to unbundle the functions of the bankrupt Nepal Electricity Authority (NEA), and create an independent regulatory body. Experts consider these steps necessary to reform NEA and stimulate private investment in the energy sector. Although a small number of private-sector hydropower projects have either begun operations or are in the planning stages, development of the sector has been very slow, and projects designed for the export of electricity to India remain politically sensitive.

Despite these steps to open additional sectors, significant barriers to increased foreign investment remain. Basic infrastructure needed to support investment is inadequate. The supply of power and water is insufficient. Transport is difficult and expensive, a problem compounded by the fact that Nepal is landlocked. Most products imported and exported by ship enter through Kolkata, India, and are then shipped overland. Nepal also lacks trained personnel and basic raw materials. In addition to these challenges, foreign investors must also deal with inadequate and obscure commercial regulations, vague and changeable rules governing labor relations, a non-transparent and capricious tax administration system, and difficulties in obtaining long-term visas. Furthermore, there is often variance between the letter of the law and its implementation.

Foreign investors complain about complex and opaque government procedures and a working-level attitude that is often more hostile than accommodating. Efforts intended to establish a "one window policy" and streamline government procedures related to foreign investment have produced few results, although the recently created Investment Board is designed to play such a role and coordinate domestic and foreign investors. The Board will focus on large investment projects worth more than NRs. 10 billion (US$ 130 million) and certain key sectors, and could help cut through bureaucratic delays and improve interagency coordination. The GoN has long been aware of the deficiencies in the investment climate, but has moved slowly on creating a more investor-friendly climate. The Foreign Investment and Technology Transfer Act of 1992 abolished the minimum capital investment requirement and eliminated other significant barriers to investment. The Act also allowed investment in the legal sector, management consulting, accounting and engineering services, with a 51-percent limit on foreign ownership.

In order for the protection of foreign investment, Nepal has signed the BIPPA agreement with India recently. BIPPA entails commitments by the signatories to protect investment from each other and accept liability for losses caused by war, riots or any kind of unrest that are not covered by insurance companies. The agreement bars the host country from nationalizing businesses from foreign countries without paying proper compensation. Similarly, the agreement allows FDI and investment in stocks. The agreement is aimed at specifically protecting private FDI in the host sate. BIPPA has set forth standards for treatment of foreign investors in areas such as expropriation of property, repatriation of funds, and settlement of disputes. When a host state violates the rights guaranteed to the investor by the treaty, an investor has recourse on an international arbitration (*www.unctad-docs.org/UNCTAD-WIR2012-Chapter-III-en.pdf*).

Most of the acts and policies, and their amendments, governing foreign and private investment in the potential sectors were brought out during the last decade. However, implementation and enforcement of these laws and policies remain a challenge. Additionally, the transient political atmosphere renders the investment climate in Nepal uncertain.

The FDI flows globally decreased by 2 percent to US$ 1.75 trillion in 2016. Developed economies accounted for 59 percent in total inflows, a growing share in 2016.

Table 4.8

FDI flows by Region

Year	**2014**	**2015**	**2016**
World (US$ Billions)	1,324	1,774	1,746
Share (in Percentage)			
Developed Economies	42.6	55.5	59.1
Developing Economies	53.2	42.4	37
Asia	34.8	29.5	25.3
South Asia	3.1	2.9	3.1

Source: UNCTAD (2017)

CHAPTER V

ROLE OF FOREIGN DIRECT INVESTMENT IN NEPAL

There has been a growing interest and huge competition to strength the respectively attracting forces of FDI as a part of globalization agenda in most of the developing countries like Nepal. The main interest for such agenda is to use these FDI in the developing process of the economy as FDI may provide intangible assets including technology, potential spillover and externalities, which are highly beneficial for host country's economic growth. In the race of seeking more and more FDI inflows the country's have over looked the fact that all the FDI do not benefit their host countries similarly. The impact of FDI on the domestic economy mainly depends on the domestic policy, the kind of FDI the domestic country receive and the strength of domestic enterprises. The questions of measuring the role of FDI inflows in Nepal is pertinent, as FDI become a preferred finance for growth than the formal contractual agreements for foreign loans. In fact FDI appears particularly attractive, as exiting stocks are low in Nepal. Low stock of foreign owned capital implies low flow of profits on their investment. However, success in attracting FDI in Nepal is the healthy investment environment in Nepal for foreign investors.

The role of FDI on host economy can be adjusted from two effects on of FDI on economy. These two effects included the real effect an the financial effect. The real effect includes both qualitative and quantitative effects. The quantitative effects of FDI include the effect on the domestic investment, productivity, price level, income and employment and export growth. The qualitative effect of FDI includes the effect on the domestic investment, productivity p rice level, income and employment and export growth. The qualitative effect of FDI includes the effect on technological change, spillover effects and the effect on structural change of the economy. The financial effects of FDI on the host economy are the impact on balance of payment. The direction of all these effects as mentioned earlier depends upon domestic policy, the kinds FDI that a country receives, the strength of domestic enterprises and the structure of domestic economy.

In order to estimate the role of FDI on Nepalese economy, the study has considered only the impact on the macroeconomic variable like gross capital formation, real GDP export etc. Similarly, the main purpose of this study is to examine the contribution of

FDI on real GDP of the Nepalese economy. This study also examine the direct effect of FDI on economic growth using time series data for the time period of FY 1993/94-2016/17.

5.1 Indicators to Assess the FDI

Foreign direct investment (FDI) is always contributing in the positive growth toward the economy of one country due to the investment by another country or country's personnel's. The effectiveness and efficiency of Global economy depends upon the investor's perception, if investment seen with the purpose of long terms investment in the socio-economic development then it is said that the investment contributes positively towards global economy. The FDI may also be affected due to the governmental trade barriers and policies for the foreign investments and leads to less or more effective toward contribution in economy as well as GDP and GNP of the country. In Nepal more than 25 percentage of the registered projects under FDI fall in sectors such as, service, manufacturing, tourism and energy. The various indicators to assess the input of FDI are as follows:

- **Productivity**

Multinational companies are bringing with them some firm-specific knowledge (in the form of technology, managerial expertise, marketing know-how etc.) that cannot be effectively leased or purchased on the market by host country firms. For instance, affiliates of MNCs-as part of the parent company's global network-have excellent marketing networks, possess experience and expertise in the many complex facets of product development and international marketing, and are well placed to take advantage of inter-country differences in the cost of production. On these grounds, FDI is widely considered as an effective means of acquiring technology and marketing know-how.

- **Investment Inflow**

The investors are bringing capital in Nepal. The total 2,652 projects have been registered in Nepal comprising seven categories of industries, worth a total of investment equal to NRs. 216billion. The total fixed cost is estimated to be NRs. 181 billion while the total foreign direct investment (FDI) is estimated to be NRs. 52 billion in FY 2017/18. The FDI is also helping to reduce the balance of payments of the country. The goods produced by the industries under FDI are exported to foreign countries bring foreign currencies to Nepal (MoF, 2017).

- **Technology Transfer**

The foreign investors are also bringing the new technologies to Nepal which is helping the local producers to learn know-how and apply it in the domestic companies and ultimately help in increasing the productivity of the companies as well as workforce.

- **Capital Development**

The local capital is not enough for the required investment in the big projects like mega hydropower projects, mining projects and big hotels where there is huge investment in billions of dollars. For example NRs. 140 billion of commitment is under mining projects whereas more than NRs. 400 billion is under hydropower projects. These amounts of capital are not possible from the local capital (DoI, 2017).

- **Employment Generation**

The registered projects under FDI are providing employment upto local workforce. They have created employment to 181,051 till FY 2016/17 whereas the number of employment created by FDI in FY 2016/17 was 16,569 (Three Year Plan, 2013).

- **Reduction in the Import Items**

From the data available the FDI is second highest in the manufacturing sector which means the import items are displaced by the product manufactured in the country.

- **Tax Revenue**

Profits generated by FDI are contributing to corporate tax revenues in the country.

- **Human Resource Development**

The local staffs are gaining employee training in the course of operating the new generation and experiencing the multinational concept of operating the company.

5.2Overview on Potential Sectors to Invest in Nepal

Nepal has great potential for investment, and the country is pursuing a liberal Foreign Direct Investment ((FDI) policy to create an investment-friendly environment to attract FDI. The major areas of investment include hydropower, manufacturing, services, tourism, construction, agriculture, and mineral and mining.

- **Hydropower**

Nepal has the capacity to generate 83, 000 MW of hydroelectricity, of which about 43,000MW is techno-economically feasible. At the end of 2017, only about 800 MW was generated from hydropower projects. Of that total, 174.53 MW (24.9%) was generated through private investment. Nepalese industries and consumers suffer from huge power cuts each year. he annual domestic energy demand is estimated at 4,833.35 GW, of which 3,850.87 GW is generated from various sources and the remaining 982.48 GW is cut as load shedding. Nepal is unable to meet the demand, and approximately 694.05 GW is imported from India annually (NEA, 2017).

The Government of Nepal (GoN) has already declared a national power crisis. So far, the Nepal Electricity Authority (NEA) has signed Power Purchasing Agreements (PPAs) worth 714.77 MW during 2017, which is almost double the total capacity of power purchase agreements signed in the past. The total capacity of PPAs signed has reached 1118.35 MW (NEA 2017).

Energy sector is most prominent sector to drive economic growth and the vehicle to transform the Nepalese economy. The country has potential of approximately 83,000 MW and economically viable of approximately 42,000 MW. But, the installed capacity is only approximately 961.2 MW as of mid-July 2017 (MoF, 2016/17)

- **Tourism**

Nepal's abundance of natural resources, diverse culture and ethnicity, numerous archaeological and heritage sites, and diverse topography, including eight of the world's ten highest peaks (including Mt. Everest), are some of the attractions for potential investments.

World heritage sittes such as Lumbini (the birth place of Buddha), Chitwan National Park, Sagarmatha National Park, Pashupatinath, Janakpur Swayambhunath, Bouddhanath, Changunarayan, Kathmandu Durbar Square, Bhaktapur Durbar Square, and Patan Durbar Square are attractions to tourists worldwide.

Nepal offers a variety of interests to tourists, ranging from cultural tourism, nature eco-tourism, adventure tourism, health and education tourism and religious tourism.

The Himalays, foot trails, rafting, paragliding, fauna, religious sites, eco-tourism and biodiversity are potential areas for investment.

Tourism is a high potential sector in Nepal owing to the natural beauty and cultural heritage. The government has given high priority to the development of tourism sector. Government's Vision 2020 in tourism seeks to have 2 million tourist visitors per year along with creation of 1 million jobs by 2020. Ministry of Culture, Tourism and Aviation is the principal agency for development of tourism sector. Nepal Tourism Board and Department of Tourism have also been working as regulatory and implementing agencies. The IBN administers the implementation of the tourism projects with the cost of fixed capital equal or more than NRs. 10 billion.

- **Industrial Manufacturing**

The GON has promulgated a new Industrial Policy 2010 to develop the industrial sector and to provide protection and facilities to investors. Similarly, the draft of a Foreign Investment Policy has been prepared. Industrialization is considered one of he most vital indicators of economic growth and prosperity of the nation, Therefore the GoN is committed to supporting industrialization by establishing industries based on agriculture and local resources in rural sector, and establishing and developing industrial zones in urban areas.

Steel-rolling mills, cement, cigarettes, jute, sugar, tea, beer, carpets, garments, textiles, oilseed mills, and food mills are some of the most viable areas for investment in manufacturing and production industries in Nepal.

- **Agriculture**

Agriculture is the mainstay of the Nepalese economy, contributing approximately 27.4 percent of total GDP. A total of 60 percent of the total population still depends on agriculture for their subsistence (CBS, 2011). However, the growth rate of agriculture has not been encouraging, due to low investment both by the GoN and the farmers themselves.

Nepal has great potential in tea, ginger, cardamom, and sugarcane production which have high demand in the international market. Rice, wheat, and maize are the main food crops, and mustard, soybean and sunflower are the major oilseeds. Potato, lentil, tobacco and jute are the major cash crops, which have high demand in local market.

The Terai, Hills, and Mountains are suitable for various types of agriculture. There is considerable scope for commercial farming, tea, cardamom, coffee, honey, and ginger.

- **Mine and Minerals**

The GoN has formulated acts and regulation to promote mineral exploration and development on the country. Two separate acts and corresponding regulations exist to deal with different minerals. These are categorized into:

- **All Mineral Resources (Except Petroleum)**

There are several areas in which to invest in commercially viable mining and mineral industries Milestone, dolomite, quartz, talc, coal, peat, precious and semiprecious stones, and brine water (salt) are some of the economic minerals used by cement, soap marble, paper, dead magnesite, and agriculture lime industries. The promotion of gum industries is highly recommended. Ruby, sapphire, tourmaline, aquamarine, garnet kyanite, and quartz crystals also have high potential in Nepal. International companies can invest in cement, coal, petroleum exploration and production, and precious and semi-precious stone.

- **Service Sector**

Possible sectors for investment in service industries include medical colleges, schools, hospitals, and IT businesses.

- **Information and Communication**

IT includes telecommunications, electronic media, print media, postal services, and the development and production of motion pictures in Nepal. The textile-density per hundred persons is 27, which includes the involvement of the private sector. At present, 70 percent of the population has access to television however a much larger percentage has access to mobile phone services. Difficulties have arisen in the expansion and development of these services to rural areas due to geographical complexities and the lack of infrastructure development.

The GoN aims to promote national unification by providing access to all in the IT sector. The government plans to establish a optical fiber network in all 77 districts of Nepal by 2015. Therefore, there is the increased opportunity for private sector investment in this sector.

- Transportation is another largest potential sector in Nepal. Being a hilly country, there are potential of tunnel, cable car, airport, railways and roadways. The Government has taken some initiative to connect East-West such as Mid-Hill Highway (Puspalal Highway), Hulaki Marga (Postal Highway), East-West Railways and North-South such as Koshi Corridor, Kali-Gandaki Corridor, Karnali Corridor, Kahtmandu-Tarai Fast Track, etc. Also, the international airports such as Gautam Buddha Regional International Airpoirt (Bhairahawa), Pokhara Regional International Airport are under construction, and International Airport at Nijgadh, Bara is in the process of beginning construction. The concept of Kerung-Kathmandu-Pokhara-Lumbini railway network has also been coined. Furthermore, rapidly growing cities in Nepal also require Railways (MRT and Monorail), Bus Rapid Transit (BRT), Flyovers, Tunnel-ways, Cable cars, and many others.

CHAPTER VI

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Summary Findings

The major findings of this study are as follows:

- In law, Nepal has an open and liberal investment regime but in practice established investors, including major transnational and global companies, have had many problems in implementation of their projects.
- The foreign investment laws contain important assurances of protection and rights to the foreign investors. However, a good existing written legislation is not enough, as the effectiveness of the country's legal framework depends to an important extent on the effectiveness of existing enforcement mechanisms.
- Clearly, Nepal presents a difficult business environment. Major administrative obstacles to investment are inconsistent implementation and interpretation of laws and regulations, corruption and unofficial payments, bureaucratic "red tape", insufficient institutional capacity of governmental agencies. These and other administrative barriers resulted in projects delays and increased transactions costs.
- Transparency in the application of laws remains a major problem in Nepal and an obstacle to expanded trade and investment. While foreign participation is generally welcomed, some foreign investors allege that the Government is not always evenhanded and sometimes reneges on its commitment. Nepal's institutional governance is weak, further adding to the problems of transparency in commercial transactions.
- When disputes develop between the interpretations of the conflicting laws, the judicial system, instead of helping, appears to add to the existing problem. Some investors indicated a low level of confidence in the ability of the courts to adjudicate disputes in a fair and equitable manner. According to foreign investors and legal experts, the courts frequently do not accept foreign court decisions.

- There are important issues, which could undermine the attractiveness of Nepal as a preferred location for prospective investors, including stability of legislation, particularly stability or sanctity of contracts, settlement of disputes, work permit quotas for expatriates, modality for determining world market prices under transfer pricing law, etc.

6.2 Conclusion

Inflows of FDI into Nepal accelerated after the economic liberalization of the 1990s but remain low in relation to the size of population and economic activity, and also in comparison with other least developed landlocked states in the Asian region. From the perspective of private investors, the existing legal environment does not provide the sense of security needed to justify major investments in Nepal. Confidence in the domestic legal system and particularly in the enforcement of legislation generally remains low. Vagueness of laws, contradictory legal provisions and uncertainties in practical implementation translate into serious risks, which many investors would like to see minimized prior to committing to major capital investments. The overall inflows are so low that, overall, FDI has not been a significant development catalyst. It is not necessarily due to a lack of potential. Nor it is because FDI has been excluded from most sectors of the economy. The answer is that Nepal has failed to offer investors satisfactory standards of policy, administration of taxes, regulations, and stable political environment, which are of vital interest to business.

The foreign investment laws contain important assurances of protection and rights to the foreign investors. However, a good existing written legislation is not enough, as the effectiveness of the country's legal framework depends to an important extent on the effectiveness of existing enforcement mechanisms. Indeed, apart from the important liberalization of power generation, there has been little focus on removing these barriers, even those in selected industries of high FDI potential. Therefore, better performance in attracting FDI requires fundamental changes.

Nepalese Government has created a healthy atmosphere for FDI inflow by introducing structural adjustment and stabilization policy in Nepal. The government of Nepal has tried to improve the economic policy to raise the inflows of foreign capital in Nepal. The present government is also moving in the same direction and it has welcomed foreign capital in sectors of national interest. Such as infrastructure, core industries, hydro projects as well as in the case of some consumer gods industries, hydro projects, as well as in the cae of some consumer gods industries. It has become clear that the intentions of government are no longer in questions, the implementation is questionable. In order to time a boost to the FDI inflows, it has become quite essential to trace out the determinants of FDI inflows in Nepal.

The major findings of the study at macro level suggest that FDI played a vital role in the economic growth of the country. It also contributed significantly to raise the gross capital formation in Nepal. The global share of the FDI inflows in Nepal is very low; it is able to take the overall economy in a positive direction. In the context, the FDI inflows are very important and should be encouraged significantly in all spheres of the Nepalese economy. It is also importance to note that FDI inflow in the country has also not been able to fulfill the objectives of increasing exports. In this case of export promotion through FDI inflows, it is necessary to reduce the tariff rates of the country.

To sum up, it can be concluded that the FDI inflows have the potential to give a boost to the Nepalese economy, but the inflow of FDI should be high enough for a economy like Nepal. It require a judicious and sustained decision on the part of the policy makers to lure more foreign firms in to Nepal, Which may bring positive effect on the Nepalese economy in the future.

6.3Policy Recommendations

Followings are the policy recommendations:

- One of the lessons learned from Nepal's economic performance in the last decade is that the country needs to expand and deepen its economic reforms to protect its economy from external demand shocks. A key way to achieve these objectives is to remove current administrative barriers and offer opportunities for investment.
- Creating necessary environment is to ensure implementation of structural reforms including transparency and corporate governance, privatization and commercialization of public utilities, and liberalization of trade policy.
- In order to guarantee regional competitiveness of Nepal, the Government has to adopt better policies and procedures than its neighbors and thus differentiate

itself from its neighbors as the best place to do business in South Asia. Nepal is at the forefront in the region, namely in respect of reform of legislation with regard to commercial laws, in reform of the financial system, in pension reform, in maintaining macroeconomic stabilization and others. But there are still many areas where Nepal is far from being the best and indeed has a poor reputation. This is particularly true in respect of administrative barriers. There is an opportunity to change this.

- The investment policy and procedure should be clear and simple for all foreign investors with in a country, which helps to raise the inflows of FDI in Nepal.
- Institutional reforms and legislative changes are also included in broad definition of the development of agriculture sec tom manifesting sector and service sector of the country though FDI to pave the way for sustainable e economic growth , Therefore, it is essential that polices are focused on creating a holistic enabling environment to achieve overall economic growth.

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