NRB Working Paper No. 1

April 2004

Attracting Foreign Direct Investment: Experiences and Challenges

*Bhubanesh Pant and Bama Dev Sigdel**

ABSTRACT

Since the past two decades, developing countries have begun liberalizing their national policies to set up a hospitable framework for FDI by relaxing rules regarding market entry and foreign ownership, improving the standards of treatment provided to foreign firms, and improving the functioning of markets. The benefits from FDI appear to be maximized when foreign investors operate on a sound and competitive playing field. In this respect, this paper spells out the determinants and some core issues for enhancing FDI inflows. Although South Asia has not been successful in attracting a proportionate share of FDI on the basis of the region's size and population, policy liberalization and reform measures are ongoing towards this purpose. However, these reforms need to be deepened, accelerated, and maintained over the long term. With respect to China, the macro perspective of the investment climate is an area in which the country seems quite comfortable and provides important lessons for developing countries. Against this backdrop, the measures for boosting FDI both in China and South Asia are delineated. Attracting FDI is a difficult task particularly for small countries with limited resources and relatively undeveloped infrastructure such as Nepal. The paper reviews the various policies of the Government and a survey of 16 foreign firms on different FDI-related issues is conducted. The concluding part of this paper examines some existing hurdles in attracting FDI into Nepal and makes some recommendations.

Keywords: Foreign Direct Investment, Liberalization, Technology Transfer, South Asia, China

* The authors are thankful to Mr. Tula Raj Basyal, Mr. Deependra Bahadur Kshetry, Dr. Govinda Bahadur Thapa, Mr. Ravindra Prasad Pandey, Dr. Dandapani Poudel of NRB for their helpful comments and suggestions.

For comments and suggestions, authors' e-mail addresses: bhubanesh@wlink.com.np and bdsigdel@wlink.com.np

1. INTRODUCTION

Foreign direct investment (FDI) can be defined in a number of ways. It refers to an investment involving a long-term relationship and demonstrating a lasting interest and control by a resident entity in one country (foreign direct investor or parent enterprise) in an enterprise resident in a country other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).[1] FDI denotes that the investor exerts a considerable degree of influence on the management of the enterprise resident in the other economy.

Flows of FDI constitute capital supplied (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. There are three components in FDI. One, equity capital refers to the foreign direct investor's purchase of shares of an enterprise in a country other than its own. Two, reinvested earnings imply the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. These retained profits by affiliates are reinvested. Three, intra-company loans or intra-company debt transactions denote short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

The globalization of industrial production and trade has led to a significant rise in the flow of FDI. The 1990s demonstrated nearly a four-fold increase. FDI rose by 18 percent in 2000, faster than other economic aggregates such as world production, capital formation and trade, amounting to a record $1.3 trillion in 2000.[2] The rise in FDI was been ascribed to two major factors: a) liberalization policies undertaken by many developing countries; and b) integrated global investment and production strategies of multinational corporations.

However, global FDI flows went down considerably in 2001 to $760 billion from about $1.3 trillion in 2000. Net FDI to developing countries was estimated at $168 billion, almost unchanged from 2000, and just 8 percent below the peak attained in 1999.[3] The stability of FDI flows was attained in the light of a considerable decline in global FDI flows. Changes in FDI flows to developing countries were driven more by domestic economic developments (for instance, decisions over privatization transactions and policy improvements) in some of the large FDI recipients than by changes in the global economy.

---

1 This definition is elaborated in UNCTAD (2002). Similarly, according to ADB (2002), FDI includes all capital transactions between investment enterprises and the direct investors themselves or any of those investors' other direct investment enterprises. The sub-category of investment abroad and in the reporting economy into equity capital, reinvestment of earnings, other long-term capital, and short-term capital should not be viewed as contradicting the basic premise that the behavior of direct investment flows portrays a lasting interest on the part of the direct investor.

2 These figures are taken from UNCTAD (2001).

3 See World Bank (2002) for the data.

FDI is frequently viewed as instrumental in promoting industrial growth and foreign trade, particularly in host countries, that maintain relatively open economies, stable macroeconomic conditions, limited restrictions on foreign exchange transactions and protection for private property rights. It frequently stimulates competition, productivity, and innovation by local suppliers, as local suppliers compete for lucrative contracts with multinational enterprises. The inflow of capital and technology generates income and employment opportunities resulting in higher wages, competitive prices, more revenue, skill and technology transfer and increased foreign exchange earnings.

It has been acknowledged that export-oriented industrialization strategies could be more effective through the promotion of FDI. The perceived and real advantages that the MNCs have in technology, management and engineering skills also played a vital role in intensifying an awareness and favorable attitude towards FDI. This became more distinct in overtures and policy reforms introduced by China and India, two large economies that earlier avoided large-scale FDI participation in their economies. Nepal, on the other hand, has also introduced a wide array of policy measures and various incentives in order to promote FDI inflows.

In Nepal, it was the Sixth Plan (1980/81-1984/85) that incorporated for the first time a policy for utilizing foreign capital and technology as a useful supplement. The Plan stated that foreign investment and technology was primarily required in large-scale industries and mineral industries. Consequently, the Foreign Investment and Technology Transfer Act 1982 was introduced. Presently, Nepal's foreign investment rules and regulations are governed by the Foreign Investment and Technology Transfer Act 1992 which was amended in 1996 in line with open and liberal economic policies. A long-term vision has been drawn by the Tenth Plan (2002-07) under which it has committed to timely amend the existing institutional laws, rules and norms so as to make Nepal an attractive and secure place for foreign investment.

If the atmosphere of investment in Nepal is tested against different parameters such as the condition of the infrastructure, policy stability, legal structure, capacity of the banking and financial sector, human resource profile, responsiveness of bureaucracy, and internal security, it is difficult for Nepal to pass through this test as reforms in many areas are urgently required. Cheap labor is becoming less important in investment decisions these days. The country can no longer rely only on low labor costs; it also needs to develop high-quality, productive labor and sustain its comparative advantages.

The rest of the paper is structured as follows:

Section II reviews the literature on FDI, identifying its determinants, costs and benefits, while section III evaluates the experiences of FDI policy of SAARC member countries (with a focus on India and Bangladesh) and China and draw relevant lessons for Nepal; section IV analyzes the trend of FDI inflows into Nepal, assesses the FDI-related policies of His Majesty's Government and pinpoints the areas of comparative advantage. A survey of 16 foreign joint venture companies of different categories is undertaken to derive information from foreign investors in Nepal on different FDI-related issues. An attempt has also been made to undertake an econometric analysis to study the impact of FDI on the overall economy of Nepal. Section V identifies pertinent problems relating to FDI and suggests concrete measures for attracting more FDI inflow in the future.

II. FOREIGN DIRECT INVESTMENT: DETERMINANTS AND BENEFITS

During the 1980s and early 1990s, a host of developing countries reassessed their industrialization strategies and policies. There was a growing recognition among these countries of the significance of FDI in speeding up their economic growth and in generating greater employment opportunities. Hence, developing countries all over the world are not only becoming receptive to FDI but many are devising different techniques to increase long-term capital inflows. This change in attitude can be ascribed to various factors.[4]

In the first place, in the late 1970s, there was a sharp rise in real interest rates in the world financial markets that made bank borrowing more expensive. As a result, the debt crisis emerged, drying up the flow of bank credit to the developing countries. This increasing preference for foreign investment in equity form over commercial bank borrowing became important in the latter part of the 1980s. Two, the governments in developing countries recognized that FDI could create a lot of benefits such as transfer of technology, new management methods and access to export markets. Three, the recognition of the limited contribution of fiscal policies in promoting economic growth prompted the developing countries to turn to the private sector as the main engine for growth. The strengthening of the domestic private industry needed an accumulation of capital as well as technology that could be satisfied by FDI. Four, the information technology revolution has generated dramatic changes both with regard to the channels through which technology and know-how is transmitted and its impact on the technology absorptive capacity of host entities.

Determinants

The volume and pace of FDI flows are governed by many factors, some of which lie beyond the control of the host countries. Yet, it is crucial for the host country policy makers to frame a proper appreciation of these factors and their relative strengths in order to develop and implement appropriate policies and programmes. FDI is basically a market response to opportunities generated by differences among countries in production capabilities. According to the 'electric theory' of FDI, there prevail three types of factors determining decisions of

[4] The responsible factors are explained at length in Talib (1994).

foreign firms to locate their operations abroad: a) firm-specific; b) location-specific; and c) policy-based.[5]

Firm-specific Factors

The internal decisions of foreign firms in response to market conditions, including conditions prevailing in the potential host countries, have a significant part to play in the flow of FDI. There exist some firm-specific assets, both tangible and intangible, that seem most crucial in influencing the decisions of foreign firms to undertake FDI activity in a particular country.

(a) Ownership advantages

(i) Technological assets: Technological superiority and high levels of expenditure on research and development (R&D) often aid firms to commercialize new products at a rapid pace and acquire a competitive advantage over rivals, both in the home market as well as in potential host country market. Industries and firms possessing high research intensity normally appear to have higher levels of foreign investment or locate their production facilities abroad.

(ii) Managerial and technical skills: Firms possessing strong managerial and technical skills in their workforce, facilitating the dissemination and coordination of technological and other advantages within these firms, have a competitive advantage in investing abroad.

(iii) Marketing skills and product differentiation: Marketing skills, brand-name recognition and other aspects of product differentiation also determine the ability to produce profitably in foreign locations. These are examples of intangible assets that owners normally find hard to transfer effectively to other firms. Brand names can be transferred via licensing and franchising arrangements, taking into account close monitoring by the owners to protect the value of their intangible asset. If such monitoring costs are exorbitant, firms could undertake production in proximity to markets where their products are sold.

(iv) Multiple operations and economies of scale: Production efficiencies that are transferable to new locations boost FDI activities. In this regard, firms possessing experience in managing multiplant operations within their domestic market are in a more advantageous position to undertake production abroad than those who do not have such experience.

Economies of scale that lead to more centralization of production, on the other hand, could lower the incentive to invest or set up production abroad, generating opportunities in using exports as vehicles for reaching international markets. If economies of scale are exhausted

---

[5] This has been clearly elucidated in ESCAP (1996).

quite rapidly, as in the case in many durable goods industries, firms may indulge in FDI activities as soon as such limits are reached.

(v) Size and concentration: The size of the firms and market share are crucial in shaping location of production facilities abroad. The tangible and intangible assets facilitating the acquisition of a competitive advantage in host country markets are generally more pronounced in large firms. A dominant market position in its domestic market may also help it to gain a commanding position in a host country market. Access to capital coupled with oligopolistic competition may also stimulate large firms to indulge in FDI activities. Nevertheless, the observed correlation between firm size and FDI requires careful assessment, particularly due to the growing number of small- and medium- sized firms currently engaging in FDI activities.

(b) Internalization

Firm specific assets can give rise to internalization of market transactions, including foreign firms to set up production abroad. To have greater control over a vertically integrated production structure and experience the benefits of economies of scale, foreign firms may prefer internalization to armslength or intermediate relationships. Yet, internalization is only one of the many strategies that foreign firms may undertake to set up a presence in a host country market. Non-equity arrangements such as subcontracting, franchising, joint ventures, research consortia and technology transfer agreements could also be employed by foreign firms to diversify their operations abroad.

Locational Factors

The conditions prevailing in the prospective host countries and how those conditions are combined with firm-specific advantages are also major determinants of FDI inflows. In this regard, some of the important factors to be considered are the following:

(a) Market size: The market size of the host country seems to be the most important factor influencing the decisions of foreign firms to set up their production in that country. A large domestic market permits the foreign firms to recoup this investment in a very short period of time. Though the decisions of the foreign firms to increase the rate of expansion of their affiliates is based on the rate of growth of the domestic market, the initial decision to establish their presence in a host country market seems to be more governed by the long run size of the local market. Proximity to large country market also enhances FDI inflows.

(b) Unit labor costs: Relatively cheap unit labor costs seem to be important primarily in export-oriented offshore production. Yet, rapid changes in industrial technology and organization of production have reduced the significance of unit labor costs in many industrial activities, eroding the cost advantages of many developing countries. In this respect, a steady supply of skilled labor in the host country has become an important factor for shaping the decisions of foreign firms to set up their affiliates there.

(c) Trade barriers, transport costs and exchange rates: Trade obstacles may induce foreign firms to invest and produce in a host country instead of exporting to it. Still, the choice between these two options could, to a great extent, be governed by firm-specific advantages. The assets of a host country could be attractive to potential foreign investors when the domestic currency has depreciated but may discourage them if they expect the currency to continue to lose its value.

(d) Natural resources availability: Industries relying largely on natural resources such as petroleum would find it advantageous to set up their operations near the source of such resources. The availability and cost of natural resources could also influence FDI in manufacturing activities, particularly in export-oriented activities.

Policy Factors

The policy environment and political situation in a potential host country are important factors on shaping the decisions of the foreign firms to set up their activities in that country. Though foreign firms normally indicate political stability as a precondition for resorting to FDI, in reality it has not been found to be a very important determinant probably because they, in conjunction with host country governments, have been successful in either overcoming or attenuating the adverse effects of such factors. The regulatory and legal framework and the precise techniques in which such a framework is implemented probably have a determining impact on FDI. Many countries have resorted to ‘one-stop’ procedure to eliminate increasing paper work, minimize costs and reduce uncertainty. The utilization of ‘negative lists’ is also another technique to facilitate FDI inflows.

To conclude this section, a list of host country determinants prepared by UNCTAD is given in Appendix 1. They cover broad areas ranging from an appropriate policy framework to business facilitation by a host country. These determinants have, to a large extent, been discussed above.

Approaches in Enhancing FDI Flows

A policy environment conducive to private investment is a necessary but not a sufficient condition to ensure FDI inflows. While policy reforms are important, they need to be combined with price and institutional reforms, increased domestic resource mobilization, and investments in skill and training, infrastructure, and information dissemination to attract FDI on a sustained basis. These measures are briefly highlighted below in the context of least-developed countries (LDCs) such as Nepal.

(a) Stable macroeconomic environment: Closely related to sustained and high growth rates in attracting FDI, the LDCs should do so within a stable macroeconomic framework. Hence, macroeconomic stability should be maintained as a precondition for sustained and high inflow of FDI into the LDCs.

(b) Supply of multi-skilled workers and managers: Labor productivity in the LDCs is low for many reasons, including a very low literacy rate, paucity of vocational training facilities, poor health and inadequate housing. Female literacy rates are even lower. This has some repercussions for FDI inflows, especially for those forms of FDI that depend on female labor for the bulk of their operations. It also illustrates that low labor productivity is hampering absorption of labor into the economy. If this is the case, promoting FDI will be difficult.

(c) Commercial energy and physical infrastructure: FDI flows seem to move to those economies and countries that possess efficient energy and physical infrastructure since the prevalence of such facilities improve returns on investment and generate opportunities for further investments.

(d) Natural resource base: Many of the LDCs are well endowed with water. However, resources such as forest, fossil oil, and mineral are scarce in supply. In Bangladesh, Lao PDR and Nepal water resources have the potential to become significant avenues of irrigation and hydroelectric power, boosting FDI-based investments in agriculture and industry. However, a general scarcity of financial, management and technical resources has limited the utilization of their water resources.

(e) Investment promotion: Successful foreign investment campaigns feature three principal elements: image building, investment generation, and investor services.[6]

Image-building techniques consist of general and specialized media advertising, participating in investment exhibitions; conducting general investment missions from source countries; and conducting general information seminars on investment opportunities. Image building is beneficial when the reality in a country is better than the perception held by the international investment community.

Investment generation activities are meant to interest a particular investor in investigating opportunities and to make the investment. The effective mechanisms are direct mail campaigns, industry- or sector-specific investment missions, or informational seminars.

However, the best technique is direct presentations to specific targeted firms. This technique consists of identifying opportunities in host-country industries and sectors. Firms that may

[6] Details are provided in International Finance Corporation (1997).

wish to invest in those industries are then identified and specific decision makers with the firm are targeted for presentations by the promotion agency.

The techniques of investor servicing, the third element of a promotion program, comprise of counseling, expediting application and permit processing, and providing post-investment services. These techniques are meant to convert an investment commitment into an actual investment and, later, to ensure that the investor is satisfied with the investment climate.

New Determinants of FDI

The fast changing international environment is changing the drivers of FDI. While the major traditional factors governing FDI location—large markets, the possession of natural resources and access to low-cost unskilled or semi-skilled labor—seem relevant, they are losing in importance, especially for the most dynamic industries and functions. The location of MNC activity instead demonstrates three developments: policy liberalization, technical progress and evolving corporate strategies.

Changes in the international policy environment have a deep effect on locational decisions. Trade and investment liberalization permits MNCs to specialize more and to search for competitive locations. MNCs possess greater freedom to opt for locations and the functions they transfer.

Technical progress has an impact on the geography of FDI in a variety of ways. Rapid innovation renders the advantages that propel firms into international production. Hence, innovation-intensive industries appear to be increasingly multinational, and MNCs need to be more innovative to withhold their competitiveness. Innovation also brings about changes in the structure of trade and production, with R&D-intensive activities growing faster than less technology-intensive activities. New information and communications technologies intensify competition while permitting firms to manage widely dispersed international operations more efficiently.

Managerial and organizational factors strengthen the new locational determinants of FDI. New organizational techniques permit a more efficient management of global operations, encouraging a greater relocation of functions.

Thus, the changing geography of international production demonstrates the dynamic interaction of many economic, organizational and policy factors. While many of these factors have long been relevant, their combination today denotes new forces influencing MNC location decisions. To cope successfully with globalization and utilize FDI to their benefit, developing and LDCs must comprehend these forces.

Importance of Backward Linkages

A core factor determining the benefits host countries can derive from FDI are the linkages that foreign affiliates strike with domestically owned firms. Backward linkages from foreign affiliates to domestic firms are crucial channels through which intangible and tangible assets can be passed on from the former to the latter. They can contribute to the upgrading of local enterprises more firmly in host economies.

Linkages provide benefits to foreign affiliates and domestic suppliers, as well as to the economy in which they are forged as a whole. For a host economy as a whole, linkages can stimulate economic activity and, where domestic inputs substitute for the imported ones, benefit the balance of payments. The strengthening of suppliers could subsequently lead to spillovers to the rest of the host economy and contribute to a vibrant enterprise sector.

The linkage formation process is obviously affected by a host country's overall policy environment, its economic and institutional framework, the availability of human resources, the quality of infrastructure and political and macroeconomic environment. However, the most crucial host country factor is the availability, costs and quality of domestic suppliers.

FDI and WTO

Perhaps the single most important reason for resistance to a more open FDI policy is the presumed market power effect of MNCs. A more open and transparent FDI policy, however, would invite not just one MNC but many and would thereby foster competition among the MNCs themselves as well as between domestic and foreign firms. Thus, the scope for exercising market power will be self-constraining. Paucity of an effective institutional framework for competition policy should not be a justification for imposing restrictions on FDI. A more open FDI policy may itself act as a catalyst for the development of these institutions.

FDI is a direct instrument of development and growth. Since growth strategy should vary from country to country depending on factor endowment, technology, and so on, FDI policy ought to be country-specific to some extent. In the Indian context, for example, this translates mostly into sectoral prioritization.[7]

[7] Infrastructural problems continue to be India's biggest bottleneck, followed by the poor quality of the services sector and shortcomings in the agriculture sector—lagging modernization and availability of critical inputs. The priorities for FDI in India are, accordingly, relatively straightforward: the infrastructure sector (energy, transport and communications, cement, and so on) comes first, followed by the services sector (including the financial and insurance industries) and agricultural machinery, chemicals, and fertilizers. For details, see English, Philip and Luc De Wulf (2002).

An effective prioritization scheme does not require a complex system of regulations and incentives. Reform should aim for simplicity—for example, the removal of many of the arbitrarily set caps on foreign equity in different sectors. Any prioritization scheme carries the danger of allowing costly discretion for too long, and a timetable must be set for removal of the restrictions. This is where multilateral rules can help. There is a yawning gap between FDI approvals and actual inflows in India. Since liberalization in 1991, the ratio of actual to approved FDI has been no more than 25 percent. An alarming absolute decline in FDI in India since 1998 suggests that the existing incentive packages and tons of commitment are not enough to attract foreign investors. Further assurance and security for foreign investors are needed and might be obtained from WTO rules.

Such WTO rules should revolve around a most-favored-nation (MFN) code of conduct aiming at gradual, time-bound removal of restrictions on FDI, with defined prioritization deadlines for different developing and LDCs and with safe-guard provisions that allow for well-defined temporary deviations from free foreign entry, but on grounds of industry-specific ills only, not on account of balance of payments or other problems.[8]

III. FOREIGN DIRECT INVESTMENT IN SOUTH ASIA AND CHINA

During the past two decades, FDI has played a very important role in the economic development of a large number of countries. During the second half of 1990s, global FDI inflow recorded a dramatic rise, which peaked in 2000. From a figure of US$ 478 billion in 1997, FDI reached a high level of about US$1.3 trillion in 2000 before going down to US$ 760 billion in 2001. It is now widely recognized that FDI provide ample advantages to the recipient economy. It is not only access to financial resource, but also access to technology, modern management techniques and global market access. Consequently, competitiveness of the various enterprise sectors of the host country improves significantly. At macro-economic level, foreign capital inflows can complement domestic savings, giving rise to higher investment and growth.[9]

Against a global per capita average FDI inflow of about US$ 135 during 1997-2000, per capita FDI to Asia was only US$37 and to South Asia a meager US$3 during the same period.

---

8 It should be noted that various aspects of FDI have already been introduced in the WTO via the agreements on trade in services, trade-related investment measures and trade-related aspects of intellectual property rights.

9 However, there are some criticisms against FDI that include FDI's utilization of inappropriate technology, the unwillingness to transfer technology, the crowding out of domestic firms from investment opportunities, the tendency to encourage backward linkages with their own subsidiaries and to use up the best sources of domestic finances and technical and managerial skills. Moreover, it has been pointed out that much of the employment generated as a result of FDI activities are low-skilled, low value-added and low-wage type of employment. Finally, the tax yield is often much lower than the amount of resources devoted to their use.

Hence, South Asia was bypassed during this golden period of FDI flow. Another strange event happened during 1997-2000 in South Asia. Although the spectacular growth in global FDI inflow started in 1997 and peaked in 2000, the situation in South Asia was just the opposite. From a figure of US$4.9 billion in 1997, the FDI inflow to South Asia plummeted to US$3.0 billion in 2000, a fall of almost 40 percent.

However, FDI flows to South Asia soared to $4.2 billion in 2001, a 35 percent rise from the previous year. Though South Asia generates 9 percent of developing countries' GDP, it attracts only 2 percent of FDI flows to developing countries. Hence, FDI to the region continues to be small, only 0.5 percent of GDP. The relatively small FDI flows into the region demonstrate, in part, little progress in privatization, ineffective industrial regulations, and slow reforms in the labor market.

South Asian countries seem to have, to a large extent, revised their entire spectrum of industrial policies and attitude towards FDI due to various factors: a) inability of the previous industrial policies and instruments to deliver goods, b) the injections of unprecedented degree of market-oriented liberalization in the immediate neighboring countries, and c) lessons from the high growth performance of the South-east Asian countries.[10]

The next part of this section is devoted to the review of FDI in India, Bangladesh and China. A comparison of the FDI-related policies of the major South Asian countries and China is exhibited in Appendix 2. Nepal's case is examined in section IV.

FDI in India

It was in July 1991 a major deregulation took place after the Indian government abandoned the industrial licensing system except in 15 critical industries and slashed the number of industries reserved for the public sector from 17 to 6.[11] Prior government approval for the expansion and diversification of large firms including foreign firms no longer exists. Foreign firms are permitted to possess a major shareholding, and foreign investment up to a maximum of 51 percent equity in 35 high priority industries receives automatic approval. Foreign investment is also allowed in 22 consumer goods industries, subject to conditions of dividends being ploughed back. The manufacturing of readymade garments, earlier reserved only for the small-scale industrial undertakings, has been opened to large-scale undertakings including foreign companies, subject to export obligation of 50 percent investment limit of Rs. 30 million. Moreover, 100 percent equity participation by foreign investors along with domestic investors was permitted in the power sector.

[10] These factors are delineated in Lama (2000).

[11] These are defense, atomic energy, coal and lignite, minerals, mining, and railway transport.

The new investment policy also lists more incentives to attract FDI from non-resident Indians (NRIs) and overseas corporate bodies (OCBs) primarily operated by NRIs, such as 100 percent share in many areas and full repatriation of profit. FDI in power generation, telecommunications, petroleum exploration, petroleum refining and marketing, transport sectors (particularly, the roads and railways, ports and shipping, and air service) has been granted special incentives by recognizing the significance of these sectors for trade and industrial development. However, FDI is not allowed in the following industrial sectors:(a) atomic energy (b) defence, and (c) railway transport.

Some specific guidelines for FDI (as on 26 June 2002) include the following[12]:

- The Foreign Investment Promotion Board (FIPB), considers proposals for foreign participation that do not qualify for automatic route. Decisions are normally taken within 30 days of application.
- Free repatriation of capital investment and profit thereon is allowed if the original investment was undertaken in convertible foreign exchange.
- Use of foreign brand names/trade marks for sale of goods in India is permitted.
- Indian capital markets are open to foreign institutional investors.
- Indian companies are allowed to raise funds from international capital markets.
- There are agreements with over 88 countries to avoid double taxation.
- Bilateral investment protection agreements with 37 countries exist.
- There are special investment and tax incentives for exports and for certain sectors like power, electronics, software and food processing.
- Single window clearance facility is provided in some states to simplify the approval process for new ventures.

The total amount of FDI inflow received in 2002 was $2146 million.[13] The shares of the top five investing countries in FDI inflows are as follows: a) Mauritius (56.8 percent), b) USA (11.3 percent), c) Japan (7.4 percent), d) France (4.4 percent), and e) Germany (3.7 percent). Analogously, the shares of the top five sectors attracting highest FDI inflows are as follows: a) telecommunications (32.8 percent), b) electrical equipment (including computer software)

[12] These guidelines are taken from Confederation of Indian Industry (2002).

[13] ADB (2003) for this figure.

(14.6 percent), c) transport industry (8.9 percent), d) service sector (financial & non-financial) (6.1 percent), and e) cement & gypsum products (4.6 percent).

India provides several special benefits to non-resident Indians (NRIs) and OCBs for investing in India. For instance, with regard to maintenance of bank accounts in India, a) full convertibility of NRI deposit accounts is permitted; b) NRIs can maintain rupee or foreign currency denominated bank accounts in India with banks having authorized dealer license; and c) based on the currency of account and its repatriability, NRIs can select from five different types of such accounts as per their convenience.

In terms of investment in securities, shares and deposits of Indian firms and companies**,** NRIs are allowed to invest directly in firms/companies in India and in government securities, national savings certificates and units of domestic mutual funds. Sale proceeds of these instruments can be repatriated, if they were bought out of funds remitted from abroad or from the investor's repatriable accounts in India. Secondly, investment in shares and debentures of companies is permitted without any limits if the investment was made on a non-repatriable basis. Still, repatriation of income/interest earned on such investments may be made subject to fulfilling certain conditions. Three, there exist various schemes for investment in domestic companies, with repatriation benefits. NRIs/OCBs are permitted to invest upto 100 percent in shares and debentures of domestic companies in line with the FDI policy. Under all these schemes, repatriation of the capital invested along with interest and dividend is freely permitted.

Investment in immovable property in India, whether residential or commercial, by NRIs/ OCBs is allowed. Free repatriation of NRIs Indian earnings such as rent, dividend, pension, interest, etc. is also permitted.

Foreign investments in India are approved either through automatic route or government approval. Indian companies can issue shares under the automatic route up to 100% of their paid capital except for those engaged in certain sectors. In certain other sectors, the foreign investment is limited to a prescribed percentage ceiling. A company eligible to issue shares under the automatic route can get foreign inward remittance and issue shares without seeking any prior approval subject to certain reporting requirements. All other cases where the automatic route is not applicable need prior approval from the Foreign Investment Promotion Board.

FDI in Bangladesh

It was in the early 1990s Bangladesh removed several restrictions on foreign investors, including prior approval requirements, limits on foreign equity participation, and limits on repatriation of profits. With the opening up of the markets, and process of globalization introduced, FDI also came in significant amounts in the manufacturing sector in Bangladesh. Private sector industries in textiles, chemicals, ceramics, engineering, food and allied, and agro-based and agro-processing units and other miscellaneous industries started to be set up. There was a rapid expansion in these, as well as in service industries like gas exploration and transmission, power generation, telecommunications, clinics and hospitals, hotels and restaurant, with a boom in building construction and in cement production initially by local enterprise and then by MNCs.

FDI soared from $13.5 million in 1996 to $65.0 million in 2002. The major sources of FDI were the UK, USA, Saudi Arabia, UAE, and Japan. The energy sector has been the major recipient of the inflows but, if current trends continue, foreign investment in telecom, manufacturing, and services could overtake energy by 2006.[14]

In Bangladesh, full foreign investment is permitted, except in the following four reserved items/areas: (a) production of arms and ammunition and other defence equipment and machinery; (b) forest plantation and mechanized extraction within the bounds of reserved forests; (c) production of nuclear energy and;(d) security printing (currency) and minting. Tax holidays and duty free import of capital machinery and raw materials import for export manufacturing are other features. Expatriates' work permits are easily obtained and remittance of dividends, capital, gains on capital etc. are allowed. Licensing system has been eliminated and government approval procedure has been simplified for investment.

The Government enacted a law in Parliament enabling the private investors to establish export processing zones (EPZs). The units in private EPZ enjoy facilities analogous to those in government EPZs.

The constraints in attracting more FDI into Bangladesh include the country's image as an impoverished and undeveloped economy subject to rampant and devastating natural disasters, political instability, policy instability, poor and slow implementation of liberal investment programmes and policies, delayed procedures, insufficient commercial laws and courts, poor infrastructure, labor militancy, corruption and bureaucratic hassles.

---

[14] Yet, the energy sector continues to be an important recipient of FDI flows. The challenge for the future lies in harnessing it for long-term development purposes. Especially, regulatory regimes that ensure productive efficiency and reasonable costs to consumers will be needed. Moreover, suitable exchange rate management and improvements in the performance of state enterprises in the energy sector will be crucial in supporting the balance of payments as profit repatriation increases over the next decade.

Board of Investment

On the basis of a careful scrutiny of the regulatory and facilitation services in the South Asian countries listed in Table 1 below, it is obvious that a strong and powerful organization is a primary requisite for success in accelerating foreign investment. It is also noted that a Board

Table 1
Authority for FDI in Selected SAARC Countries

Country	Authority for FDI	Patronage	Special Features
Bangladesh	BOI given statutory powers for quick implementation and provision of operational support services. Law provides same treatment for local, joint venture, and 100% foreign investment.	Office of Prime Minister chaired by Prime Minister includes Ministers and secretaries of concerned ministries.	Decisions of the BOI are Government decisions to be implemented by all related agencies. Guide to investment describes rules to be followed. Investment promotion is a main function.
India	Foreign Investment Promotion Board (FIPB) as a nodal, single window agency for all matters linked to FDI. At State level, foreign investment approving agencies deal with issues of particular interest to each State. Some states have set up one window facilities to assist investors through the investment cycle.	Ministry of Industry chaired by Secretary, Department of Industrial Policy and Promotion. Final approval contingent upon Cabinet approval.	Foreign investment approved through two ways: a) automatic-through Reserve Bank of India; b) Government-through FIPB. Entrepreneurial assistance unit within Ministry of Industry renders assistance to entrepreneurs on issues related to investment. Foreign Investment Promotion Council set up to attract FDI. Many States within India actively promote investments providing attractive incentives.
Nepal	BOI set up in order to promote investment and to make it more transparent and reliable.	Chaired by the Prime Minister, the members include related ministers, Vice Chairman of the NPC, Chief Secretary, Governor, NRB, and President of FNCCI.	The first high-level committee to address the issue of investment, BOI's aims include the formulation of new policies and pinpointing new areas for investment promotion.
Pakistan	BOI operates as investment promotion and facilitation agency; it plays an instrumental role in formulation of investment policies.	BOI is chaired by the Prime Minister and includes Ministers in charge of economic Ministries, the Governor of the Central Bank and the Chairman of the Pakistan Banking Council.	BOI operates as a 'One Stop Shop' and as a focal point between potential investors and all government agencies. Promotion of investment is a major function.
Sri Lanka	BOI operates as a central facilitation point for investors. Provides suggestions and advice at each stage of the investment process.	Autonomous statutory body under the Executive President of the country.	BOI entrusted to grant special concessions modifying, exempting or waiving identified laws in keeping with BOI regulations. Promotion of investment is a core function.

Sources: BOI of Bangladesh (2002), BOI of Pakistan (2002), BOI of Sri Lanka (2002), FNCCI (2002), Confederation of Indian Industry (2002).

of Investment type of organization is the preferred institutional arrangement. Based on an analysis of the institutional arrangements briefly surveyed, the BOI functioning in Bangladesh or Sri Lanka, with some modifications, seems to be the most appropriate to the needs of Nepal.[15] In all three countries the administrative systems and work culture are somewhat similar.

China, WTO and FDI

Since 1978, FDI and technology was actively sought by China to promote its modernization efforts and speed up its export trade capabilities. Austerity steps in 1988-89 and the political upheavals in the aftermath of the 1989 Tiananmen incident led a temporary worsening of the investment climate. But, with looser credit and bold measures for reform, foreign investment was permitted in a number of new cities and new sectors. Since 1992, China has expanded the areas of its economy that are open to foreign investment. It has also provided new incentives in order to attract more foreign investment in high technology areas.

The early liberalization, that was applicable to the four special economic zones, was further extended to broad areas, particularly; the developed Yangtze River Delta Area, and restrictions on FDI were relaxed in some important areas (such as domestic sale, equity control and market access). There are two core goals underlying the change of the policy stance of the Chinese government. The first one is to 'exchange technology with market', and the second one is to push the transformation of the inefficient big state-run industrial enterprises through the means of joint ventures. From the external perspective, broadly speaking, the recent rise in FDI is part of the international capital movement in the developing world, which emanates from the realignment in the location of production facilities and investment of MNCs as well as from the classic 'flying geese paradigm' of international division of labor in which the countries with higher wage levels and more advanced technology move the production of more labor-intensive goods to the countries with lower wages as well as less advanced technology.

FDI in China soared from US$4.4 billion in 1991 to US$42.0 billion in 2002.[16] The impact of FDI became significant in some important aspects. An impact of rapid growth of FDI since 1992 has been that it has become the most significant avenue of foreign capital inflow into

---

[15] It should be noted that BOI was set up in Nepal only in mid-December, 2001. Since then, it has remained quite inactive.

[16] The figures are taken from ADB (2003).

China. Again, the country has been the largest FDI host for years and was responsible for almost a fifth of all FDI flows among developing economies in 2000.[17]

China became the 143rd member of the World Trade Organization on December 11, 2001. China's purpose for joining the WTO is based on the acknowledgement that it requires an external impetus to tackle domestic difficulties to further reforms and protection of its trade interests if it is to sustain the rapid economic growth of the 1980s and 1990s. However, many of its trading partners are concerned. Some developing countries are of the view that global demand for their exports will plummet and that their FDI inflows will go down due to China's potential to pump out an unlimited supply of labor-intensive exports, and that FDI may bypass them for China's vast market.[18]

Even though China's entry into WTO should boost its attractiveness to foreign investors as it leads to not only market opening but also increased policy transparency, better governance, and greater business predictability, FDI flows may not increase significantly as a result. While foreign investment in the manufacturing sector will be consolidated as import barriers go down, FDI inflows will probably move towards the services sector, but this process could be slow, not only since restrictions will be relaxed only gradually but also since foreign investors need time to familiarize themselves with this sector.[19]

Going forward, China's growing openness should be beneficial both for the industrialized countries and the developing countries. One, stronger trade and investment ties will grant its Asian neighbors with a more secure external environment, as long as its business cycles are not synchronized with those of Japan, North America, or Europe. Two, as a principal trading nation and WTO member, China will be able to have more influence over the global trading system. It will possibly seek reform of WTO antidumping rules, guard against attempts to employ labor and environmental issues as disguises for protectionism, and possibly seek for reduction of agricultural subsidies. Three, China's WTO accession should rouse other nations to speed up their reforms, and hence give an impetus for economic and structural reform in the region.

IV. FOREIGN DIRECT INVESTMENT IN NEPAL

The history of foreign investment in Nepal goes back to 1951-52 when Nepal Commercial Corporation was set up as a joint venture with 67 percent equity of Indian investors. The

---

[17] According to UNCTAD, China may for the first time overtake the US to become the largest FDI host country in the world in 2002. Due to bold liberalization measures, industrial restructuring and the country's accession to the WTO, China's FDI is experiencing rapid growth in the medium and high-tech manufacturing industries and services. For details, see *People's Daily*, October 25, 2002.

[18] The concerns of developing countries are put forward by Adhikari and Yang (2002).

[19] For details, see Adhikari and Yang, *Op.cit*.

registration process was slow with slightly more than 10 units being registered during the 1960s. In 1961, there was a provision of foreign investment in medium scale industries with the investment of Rs. 50,000 to Rs. 500,000 and large-scale industries with the investment of more than Rs. 500,000.[20]

Foreign Investment and Technology Act, 1981

In 1974, foreign investment was permitted from 51 percent to 100 percent in basic industries such as cement, fertilizer, steel or basic consumer goods such as dairy, pharmaceutical, paper, textiles, but there prevailed preferences for Nepalese investors to foreign investors in medium scale industries with the investment of Rs. 1 million to Rs. 5 million. But in large-scale industries, both types of investors were equally treated.

Though there were a few instances of foreign investment and technology transfer prior to 1981, the first official acknowledgement of the importance of foreign investment was recognized in the Sixth Plan (1980/81-1984/85), where it was delineated that foreign investment and technology was required primarily in large scale industries and mineral-based industries. Consequently, the Foreign Investment and Technology Act 1981 was enunciated. The salient features of the Act were: a) industrial units set up under the Act would not be nationalized; and b) industrial units set up under the Act would receive the same facility, concession and protection as provided by the Industrial Enterprise Act, 1982. Foreign investors were permitted to have majority of shares in medium scale industries but were permitted 100 percent in large-scale industries, with more than Rs. 10 million investment in fixed assets.

Various facilities and provisions were included in the Act. For instance, production-oriented industries with 25-50 percent value-added would be granted full income tax exemption for five years. Analogously, tourism-based industries were granted full income tax exemption for a minimum of 7 years and the industries set up in underdeveloped areas were exempted from excise duty for a minimum of 5 years. Moreover, convertible foreign currency facilities were to be provided to joint-venture industries for importing machineries, equipment and tools, spare parts and components, raw materials as well for technical consultancy and management fee. Still, the Act restricted any foreign investment and transfer of technology to small and cottage industries to 'keep' the sector solely for Nepalese entrepreneurs.

[20] Details are provided in Timilsina and Mahato (2000).

Still, the pre-1990 era could be characterized as a closed economy.[21] There was hardly any legislative framework for the entry of foreign investment, import tariffs were high, customs' procedures were complex, enough to discourage potential foreign investors.[22]

Foreign Investment and Technology Transfer Act, 1992

The country's investment mechanism is presently explained in the Foreign Investment and Technology Transfer Act, 1992, which was enacted to attract technology transfer and foreign investment.

According to the Act, foreign investment implies the investment made by a foreign investor in any industry as investment in share (equity), reinvestment of the earnings derived from the investment in share (equity) and investment made in the form of loan or loan facilities.

The Act stipulates that industries set up with foreign investment are also entitled to enjoy all facilities and incentives. Permission is given to the foreign investor to repatriate the following income outside the country: a) amount procured from the sale of share of foreign investment as a whole or any part thereof, b) amount procured as profit or dividend in place of such investment, c) amount procured as payment of principal and interest on any foreign loan, d) amount procured under the agreement for the transfer of technology in such currency as agreed upon in the contract accepted by the Department of Industries (DOI). Other facilities include: a) income tax on interest income from foreign loan is waived, and b) income from foreign technical, management services and royalty are taxed 15 percent.[23]

Moreover, industries set up with foreign investment would be entitled the following additional facilities: a) no royalty would be imposed if any industry generate electricity for its own use; b) priority would be given to industries in providing electricity, water supply and communication facilities and priority would be accorded to arrange logistic or infrastructural facilities required for establishment of industries with foreign investment; and c) forests would be made available to forest-based industry on a leasehold basis.

The Act, amended in 1996, has made 100% foreign equity participation possible in all industrial enterprises except for cottage and some specific types of industries especially reserved for domestic investment. Moreover, transfer of technology is possible even in case of cottage industries. The Government requires that a business enterprise set up with foreign investment or technology acquire a prior approval of the DOI.

[21] Yet, a Solidarity Ministerial Meeting took place in 1982 and an Investment Promotion Meeting was held in 1984 with the purpose of promoting foreign investment and for generating awareness of the investment opportunities in the country. For details, see DOI (2001).

[22] Details are given in Dhakal and Khanal (2001).

[23] The facilities are described in Department of Industry (2001a).

The DOI can give permission for foreign investment in an enterprise with fixed assets up to Rs. 500 million. In case of an enterprise with fixed assets greater than Rs. 500 million, a decision of the Industrial Promotion Board is required for such permission.

As the Act debars foreign investment in some areas, it, to some extent, attempts to restrict potential competition for existing Nepalese entrepreneurs from foreign competition. Furthermore, in sectors where foreign investment is not prohibited, the Act calls for a review of foreign investment proposals and negotiations on conditions before final approval.

It should be noted that in July 2000, the Government had constituted a seven-member Fast Track committee (FTC), under the chairmanship of the Prime Minister, with a view to take a quick decision on projects linked to foreign investment. As a result, a foreign investor could directly send a proposal to the FTC, and a decision would be made within two weeks. The FTC would consult with the relevant line ministries with respect to build, operate and transfer (BOT) projects. However, the Fast Track Committee has remained very inactive.

One Window Committee and Industrial Promotion Board

In Nepal, there was a provision to establish the One Window Service (OWS) as per the Industrial Enterprises Act, 1992. The aim of the OWS was to provide all services needed by foreign investors under one roof. Specifically, the policy spelled out two types of services to be provided by the OWS: a) permission, facilities, and other administrative services under the Foreign and Technology Transfer Act, and b) other infrastructural facilities (such as registration, land, electricity, telecommunication, water) and other services as required by the investors. It has been acknowledged in the Nepalese context that the One Window Committee has not fully addressed the genuine needs of the investors adequately.[24]

As per the Industrial Enterprises Act, 1992, an Industrial Promotion Board was also formed under the chairmanship of the Minister of Industries.[25] The primary objectives of the Board are a) to provide necessary co-operation in developing and implementing policies, laws and regulations relating to industrial development of the country; b) to provide guidelines in meeting the aims of liberal, open and competitive economic policies followed by the country in order to make the industrial sector competitive; c) to coordinate between the policy level and the implementation level of the industrial policy; and d) to suggest to the Government for

[24] The limitations of the One Window Committee are elaborated in Khadka *et al.* (1999).

[25] The Chairman of the Board is the Minister of Industry, Commerce and Supplies and the members include the secretaries of the related ministries, representative from the FNCCI, and two professionals from the industrial, trade and commerce sectors, among others.

including any other industry in the classification of industries.[26] An evaluation of the functions, duties and powers of the Industrial Promotion Board depicts that they are confined to a large extent to policy.

Board of Investment

To ensure that administrative arrangements operate effectively, it is crucial that the laws and regulations and the institutional arrangements derive power and authority at a very high level. Most successful investment regimes in a number of countries have been driven with a single-minded goal at the highest level of Government. A powerful institutional arrangement with all necessary powers will command respect and authority and enable the country to put foreign investment at the top of the development agenda of the country.

As the Board of Investment kind of institutional arrangement in Sri Lanka and Bangladesh have been found quite effective, Nepal could learn a lot from the experiences of these two countries. Nepal formed a Board of Investment under the chairmanship of the Prime Minister in December 2001.[27] The Board was set up in order to promote investment and make it more transparent and reliable. The other objectives of the Board include formulation of new policies by reviewing the existing investment policy, maintaining coordination between various government and non-government organizations for the promotion of investment, pinpointing the areas of priority sector for investment promotion, monitoring the activities associated with investment promotion and providing directives to the concerned department to boost up investment. However, it is disappointing to note that the BOI has not been functioning smoothly as per its objectives. Such a Board should place private investment as a very high priority activity and provide investors with the right signals that the Government is serious in encouraging investment in the country. Moreover, the Board should also include more personalities from the private sector as well as young professionals as its members. Again, overseas Nepalese could be appointed as Investment Counsellors.

---

[26] The other functions, among others, include a) to devise and follow ways to check environmental pollution by laying more stress on the avoidance of effects on the environment and the public health, b) to recommend to the Government to incorporate schemes as per Annex-3 of the Industrial Enterprises Act, 1992, and c) to provide directives to the concerned institution after enquiring into the application filed by any industry complaining that the industry has not received the facilities and concessions to be made available by the Committee.

[27] The Minister of Industries, Commerce and Supply is the vice-chairman of the Nepal's BOI. The other members include the Minister for Finance, Minister for Water Resources, Minister for Culture, Tourism and Civil Aviation, Governor of Nepal Rastra Bank, Chief Secretary and the President of FNCCI. At the vice-chairman's recommendation, three persons can be nominated for a period of two years by the Prime Minister.

FDI under the Tenth Plan

The Tenth Plan (2002-07) also accords priority to foreign investment. According to it, measures would be undertaken to attract more foreign investment in the areas of comparative advantage to enhance competitiveness. The Plan has drawn a long-term vision under which it has committed to amend timely the existing institutional laws, rules and norms so as to make Nepal an attractive and secure place for investment.

The Plan has committed to policy reforms relating on foreign investment. One-Window Committee would be made more active and provide the basic facilities to the investors. Measures would be developed so that foreign investors would be able to transfer the dividends and profit to their respective countries. Legal and policy framework are also to be improved in line with the market economy. Administrative measures would be streamlined and attention would be given to the development of physical infrastructures.

The Tenth Plan has also devised some strategies for enhancing foreign investment. According to it, there will be amendments in the existing policies such as Foreign Investment and Technology Transfer Act 1992, Industrial Enterprises Act 1992 and the existing Labor Act to make foreign investment more attractive and friendly in Nepal. Moreover, the Board of Investment would be activated. Again, the existing foreign investment policies of the neighboring countries are to be reviewed in order to make Nepal's foreign investment policy more compatible, flexible and pragmatic. Moreover, furthermore, foreign investment policy would be made compatible with the provisions of the WTO Agreements.

Whether the policy reforms on foreign investment will generate fruitful results or not are yet to be seen.

FDI Policies and WTO

As Nepal has officially joined the WTO on April 23, 2004 it will be concerned about the restrictive business practices of the MNCs that establish affiliates in its economy. Foreign investors follow the laws of the host economy. Thus, if the anti-competitive practices takes place in the country, the appropriate response is the development and application of national competition laws. So, the policymakers in Nepal should contemplate on formulating some kind of competition laws as these address the source of the problem directly.[28]

Again with regard to establishment of industries in Nepal, certain subsidies/incentives are provided that are elaborated in the Industrial Enterprises Act (IEA) 1992. Most of the subsidies provided are permissible ones that are either of a general nature, or meant for

[28] The compatibility and contradiction of WTO Agreements and Nepal's Policies are discussed at length in Pant (2001a).

development of remote, undeveloped and underdeveloped areas, or for environment purposes as per the Agreement on Subsidies and Countervailing Measures of the WTO. Yet, there are subsidies that promote the use of domestic goods over imported goods and which is not allowed by the WTO. An example is the reimbursement of customs duties, sales tax, and premium levied on such product, and customs duty, excise duty and sales tax levied on raw materials, etc. utilized in such product if industry sells its product within the Kingdom. Another is the rebate of 10 percent of the income tax for industries utilizing 80 percent or more of domestic raw materials in its products and recruiting all its manpower from among Nepalese citizens. These issues need to be addressed properly.

Recent Trends in Foreign Investment

The capital account in Nepal's balance of payments statistics comprises of only two principal components: net official capital flow and net miscellaneous capital items. Net miscellaneous capital items consist of private capital and errors and omission emanating from the difference between customs records and exchange records of external sector (primarily, current account) transactions. Hence, there is a paucity of data relating to breakdown of the types and sources of private capital.[29]

Against this backdrop, in this section, only the data on foreign investment supplied by the DOI is analyzed.[30] In FY 2002/03, Nepal was able to attract foreign investment amounting to Rs. 1.8 billion, an increase of 46.7 percent compared to that of FY 2001/02 as shown in Table 2. During FY 2002/03, 71 foreign investment projects were approved in comparison to the approval of 76 projects in the previous year.

[29] It should be noted that although official data for FDI were provided for four years from 1995/96 to 1998/99, there are discrepancies between these data and the ones provided by ADB as shown below:

(Rs. in million)

Year	FDI Data of NRB	FDI Data of ADB
1995/96	387.8	1090.56
1996/97	1620.7	1323.63
1997/98	684.6	819.0
1998/99	577.7	302.72

Source: Economic Survey (2002) and ADB (2002)

[30] The limitation of this analysis is that foreign investment in the banking and insurance sectors, among others, have not been included. Again, there is no authority to check whether or not the amount approved did actually flow into the country.

Table 2

Foreign Investment in Nepal

(Rs. in Million)

Fiscal Year	No.	Total Project Cost	Foreign Investment	Employment Number
Upto July 1989	59	5425.92	466.84	10586
1989-90	30	2438.19	398.51	9515
1990-91	23	863.56	406.28	2974
1991-92	38	3508.17	597.84	5615
1992-93	64	17886.22	3083.67	13873
1993-94	38	3733.23	1378.76	4734
1994-95	19	1627.28	477.59	2386
1995-96	47	10047.47	2219.86	8032
1996-97	77	8559.25	2395.54	9347
1997-98	77	5569.38	2000.28	4336
1998-99	51	5334.92	1671.22	2146
1999-00	71	2669.09	1417.61	4703
2000-01	96	7917.62	3102.56	6880
2001-02	76	3309.63	1206.95	3711
2002-03	71	4863.35	1770.77	3525

Source: DOI (2003).

The total project cost of the projects approved during FY 2002/03 was Rs. 4.9 billion, and this provided employment opportunities for an addition 3,525 people. In contrast, the total foreign investment projects during FY 2001/02 had a total project of Rs. 1.2 billion and those projects were estimated to absorb 3,711 new labor force.

However, in comparison to FY 2000/01, Nepal was able to attract less for investment in both FY 2001/02 and FY 2002/03. The decreasing trend in foreign investment flow throughout the globe emanating from the global economic recession, the upheavals at the political and economic fronts and the deteriorating peace and security conditions were largely responsible for the slow growth of foreign investment in the past two years. Moreover, the supporting Acts and policies seem more conservative than that of the neighboring countries. Even private sectors had been laying emphasis on the flexible labor policy and changes in the Labor Act for attracting foreign investment especially as the endorsement of such provisions in neighboring countries has affected the investment inflow.

Simplified investment procedures and a liberal labor policy permitting entrepreneurs to hire and fire contract laborers which India endorsed during 2002 has major bearing in foreign investment, especially from India. Also, the renewal of Nepal-India Trade Treaty and the confusion over the Nepalese export to India worsened the situation. Foreign investors come to Nepal eyeing over 1 billion Indian consumers, as Nepalese market is small with one of the lowest per capita consumption expenditure in the world.

As usually, India has been the foremost country to invest in Nepal. As of the end of FY 2002/03, India has invested Rs. 7.9 billion in 279 projects. Similarly, in terms of foreign investment, the other major investors have been USA, China, British Virgin Island, Norway and South Korea.

Manufacturing sector, owing to the huge southern market the Nepalese goods have access to, attracted the largest foreign investment. This sector attracted foreign investment amounting to Rs. 9.5 billion as of mid-July, 2003 in 412 projects. In terms of the amount of foreign investment, the manufacturing sector was followed by the services sector (Rs. 4.8 billion) and tourism (Rs. 4.4 billion).

Table 3

Foreign Investment in Nepal (Sectorwise)

(As of 2003)

(Rs. in Million)

Types of Industries	No.	Percent In Total	Total Project Cost	Foreign Investment	Employment Number
Agriculture	14	1.6	428.2	94.4	986
Construction	16	1.9	922.1	507.9	1319
Energy Based	14	1.6	18717.9	3204.7	4759
Manufacturing	412	49.1	34624.8	9502.8	58767
Mineral	3	0.4	1153.1	46.0	1129
Service	180	21.4	12206.3	4841.4	11034
Tourism	201	24.0	15709.5	4405.8	14421

Source: DOI (2003).

More recently, there has been considerable amount of foreign investment in hydropower sector to take advantage of further policy liberalization in this sector. Although the Government has announced the policy of involving the private sector (both domestic and foreign) even in the construction of roads under similar Build-Operate-Transfer (BOT) arrangement as in hydropower, foreign investment is insignificant in the roads sector.

Potential Areas of FDI

A host of potential areas for FDI exists in Nepal. These include hydropower, agro and forest-based industries, health, tourism-related industries and information technology. Each of these areas are discussed below.

(a) Hydropower: An important area of Nepal's competitive and comparative advantage is hydropower which has gained a very high importance in the government's priorities. However, despite much progress in this sector at the policy level, investment so far has been minimal. The potential hydroelectric power of Nepal is estimated to be 83,000 MW; out of this, 50 percent could be economically harnessed. Currently, the production of hydroelectric power is only 373 MW, which is 0.4 percent of the potential. Thus, tremendous potential exists for investment in hydroelectric power. In FY 2001/02, consumption of commercial energy was estimated to be just 14.7 percent.[31] Excluding sales in the domestic market, there are also prospects of exporting power to Tibet and neighboring Indian states of Bihar and Uttar Pradesh. Power demanded in Bihar is about 2,300 MW, but just 1,550 MW is met from installed capacity.[32] Analogously, while the power demand of Uttar Pradesh is about 9,330 MW, only 5,080 MW is met from installed capacity. Thus, there are good prospects for power exports from Nepal to these areas.

The new Hydropower Development Policy, 1992, lays down concrete institutional measures and incentives to the investors with regard to royalty, long-term tax concessions, fixation of electricity tariffs, arrangement for selling to the Nepal Electricity Authority, or even export.[33]

(b) Agro and Forest-based Industries: Agricultural and forest-based industries is another area of Nepal's comparative advantage. Because of unique topography and climatic variations of the country, Nepal has a huge potential for commercial cultivation and processing of various types of agricultural and forest-based products on medium to large scale. With capital from abroad, technology, and better management and marketing techniques, the untapped potentials can be profitably exploited for the mutual benefit of both the parties. For these goods, Nepal can be utilized as the production base for satisfying not only Nepal's needs but also for meeting the MNCs' requirements, at a relatively cheaper price. The prospective areas are:

a. Herbs and their extracts in the form of oils, traditional medicines, and essences as ingredients for cosmetics, perfumes, herbal teas and natural health products.

b. Sericulture and silk production. There is huge potential of silk production, for export to third countries, from Kathmandu valley and Dhading.

c. Floriculture. Apart from different types of cut flower, Nepal is also popular for some exotic species of orchids. The diverse climatic conditions give good prospects for the production of a wide variety of flowers and flowering seeds for exports.

---

[31] Details are provided in Ministry of Finance (2002).

[32] These figures are from Centre for Policy Studies (1999).

[33] For instance, only one percent of customs duty will be levied on the import of equipment, machinery, tools and their spare parts not manufactured in Nepal. In such instances, import license fee, sales tax, etc. will not be levied. Again, the Government would assist the private developers in procuring necessary land for construction of power projects. If such land is owned by the Government, it will be made available on lease through the period of license.

d. Vegetable seed production. Opportunities do exist for producing seed of a wide range of varieties owing to a wide variation in agro-climatic regions from tropical to temperate and alpine climates.

e. Fruit processing. Good ecological conditions prevail for the cultivation of different types of fruits. There are ample scope for establishing industries to process fruits for sale in the export market as fruit juices and squash, jams and jellies and fruit-based special liquors.

f. Tea plantation and processing. Although the domestic demand for tea is about 10,000 MT, only about one-third is fulfilled by local production. The comparative advantage of Nepal in tea lies in the young plants and in the long period of rainfall that Nepal (especially the eastern part) receives.

g. Mushroom cultivation. Suitable climatic conditions prevail in Kathmandu valley for growing oyster mushroom and paddy-straw mushroom throughout the year.

h. Cashmere shawls. A huge potential exists for producing cashmere shawls by importing wool and thread from Tibet for export to the Indian and overseas markets.

(c) Health: The Government has acknowledged the fact that the private sector must be permitted to provide specialized health services with the Government according priority to primary healthcare. Consequently, some private health centers have been established—some of them with foreign investment. Foreign participation is quite noteworthy in teaching hospitals. A policy has already been introduced by the Government to provide land on long-term lease in the hills to private sector investors for building sanitariums.

Pharmaceutical industry is another promising sector for foreign investment in Nepal. There exists a large domestic market of 23 million people for different kinds of drugs, particularly antibiotics, analgesics, vitamins, anti-malarial, anti-pyrectics, anti-amoebic and anthlemintic drugs. Currently, only about 10 percent of the total demand is satisfied by the local pharmaceutical industries and the rest is imported from India.

(d) Tourism-related Industries: Tourism is one such asset in which Nepal has its unique advantages among the SAARC nations particularly when, except for Maldives and probably Sri Lanka, no other SAARC country appears to have focused on tourism as their priority sector for growth. Nepal's entire infrastructural facilities and administrative system require overhauling and face-lift for tourism to grow. The approach needs to be more target specific, and integrated with other sectors also.

Proximity to India and Tibet, the Autonomous Region of China, together with the congenial climate of Nepal promise a vibrant service sector in health care, education, sports and information technology and construction activities for which the FDI can flow in large quantity if the Government comes out with the right policies and promotes these sectors vigorously.

Due to its natural scenic beauty, peaceful environment, rich cultural heritage, and general hospitality, Nepal possesses tremendous potential for the growth of international tourism. Because of increasing flow of foreign tourists in Nepal, there are profitable investment opportunities in different tourism-related activities such as hotels and restaurants, trekking, camping and rafting, hot air ballooning, jungle safari camps, and meditation centers, among others.[34] Training schools for the hospitality industry is another potential area of foreign investment.

(e) Information Technology: The position of the basic telecom infrastructure in Nepal is quite satisfactory although the technical and managerial capabilities in the country have been unable to maintain this infrastructure efficiently running. The telecom infrastructure possesses all the capabilities needed to run any form of modern technology application that require telephony interface. An optical fibre network is also being developed along the east-west highway (information superhighway) with support from the Indian government. Digital exchanges have been set up in remote areas, too.

A common fear of the investors in Nepali IT and telecom sector has been the lack of skilled manpower. However, this is not true as a large workforce is ready and prepared each year in Kathmandu due to the training imparted by renowned IT training institutes that include brands like Informatics, NIIT, STG, SSI, Pentasoft, and APTECH.

Moreover, labor is also quite cheap and this sector has very insignificant cases of industrial disputes. Again, exports of IT software are duty-free.

---

[34] However, after 1999, there has been a decline in the number of tourists visiting Nepal. For instance, the number of tourists coming to Nepal by air fell from 491,504 in 1999 to 463,646 in 2000, a decline of 5.7 percent. It further went down by 21.2 percent to 365, 477 in 2001. For more figures, see Ministry of Finance (2002).

Survey Results

A questionnaire was developed in order to seek more information relating to various aspects of FDI in Nepal from the foreign investors themselves.[35] The sample of foreign investors selected ranged from those having investment in hotels, hospitals and banks to those having investment in distillery and hydropower.

- Most of the foreign investors stated that, among the home country factors, rising labor cost, the home government's incentive for capital outflow and the saturation of home market had a significant impact in their decision to undertake overseas investment.[36]

- The very significant host country variables for the foreign firms to invest overseas consisted of existing involvement in host country, market growth, political stability, tariff or non-tariff barriers imposed by the host government on the import of goods manufactured or planned for manufacture, tax holidays, and duty-free inputs and export incentives.

- In the context of Nepal, the primary motives of setting up a subsidiary/joint-venture were market opportunity in the country and market opportunity in other South Asian countries. For a few manufacturing foreign firm/joint-ventures, one primary reason was ascribed to the fact that the country was a source of raw materials.[37]

- For all the foreign firms, the most responsible factor influencing their decision to invest in Nepal was the Government's perspective on foreign investment followed by the tax incentives provided by the Government. Cheap labor was an important factor only for the foreign investor that invested in hotels and the firm producing electronic components for exports.

- In comparison to other South Asian countries, most of the foreign firms invested in Nepal due to greater trading and economic freedom in the country. Others noted that labor cost was cheaper in Nepal compared to other South Asian countries.

---

[35] The list of foreign firms/joint ventures surveyed included : 1) Dabur Nepal Pvt. Ltd.; 2) Nepal Lever Ltd.; 3) Everest Bank Ltd.; 4) Himalayan Bank Ltd.; 5) Ne-Koryo Hospital; 6) Genesis Garment (Pvt.) Ltd.; 7) Tiwari's Pilgrims Book House; 8) Hulas Steel Industries (Pvt.) Ltd.; 9) Nepal Bayern Electric (Pvt.) Ltd.; 10) Lotus Energy (Pvt.) Ltd.; 11) Himal Hydro and General Construction Ltd.; 12) Ansal Choudhary Developers Pvt. Ltd.; 13) The Nepal Distilleries (Pvt.) Ltd.; 14) Hotel Himalaya; 15) Ying Yang Restaurant & Bar (Pvt.) Ltd.; and 16) K.C.'s Restaurant and Bambooze Bar Pvt. Ltd. A few questions follow the pattern of Chitrakar (1994).

[36] A firm dealing with the manufacture of solar home systems, components and products indicated that it normally invests in a least developed country, where vast majority of people are deprived of electricity.

[37] One manufacturing firm dealing with the production of electronic components for exports indicated that its main intention of setting up a plant in Nepal was due to the tax free status and new line of production.

- The following factors were very significant for the foreign investors with regard to their decision to invest in Nepal: political stability, market opportunity, economic development, and legal barriers.[38]

- The principal problems with regard to FDI promotion in Nepal included undeveloped infrastructure, corruption, political instability, and bureaucratic harassment.[39] All the firms surveyed indicated that finding a local partner was not at all a problem.

- While running their business in Nepal, among the basic problems faced by the foreign investors were very slow decision-making on the part of the Government, political instability, biased labor law, complicated tax system, non-committal attitudes of the Government, frequent changes in policy/rules, no attractive incentives for exports, failure of large-scale industries (which affects the profitability of the joint-venture banks), corruption, paucity of banking facilities in rural areas, and no refund of VAT credits.

- Most the respondents were satisfied with the provisions of the Foreign Investment and Technology Transfer Act. However, there has been slackness in the implementation of commitments/policies. Moreover, there needs to be more transparency in the Act.

- In order to promote FDI in the country, prompt decision-making at the various levels is very important. Again, the visa procedure should be simple and for longer period.

- Some of the firms suggested that a comparative study of facilities available in other South Asian countries, particularly the new package being offered by the North-Eastern States of India, be undertaken.

Quantitative Analysis of FDI

In order to analyse the important determinants of FDI flows to Nepal as well as the impact of FDI on different macro-economic indicators, an econometric exercise was conducted. Secondary sources of data were utilized.[40] Based on data available on FDI, the period covered was 1988/89 to 1999/2000.

The basic model for FDI flows is specified as follows:

$$FDI_t = a_0 + a_1\, GNP_{t-1} + a_2\, \Delta GNP_t + a_3\, (I/GNP)_{t-1} + a_4\, XR_t + a_5\, OP_t \qquad (1)$$

[38] A pharmaceutical company indicated that cultural unity and physical distance were very important factors in its decision to invest in Nepal.

[39] A joint-venture distillery company stated that less preferential treatment in comparison to other South Asian countries and lack of skilled labor were also major hurdles for FDI promotion in Nepal.

[40] The data sources are Ministry of Finance (2002), Nepal Rastra Bank (2002), and ADB (2002).

where FDI_t = inflow of FDI in year t; GNP_{t-1}= the level of GNP in year t-1; ΔGNP_t = change in GNP between year t and t-1; $(I/GNP)_{t-1}$= the ratio of domestic investment to GNP in year t-1; XR_t= the exchange rate in year t, defined as the ratio of domestic currency to US dollar; and OP_t= degree of openness of the economy in year t, measured as the ratio of exports plus imports to GNP. This model primarily follows the specification employed by UNCTAD.[41]

However, the incorporation of this model in the Nepalese context did not bring about satisfactory results. Our results demonstrated that FDI did not have any significant impact on the national income of the country. This state of affairs could be ascribed to the negligible shares of FDI in both total investment and national income. Another important factor could be the lack of adequate time-series data for FDI. Moreover, the data on FDI that is available has fluctuated widely between some years. Similarly, the relationship of the other independent variables with the dependent variable also could not be properly established.

A final econometric analysis was undertaken to evaluate the impact of FDI on growth. The study employed the conventional neo-classical production function, but added foreign capital as an additional variable.[42] The production function is expressed as

$$y = F(L, k_d, k_f, X, t) \qquad (2)$$

where, y = gross domestic product (GDP) in real terms; L = labor input; k_d = stock of domestic capital in real terms; k_f = stock of foreign capital in real terms; X = exports in real terms; and t = a time trend which captures the improvement in productivity due to technical progress.

Assuming the production function to be log-linear, taking logs and differentiating with respect to time, we obtain

$$G = a + b\,\hat{k}_d + c\,\hat{k}_f + d\hat{X} + e\,\hat{L} + u \qquad (3)$$

where a hat on a variable denotes its growth rate, G denotes the growth rate of real GDP (y) and u denotes a random error term. In the context of labor surplus economy of Nepal, growth of labor force is not likely to be a significant determinant of GDP growth. This variable, hence, was dropped as an explanatory variable. Moreover, due to serious difficulties associated with measuring capital stock, this study follows the precedent set in numerous previous studies and approximate the rate of growth of domestic and foreign capitals by the

---

41 This model has been employed in a study by UNCTAD (1993). This model was further employed by Goldar and Ishigami (1999).

42 This approach has been previously used by Balasubramanyam, Salisu and Sapsford (1996).

ratio of gross fixed capital formation to GDP (GFCF/Y) and the ratio of net FDI inflows to GDP (FDI/Y).

Hence, the equation to be estimated is:

$$G = a + b\ GFCF/Y + c\ FDI/Y + d\hat{X} + u \tag{4}$$

However, even in this case, the results were not as per the expectations primarily owing to the paucity of adequate time-series data.

Because of the foregoing factors, a final exercise was undertaken to assess separately the effects of FDI in different sectors of the economy. The income generated from the manufacturing sector and the finance sector, among others, were separately incorporated. Excluding the manufacturing sector, the coefficients were found to be unexpected in the other sectors.

After modifying the UNCTAD model to fit into the Nepalese case for analyzing the impact of FDI on the change in the income from the manufacturing sector, the results are the following:

$$FDI = 0.1628 + 0.2716MFG + 9.6940\ OP + 0.4561\ D1 - 0.1589\ D2 \tag{5}$$

$$(0.7520) \qquad (1.0081) \qquad (0.4553) \qquad (-0.2854)$$

$$R^2 = 0.7508 \qquad DW = 1.5687 \qquad F = 5.2522$$

The coefficient of the change in the income from the manufacturing sector (MFG) is positive implying that this variable seems to encourage FDI inflow.[43] The coefficient of OP, which is the degree of openness of the economy measured as the ratio of exports plus imports to GNP, provides some support to the hypothesis that greater openness creates favorable atmosphere in the country to attract FDI inflows. A dummy variable D1 was employed to capture the effect of the implementation of the Foreign Investment and Technology Transfer Act of 1992. The coefficient of D1 denotes that this Act has been quite instrumental in attracting FDI. Another dummy D2 was introduced to assess the effect of insurgency in the country and demonstrated that it had an adverse impact on FDI inflow.

To study the impact of FDI on the growth of the manufacturing sector, equation (4) was modified accordingly. The results were the following:

[43] The t-ratios are the regression coefficients are shown in brackets. *** denotes confidence level of 99%, ** denotes confidence level of 95%, and * denotes confidence level of 90%.

$$G_{mfg} = 21.3186 - 0.9811 GFCF/Y + 19.4443\ FDI/Y + 0.5502\hat{X} \qquad (6)$$

$$(-2.0281)^{**} \qquad (1.3087) \qquad (5.1629)^{***}$$

$$R^2 = 0.8068 \qquad DW = 1.3686 \qquad F = 11.1359$$

where G_{mfg} is the growth rate of the manufacturing sector, GFCF/Y = ratio of gross fixed capital formation to real GDP, FDI/Y = ratio of foreign direct investment to real GDP, and $\hat{X}$ = rate of growth of exports.

As the coefficient of FDI is greater than that of GFCF, this illustrates that a minimum level of technological infrastructure exists in the manufacturing sector of the country. Moreover, there is some presence of exporting capabilities in this sector. Again, the positive and statistically significant coefficient of rate of growth of exports suggests that a higher rate of growth of exports is associated with a higher growth rate of the manufacturing sector.

V. PROBLEMS AND CHALLENGES IN ATTRACTING FDI

This section highlights some problems in attracting FDI in the Nepal and identifies some measures for boosting FDI inflow. An action plan matrix for attracting more FDI has been presented in Appendix 3.

(a) Predictable and Transparent Policies: The Budget of FY 2002/03 delineates that a One Stop Service Center will be established in the Department of Industry in the first trimester to provide services to the investors in a transparent manner from one place within the stipulated time. Analogously, new areas for foreign investment are to be identified. It should be recalled that these reforms have been also announced in previous budgets, but hardly anything has been done in terms of implementation. Hence, it is exigent that whatever reforms measures are announced should be put into practice.

Ad hoc changes in policies with a change in government as well as a change in policy within the tenure of a government could bring about considerable losses to foreign investor confidence.

As Nepal has recently become a member of the WTO, the FDI policies need to be compatible with those of the WTO. Currently, Nepal's investment rules and regulations are given in the Foreign Investment and Technology Transfer Act 1992 and amended in 1996. The Act, to some extent, prohibits foreign investment in a few areas such as cottage industries, real estate business, travel and trekking agency, poultry farming, fisheries, bee-keeping, and consultancy services such as management, accounting, engineering and legal services. Thus, this Act, to some degree, attempts to restrict potential competition for existing Nepalese entrepreneurs from foreign competition.

***(b) Monitoring Mechanism** :* Currently, there is an absence of a monitoring mechanism in Nepal to accurately monitor the flow of FDI. The Foreign Investment Promotion Division of the DOI only records the foreign investment that is approved but not the FDI that actually flows into the country. The total foreign investment, as per the FIPD version, is the sum of foreign investment in industries that are operational, under construction, licensed, approved, closed and cancelled. Hence, the total foreign investment figure is very ambiguous. Again, the figures for the banking and insurance sector, among others, are not included. Similarly, the Nepal Rastra Bank is also not able to monitor all the FDI inflows completely.

Against this scenario, the responsibility of monitoring FDI inflows in a systematic and timely manner should be entrusted on the Nepal Rastra Bank through its links to the different commercial banks of the countries. Since the accounts of the foreign firms are held by the different commercial banks in the country, it seems logical for the Nepal Rastra Bank to ask these banks to regularly submit the balance sheet of these firms in order to compute the total FDI inflow. The FIPD under the DOI and the Financial Comptroller General Office could also provide additional support.

(c) Need for Activating the Board of Investment: The Board of Investment kind of institutional arrangement in Sri Lanka and Bangladesh is quite sound and effective, deriving authority as it does from the highest level of Government. In this respect, Nepal could learn from the experiences of Bangladesh and Sri Lanka in this respect. Nepal formed a Board of Investment under the chairmanship of the Prime Minister in December 2001. Yet, the BOI has not been carrying its due functions since its establishment. The BOI should place private investment as a very high priority activity and provide investors with the right signals that the government is serious in encouraging investment in the country. Moreover, the Board should also include more personalities from the private sector as well as young professionals as its members. Again, overseas Nepalese could be appointed as Investment Counsellors.

(d) One Window System: The bureaucratic rules and processes in Nepal are complicated and time-consuming. The One Window System has not been effectively utilized for providing proper follow-up of all procedures and clearances that proposals involving foreign investments demand and also for providing the stated facilities. It has also been argued by the investors that the requirement of commission payment at each stage of clearance has led to a rise in project costs, apart from the loss of interest by foreign partners.

Against the above scenario, a system of automatic approval and registration of foreign investment projects up to various limits in different sectors would significantly sort out the delays in clearances and permissions that are still required.

The One Window System needs to be re-assessed and made more effective for providing infrastructure and services.

(e) Revamping the DOI and the FIPD: For ascertaining the smooth transfer of foreign capital and technology, the lack of a strong and effective policy implementation mechanism capable of translating the policy objective into outcomes has been a primary hindrance in Nepal. It is exigent the institutional reforms be geared towards the setting up of legally competent, strong and efficient institutions at the implementation level so as to ensure effective delivery of services.

There is a need to develop the institutional capability of the MOICS by imparting trainings in the promotion and management of foreign investment. The DOI should be efficient and be equipped with modern facilities in order to quickly respond and cater to the requirements of investors.

With support from the Nepal Rastra Bank, the FIPD should maintain a database on FDI inflows that includes information on investors. It should assess on a regular basis the flows of FDI, examining whether excessive inflows or outflows are taking place, who are the genuine investors, which investors are more volatile, and what policy actions need to be taken at the micro and macro levels. The FIPD needs to strive to establish a long-term foreign investment strategy. It should also maintain a cooperative network with other countries and international financial organizations.

Again, there is a paucity of staff at the FIPD. Currently, there is just one person looking after the entire Division; it becomes difficult to cater effectively to the needs of the different types of investors especially when they require information at the same time.

(f) Visa and Repatriation Procedures: Although policies have been formulated by the Government with respect to visa arrangements for foreign investors, these policies have not been implemented out properly. Prospective investors have to make frequent travel back and forth and the system of single/double entry visa is a hindrance.

To resolve this difficulty, there is a need of a) speedy granting of visa to the foreign investors or authorized representatives of foreign companies on the recommendations of FNCCI on preferential basis or relaxed terms, b) granting of multiple entry visa for the businessmen and their spouses and dependents, and c) an increase in the period of residence visa. Moreover, there is a need to simplify the visa requirements and procedures of renewal.

It is equally important to make clear the repatriation procedures of income consultancy fee, managerial fee and capital and properly notify to the investors. The process through which the repatriation of capital and dividends is conducted must be made more simple and transparent.

(g) Promotional Measures: Hardly any promotional measures to publicize Nepal as a potential country for FDI have been undertaken. This has inhibited the flow of FDI into Nepal. The majority of international investors have little idea about the prospects of joint-venture industries in Nepal and the policy reforms being undertaken by the Government to facilitate FDI.

In order to resolve this problem, different promotional measures should be initiated to publicize the prospects and potential of foreign/joint-venture investments in Nepal and the policy reforms undertaken by the Nepalese Government in this regard. Publicity measures such as advertisement in the television and magazines, exhibitions, and trade fairs, *inter alia*, should be utilized every now and then in major cities of the world where prospects of FDI prevail. In this respect, the Ministry of Foreign Affairs and Nepalese diplomatic missions have an instrumental role to play in image building and promotion. Information relating to the investment opportunities in Nepal, the facilities provided to the investors, and the possible benefits to the investors owing to the potential resources in Nepal should be disseminated.

A well-coordinated, purposeful and sustained publicity and information blitz should be launched to dispel any wrong impressions and negative perceptions of Nepal and to create a positive and forward looking image of Nepal. In the present scenario, due to the insurgency problems, some MNCs could opt to withdraw from Nepal while others could be reluctant to set up their affiliates inside the country. In this respect, it is important to disseminate the many success stories of FDI and joint ventures in Nepal.

(h) Country and Product Identification: Another step that Nepal should take for attracting more investment is to identify potential countries. Presently, FDI has come primarily from India, USA, China, British Virgin Island, Norway, Japan and South Korea. The country could target FDI from South-east Asian countries such as Thailand, Malaysia, Korea, Indonesia, Philippines and Singapore although a nominal amount of FDI do flow from some of these countries. Moreover, Australia and Canada have provided duty free and quota-free access to all products from the LDCs including Nepal. These two countries could be two possible FDI avenues in the long run. MNCs in these two countries could use Nepal as a production base for export to their respective countries as well as to other prospective countries.

Again potential investment areas of FDI such as hydropower, agro and forest-based industries, health, tourism-related industries, and information technology should be clearly disseminated to the potential investors.

(i) Physical Infrastructure and Skilled Labor: The lack of and poor state of physical infrastructure such as roads, electricity (especially outside the Kathmandu Valley), water, etc., discourages prospective foreign investors in Nepal. Moreover, the uncertainty of procuring regular supply of industrial fuel and its high price also has an adverse effect on foreign entrepreneurs in investing in Nepal.

Thus, steps must be taken to ameliorate the state of physical infrastructure in order to provide quality service and at reasonable prices. Attention must be accorded towards the proper maintenance of roads and airports. Industries should be assured of uninterrupted supply of electricity at a reasonable price. An appropriate pricing of transport sector and different types of commercial energy is also called for. Technological upgradation and control of leakages of resources in these sectors are crucial for cost reduction.

There is a paucity of skilled and educated labor force. Vocational and technical training is poorly developed. Hence, trained labor is a critical input while frequent labor strikes discourage investment. The country needs to ensure the supply of quality human resources to the industry, and give emphasis in improving productivity.

(j) Export Processing Zone: Export Processing Zones (EPZs) are enclaves within which governments attempt to develop a policy environment and related infrastructure that are conducive to investors wanting to produce for export. The objectives of EPZs are normally four-fold: a) promotion of investment and employment in export-oriented production; b) increased foreign exchange earnings arising from nontraditional exports; c) encouragement of FDI in countries where legal, administrative (red tape, corruption), and infrastructure-related weaknesses impede investment in exportables; and d) transfer of technology and know-how from the EPZs to the rest of the economy.

In Nepal, despite the Government's repeated commitment to construct EPZ in three different locations across the country (Birganj, Bhairahawa and Biratnagar), it has not yet conducted any comprehensive feasibility study. Still, the government is making preparations to commence the construction of EPZ at Bhairahawa within the next few months. It should be remembered that the construction of EPZ was first announced by the Government in December, 1990 in order to promote export-oriented industries.

Presently, because of lack of EPZs to attract export-oriented FDI, foreign investors may not feel assured of prompt and coordinated policy approvals and easy and prompt access to duty-free arrangements and various facilities as enunciated by the Foreign Investment and Technology Transfer Act, 1992. Thus, it is important to quickly set up the EPZs at the appropriate places.

(k) Lessons from Other Countries: Attracting FDI is not a simple and easy task. An understanding of foreign investors' motives in undertaking foreign production is helpful. The review of literature has revealed that there are various motives and determinants of FDI—macroeconomic, firm-specific, sector-specific, country-specific, and factors motivating MNCs from developed and developing countries. FDI is generally undertaken for more than one motive.

Many studies have demonstrated that whether FDI helps or hurts the host country depends upon the policy choices of the host countries themselves. Hence, while framing its policies Nepal should take into account the experiences of other developing countries. In other words, Nepal also needs to provide facilities and incentive at least comparable with other countries in South Asia, implying the continuous examination, awareness of and learning from other countries' experiences.

Non-existence of a reliable mechanism to keep track on prospective investors and follow-up on available opportunities are some of the most prominent bottlenecks for attracting foreign investment in the country. Only if Nepal could learn from the experiences of its neighbours such as Bangladesh and Sri Lanka and set up BOI along the pattern of these countries. For instance, the government of Bangladesh established the BOI in 1989. Headed by the Prime Minister, the Board is vested with necessary powers to take decisions for quick implementation of new industrial projects and provide operational support services to the existing ones.

With regard to attracting FDI from non-resident Nepalese (NRNs), the Budget for FY 2002/03, for instance, stated that steps would be taken to simplify the licensing procedures, and repatriation from such investment in the currency of investment. The provision of ten year multiple entry visa to NRNs willing to invest in Nepal has already been made effective. Still, separate laws should be devised to attract investment from NRNs. Lessons from India could be drawn in this perspective.

China is a vast potential market for foreign investors. The Chinese authorities are also aware of the crucial role of technology and export-oriented investment in modernizing their economy. All foreign-owned enterprises in China are governed by a uniform tax system. A host of incentives have been provided to foreign investors. In this context, Nepal could learn from the Chinese experience for formulating sound FDI policies.

Another important lesson from the Chinese experience is that focus should be accorded to not just the quantity of investment but also to the productivity of investment and economic activity. Investment climate should be developed first for smaller, domestic firms. If it improves for them, it will, in most likelihood, improve for larger foreign firms.

Again, the macro perspective of the investment climate is an area in which China seems quite comfortable and provide useful lessons for countries such as Nepal. Macroeconomic and political stability in China has been strong, and this stable environment is definitely one overriding factor that has attracted investment, both domestic and foreign.

(l) Dialogue between Government and Foreign Investors: Measures should be undertaken to set up a system of interaction/discussions between the MOICS and the existing foreign investors operating within Nepal. This could assist the government to set up concrete and suitable linkages between itself and the foreign investors. The existing foreign investors could aid in bringing in new foreign investors in Nepal. Moreover, with the promotion of interaction between the Government and the foreign investors, monitoring the activities of foreign investors should be undertaken on an annual basis that would provide important inputs on the issues to be addressed by the Government or the investors.

(m) Political Stability*:* The law and order situation is very crucial to foreign investors in making their decision to invest given that they need to stay in Nepal with their families. Security concerns about themselves and their families are an important factor. A poor law and order atmosphere puts prospective investors on the sidelines.

Conclusions

The attraction of FDI has become very competitive. Being a small landlocked country, Nepal has to make extra efforts to counter balance the negative impact of the competition by implementing several policy measures. It has to offer more generous and attractive incentives to potential investors partly to demonstrate the fact that it has to compete with other countries in other parts of the world in attracting FDI from the same sources and in similar industries. On the investors' side, apart from attractive incentives, they also consider other factors such as political stability, sound macroeconomic policies, continuity in government policies, adequate infrastructure facilities, equal treatment of foreign and local firms, a good legal environment, competitive labor cost and good labor practices, skilled labor force, ample natural resources, access to export market, the availability of appropriate domestic partners for joint-ventures, and the provision of better information on investment opportunities. If these factors are inherent in Nepal, the future prospects of FDI could grow to become a powerful force for the development of the country as a whole.

Appendix 1

Host Country Determinants of FDI

Host Country Determinants	*Type of FDI Classified by Motives of Firms*	*Principal economic determinant in host countries*
I. Policy framework for FDI **Economic, political and social stability** Rules regarding entry and Operations Standard of treatment of foreign Affiliates	**A. Market-seeking**	**Market size and per capita income** Market growth Access to regional and global markets Country-specific consumer preferences Structure of markets
Policies on functioning and structure of markets (especially competition and policies governing mergers and acquisitions). International agreements on FDI Privatization policy Trade policy (tariffs and non-tariff barriers) and coherence of FDI and trade policies Tax policy **Economic determinants** **II Business facilitation**	**B. Resource/asset-seeking**	Raw materials Low-cost unskilled labor Skilled Labor Technological, innovative and other created assets (for example, brand names), including as embodied individuals, firms and clusters
Investment promotion (including image-building and investment-generating activities and investment-facilitation services). Investment incentives "Hassle" costs (related to corruption and administrative efficiency) Social amenities (for example, bilingual schools, quality of life) After-investment services.	**C. Efficiency-seeking**	Physical infrastructure (ports, roads, power, telecommunications). Cost of resources and assets listed above, adjusted for labor productivity Other input costs, such as transport and communication costs to/from and within the host economy and other intermediate products Membership in a regional integration agreement conducive to the establishment of regional corporate networks.

Source: UNCTAD (1998).

Appendix 2

Comparison of FDI Policies of Selected South Asian Countries and China

Countries	Policies			
	Degree of Openness	**Ownership Pattern**	**Regulatory Procedure**	**Investment Facilities**
Bangladesh	- FDI permitted in all sectors except four reserved items: a) production of arms & ammunition; b) forest extraction & mechanized extraction; c) production of nuclear energy; and d) security printing and mining	- Limit of foreign equity participation raised from 51 to 100 percent. - Technical collaboration permitted in almost all types of industries	- No prior approval is required for FDI except registration with the BOI in order to avail such facilities such as infrastructure facilities, industrial plot and acquisition of land for setting up an industry.	- Tax holidays along with duty free import of capital machinery and raw materials import for export manufacturing. - Tax holiday of 5 to 9 years based on location (12 years for firms established in EPZs). - Relief from double taxation.
India	- FDI welcomed in all sectors excluding defence, railway, transport and atomic energy. - Indian capital markets are open to foreign institutional investors.	- Upper limit of foreign equity is 51 percent. - Foreign investment exceeding 51 percent and up to 100 percent is permitted in many sectors with the approval of the FIPB. - NRIs and OCBs may have 100 percent ownership in all industries except those reserved for the public sector.	- Foreign investments approved through 2 routes: automatic route and government approval. - Where automatic route is not applicable, specific approval from FIPB is required.	- No difference in incentives and concessions between domestic and foreign investors. - Special incentives and tax incentives for exports and for certain sectors such as power, electronics, software and food processing. - Various investment facilities for NRIs and OCBs. - Agreements with 88 countries to avoid double taxation.
Nepal	- FDI welcomes in all types of industries except for cottage industries, defence-related industries and specific types of industries reserved for domestic investment. - Priority given to industries prescribed by the Government.	- Encourages investment as joint-ventures but up to 100 percent foreign equity permitted in large & medium industries. - Permission may be granted to use foreign technology in the form of investment in cottage & small industries.	- Permission from DOI & DCSI needed for foreign investment technology transfer. - The applicant to be notified of permission within 30 days of the receipt of application.	- No difference in incentives and concessions between domestic and foreign investors. - Income tax exemption of 5 years for tourist standard enterprises and 10 years for industries of national and long gestation period. - Double taxation agreement with some countries.

		Policies		
Countries	**Degree of Openness**	**Ownership Pattern**	**Regulatory Procedure**	**Investment Facilities**
Pakistan	- FDI permitted in all sectors of economy, except sensitive areas such as arms and ammunition, high explosives, radio-active substances and security printing, currency and mint.	- General policy of permitting foreign investors to participate on a 100 percent equity basis.	- Excluding industries such as arms and ammunition, security printing, currency and mint, high explosives or radio-active substances, government permission is not needed for setting up industry.	- No discrimination between domestic and foreign investors with regard to tax concessions. - Foreign investors free to choose plant sites within environmental considerations. - Tax holiday of 3 to 8 years based on location of industry. - Industrial machinery required for rural or less-developed area and the units like biotechnology, electronics, fertilizers, fibre optics and solar energy are allowed to import free of customs, sales tax and import surcharge.
Sri Lanka	- FDI welcomes in most sectors. - Investment in certain restricted sectors given approval on case-by-case basis where foreign equity is greater than 40 percent; restricted sectors include shipping and travel agencies, freight forwarding, education, supply of water, timber-based industries, growing and primary processing of tea, rice, cocoa and sugar.	- Foreign equity participation of up to 100 percent in many sectors	- Automatic approval for most foreign investments. - One-stop service for foreign investors, including approval of projects, granting licenses, establishing tax incentives and assisting in procurement. - The general policy is to grant approvals within one month of the receipt of an application. - Activities of some industries, notably services, subject to approval by other Government agencies.	- Full tax holiday of 5 to 20 years for investment in 'thrust' industries (electronic, light engineering, ceramics and glassware, rubber products, and any industry or service of pioneering nature as defined by the BOI). - Tax holiday of 5 years for textile and ancillary products needed for the garment export industry with a minimum investment of Rs. 5 million. - Tax holiday of 8 years for software exporting industry. - Tax holiday of 10 years for agriculture, dairy and livestock development. - Tax holiday of 5 to 20 years for industries producing for export.

		Policies		
Countries	**Degree of Openness**	**Ownership Pattern**	**Regulatory Procedure**	**Investment Facilities**
China	- FDI permitted in most sectors, including a number of sensitive sectors and those in the services industry on an experimental basis.	- Foreign-owned enterprises can exist as holding companies, wholly foreign-owned enterprises, equity joint ventures, contractual (or cooperative) joint ventures or foreign-invested companies limited by shares.	- Project exceeding US$ 10 million to be approved by the Ministry of Foreign Trade and Economic Cooperation and State Development and Planning Commission. - Projects exceeding $100 million need approval from the State Council. - For projects over $30 million, government officials evaluate each project against official guidelines to determine whether it promotes exports with foreign currency income, introduces modern technology, or provides technical or managerial training.	- Considerable reduction in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure. - Special preferences for projects involving high-tech and export-oriented investments. - If profit reinvested in China for at least five years, a foreign investor receives a refund of 40 percent. - If profits are reinvested in high-technology or export-oriented enterprises, the foreign investor may receive a full refund.

Appendix 2a

Comparison of FDI Policies of Selected South Asian Countries and China

	Policies			
Countries	**Security of Investment**	**Infrastructure**	**Extent of Repatriation**	**Foreign Employment**
Bangladesh	- Guarantees against nationalization without proper compensation and equitable treatment. - Treaty with various countries. - Foreign Private Investment Act, 1980 ensures legal protection to investors. - Member of Multilateral Investment Guarantee Agency (MIGA) and World Association of Investment of Promotion Agencies, among others.	- Various facilities including establishment of an EPZ. - BOI assists investors in obtaining facilities such as electricity, gas and water connections, sewerage connections, and communication facilities.	- Free repatriation of profits, invested capital, capital gains, post-tax dividends, and approved royalties and fees.	- Work permits for expatriates other than chief executives are often restricted, with re-entry visas limited to two to three entries.
India	- Has bilateral investment protection agreements with more than forty countries. - Member of MIGA.	- Various facilities including EPZs. _ Well-developed R &D infrastructure and technical and marketing services.	- No restrictions on remittances for debt service or payment of imported inputs. - Dividend remittance restrictions apply to firms in specified consumer goods. - No dividend restrictions on firms in other 'high priority' industries. - Prior RBI approval is needed for remittance of funds from asset liquidation.	- Allows hiring of foreign technicians without prior government approval.

		Policies		
Countries	**Security of Investment**	**Infrastructure**	**Extent of Repatriation**	**Foreign Employment**
Nepal	- Investments are assured of security of investment. - Has investment protection agreement with France and Germany which guarantees the transfer of capital, profits and loans. - Member of MIGA.	- Has some industrial estates with infrastructural facilities. - Is in the process of establishing an EPZ.	- Following income can be repatriated outside the country: a) amount received from the sale of share of foreign investment as a whole or any part thereof, b) amount received as profit or dividend in place of such investment, c) amount received as payment of principal and interest on any foreign loan, d) amount received under the agreement for the transfer of technology in such currency as agreed upon in the contract.	- Foreign management and technical experts can be employed with the prior approval.
Pakistan	- Investment protected against expropriation by the Foreign Private Investment (Promotion and Protection) Act of 1976 and by an investment and guarantee agreement. - Member of MIGA - Has bilateral investment treaties with more than twenty countries. .	- Has a composite scheme of National Industrial Zones comprising industrial estates, Free Industrial Zones, Free Trade Zones and Export-Oriented Units and Estates for small and medium industries within areas of its boundary. - Private bonded warehouses set up I the Zones. - EPZs also exist.	- No limits on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or payments for imported inputs.	- No work permit for expatriate managers and technical personnel working in an industrial undertaking.

		Policies		
Countries	**Security of Investment**	**Infrastructure**	**Extent of Repatriation**	**Foreign Employment**
Sri Lanka	- Foreign investment guaranteed protection by the constitution of Sri Lanka. - Founding member of MIGA. - Has bilateral investment protection agreements with more than twenty countries. .	- Various facilities including free trade zones. - BOI encourages the establishment of export-oriented factories in the zones owing to the ease of providing infrastructure, security and monitoring.	- No barriers to the expeditious remitting of corporate profits and dividends. - Remittances of business fees (royalties, management fees, and licensing fees) freely permitted as well as funds for debt service and capital gains. - All stock market investments can be remitted without prior approval of the Central Bank.	- Employment of foreign personnel is allowed when there is a demonstrated shortage of qualified local labor.
China	- Chinese law calls for compensation of expropriated foreign investment, but does not define the terms of compensation. - Has bilateral investment agreements with more than 50 countries.	- Various facilities including import/export duty free trade zones.	- In order to remit funds in a foreign currency in their accounts, the investors need to provide sufficient evidence to the remitting bank that their respective companies have made an after-tax profit.	- Though wholly foreign-owned companies need not nominate Chinese nationals to their upper management, in practice, expatriate staff occupy only a small number of managerial and technical slots. enterprises, the foreign investor may receive a full refund.

Sources: 1. *TradePort (1999a, 1999b, 1999c, 1999d, 1999e).*
2. *Department of Industry (2001, 2001a).*
3. *India Investment Centre (2002).*
4. *Board of Investment of Bangladesh (2002).*
5. *Board of Investment of Pakistan (2002).*
6. *Board of Investment of Sri Lanka (2002).*

Appendix 3

Action Plan for Attracting FDI

Issues	Line of Action	Implementing/Supporting Agency
Predictable and Transparent Policies	Implement bold measures to change the existing investment climate through policy adjustments, institutional development, and structural adjustment Policies such as the Foreign Investment and Technology Transfer Act to be WTO-consistent.	MOICS/NPC/NRB MOICS/NPC
Monitoring Authority	NRB to take responsibility for monitoring flows of FDI in a systematic manner with support from the FIPD of the MOICS, the FCGO and the commercial banks.	NRB/FIPD/FCGO/Commercial Banks
Board of Investment/One-window Committee	Board of Investment should be more active and meetings should be held regularly. Members of the BOI to include more personalities from the private sector as well as young professionals; moreover, overseas Nepalese to be appointed as Investment Counsellors. OWC to be made more effective in delivering infrastructure, administrative and other services.	MOICS/ BOI/PM's Office MOICS/BOI/ PM's Office MOICS/DOI
Revamping the DOI and FIPD	Develop institutional capability of the MOICS. DOI/FIPD to be equipped with modern facilities. Rendering relevant logistics to the FIPD for establishing good data-base. Technical and qualified manpower increase in FIPD. Direct link to be established between the Nepalese missions abroad and the FIPD.	MOICS ***MOICS*** MOICS/DOI ***MOICS*** ***MOICS/FIPD***
Registration, Visa and Repatriation Procedures	Simplification and transparency of the registration procedure. Simplification and transparency of rules pertaining to recruitment of expatriates, visa requirements, duration of visas, and procedures of renewal. Repatriation procedures of income, consultancy fee, managerial and capital to be made clearer and properly informed to the investors.	MOICS/DOI/DCSI MOICS/DOI/DOIm MOICS/DOI/NRB

Issues	Line of Action	Implementing/Supporting Agency
Promotional Measures	Publicity of prospects and potential of FDI in Nepal via television, magazines, exhibitions, investment conferences.	MOICS/MOFA/DOI/TPC/ NTB/Other relevant ministries/ Nepalese diplomatic missions abroad/ diplomatic missions in Nepal/FNCCI/NCC/Other private sector institutions
Potential Country and Investment Identification	Identification of potential FDI sources. Identification of potential areas/products.	MOICS/TPC MOICS/TPC
Physical Infrastructure	Prioritization and development of infrastructure services. Industries to be assured of uninterrupted supply of electricity.	**MOICS/MPPW/MCTC** MOICS/MOWR/NEA
Supply of Quality Human Resources	Vocational and technical training to be provided and emphasis on improving productivity.	*MLTM/DOL*
Export Processing Zone	EPZs to be set up at appropriate places for attracting export-oriented FDI.	*MOICS*
Lessons from South Asian Countries and China	BOI to carry out its functions on the basis of experiences of Sri Lanka and Bangladesh Facilities and incentives at least on par with those of other South Asian countries. NRNs to be attracted for FDI; relevant lessons from India to be incorporated and laws for NRNs to be devised accordingly. Focus to be given not only on quantity of investment but also on productivity of investment.	BOI/MOICS MOICS/DOI MOICS/DOI MOICS/DOI
Dialogue between Government and Private Parties	More interactions/discussions between the MOICS, other relevant institutions, the foreign investors and the domestic investors.	MOICS/NRB/Foreign Investors in Nepal/Domestic Investors

SELECTED REFERENCES

Adhikari, Ramesh and Yongzheng Yang (2002). 'What Will WTO Membership Mean for China and Its Trading Partners?', *Finance and Development*, 39, 22-25.

Agrawal, Pradeep (2000). 'Economic Impact of Foreign Direct Investment in South Asia', Indira Gandhi Institute of Development Research, Mumbai, January, http://www1.worldbank. org/wbiep/trade/services_files/Agrawal.pdf.

Asian Development Bank (2002). *Key Indicators of Developing Asian and Pacific Countries*, Vol. XXXIII, Manila, http://www.adb.org/Documents/ Books/Key_Indicators/ 2002/default.asp

Asian Development Bank (2003). *Key Indicators of Developing Asian and Pacific Countries*, Vol. XXXIV, Manila, http://www.adb.org/Documents/ Books/Key_Indicators/ 2003/default.asp

Balasubramanyam, V.N. (2001). 'Foreign Direct Investment in Developing Countries: Determinants and Impact', Paper presented at OECD Global Forum on International Investment, Mexico City, November 26-27, http://www.oecd.org/pdf/M00020000/ M00020754.pdf

Balasubramanyam, V.N., M. Salisu and D. Sapsford (1996). "Foreign Direct Investment and Growth in EP and IS Countries', *The Economic Journal*, 106, 92-105.

Board of Investment of Bangladesh (2002). 'BOI at a Glance', http://www.boibd.org/ boi_at_ a_glance.htm.

Board of Investment of Pakistan (2002). 'Functions of BOI', http://www.cybercity-online. biz/boi/html/functions.html

Board of Investment of Sri Lanka (2002). 'Role of BOI', http://www.buildsrilanka.com/boi

Centre for Policy Studies (1999). *Nepal-China Trade, Economic and Cultural Cooperation*, Federation of Nepalese Chambers of Commerce and Industry, Kathmandu.

Chandrasekhar, S. (1993). 'India's Industrial Policy', in S. Chandrasekhar (ed.) *Gulf Crisis, Globalism and Stock Scam*, B. R. Publishing Corporation, New Delhi.

Chitrakar, Ramesh C. (1994). *Foreign Investment and Technology Transfer in Developing Countries,* Avebury, Ashgate Publishing Limited, Aldershot.

Confederation of Indian Industry (2002). 'FDI Policy: Federal', htttp://www.ciionline.org/ investindia/fid_india/index.htm

Department of Industries (2001). *Procedural Manual for Foreign Investment in Nepal*, Kathmandu.

Department of Industries (2001a). *Foreign Investment and Technology Transfer Act, 1992 & Industrial Enterprises Act*, 1992.

Dhakal, Ameet and Prem Khanal (2001). 'Foreign Investment: Export Problems and Prospects', in Institute for Development Studies (IfDS) *New Policy Initiatives for Trade and Investment*, IfDS, September 1.

Dollar, David and Aart Kraay (2000). 'Growth is Good for the Poor', Development Research Group, World Bank, Washington, D.C.

English, Philip and Luc De Wulf (2002). 'Export Development Policies and Institutions', in Hoekman, Bernard, Aaditya Mattoo and Philip English (eds.). *Development, Trade and the WTO*, The World Bank, Washington, D.C.

ESCAP (2002). *Economic and Social Survey of Asia and the Pacific 2002*, United Nations, New York.

ESCAP (1996). 'Promoting Foreign Direct Investment in the Least Developed Countries: New Trends, Directions and Opportunities in a Globalizing World Economy', Paper prepared for the ESCAP/DOI Workshop on Promoting Foreign Direct Investment, Kathmandu, 23-24 May.

Fiducia Management Consultants (2002). 'Issues for Business in China', http://www.fiducia. com/News/2002/3005-1814.html

Foreign Investment Promotion Division (1996). 'Nepal: Foreign Investment Opportunities', http://www.catmando.com/gov/industry/fipd/fipd16.htm.

Goldar, Bishwanath and Etsuro Ishigami (1999). 'Foreign Direct Investment in Asia', *Economic and Political Weekly*, **34**, M50-60.

Hufbauer, Gary, Darius Lakdawalla and Anup Malani. (1994).'Determinants of Direct Foreign Investment and Its Connection to Trade'. *UNCTAD Review*, pp. 39-52.

Hill, Hal (1990). 'Foreign Investment and East Asia Economic Development', *Asian Economic Literature*, 4, 21-58.

India Investment Centre (2002). 'India's Investment Climate', http//www.iic.nic.in/vsiic/ iic.2.htm

International Finance Corporation (1997). *Foreign Direct Investment: Lessons of Experience*, International Finance Corporation, Washington, D.C.

Khadka, Krishna R., Bhanu Acharya and Binod K. Karmacharya. (1999). A Study on Strengthening Industrial Sector in Nepal, National Planning Commission, Kathmandu.

Kim, Yun-Hwan and Purnima Rajapakse (2001). 'Mobilizing and Managing Foreign Private Capital in Asian Developing Economies', *Asia-Pacific Development Journal*, 8.

Klein, Michael, Carl Aaron and Bita Hadjimichael. (2001). 'Foreign Direct Investment and Poverty Reduction', Paper presented at OECD Global Forum on International Investment, Mexico City, November 26-27, http://www.oecd.org/pdf/M00022000/ M00022046.pdf

Kumar, Nagesh (2002). 'Foreign Direct Investment, Regional Economic Integration and Efficiency-Seeking Industrial Restructuring in Asia: Trends, Pattern and Prospects', *Industrial and Technological Development News for Asia and the Pacific*, ESCAP, Bangkok.

Lall, Sanjaya (1993). 'Foreign Direct Investment in South Asia', *Asian Development Review*, **11**, 103-119.

Lama, Mahendra (2000). 'Foreign Direct Investment in South Asia', in Keshavan, K.V. (ed.) *Japan-South Asia: Security and Economic Perspectives*, Lancer Books, New Delhi.

de Mello, L.R., Jr. (1999). 'Foreign Direct Investment-led Growth: Evidence from Time Series and Panel Data', *Oxford Economic Papers*, 51, 133-151.

Ministry of Finance (2002). *Economic Survey, Fiscal Year 2001/2002*, Kathmandu.

Naik, Niaz A. (2002). 'China and SAARC', Paper presented at one-day seminar on 'China and SAARC', Kathmandu, December 23.

Nanayakkara, Wilfred S. (1997). 'One Window Facility', Round Table Meeting on 'One Window Facility', Kathmandu, April 23.

National Planning Commission (2002). 'Discussion Paper on the Tenth Plan', National Planning Commission, Kathmandu.

National Planning Commission (1998). The Ninth Plan (1997-2002), National Planning Commission, Kathmandu.

Nepal Rastra Bank (2002). *Quarterly Economic Bulletin*, 35, mid-January.

Okuda, S. (1994). 'Taiwan's Trade and FDI Policies and Their Effect on Productivity Growth', *The Developing Economies*, 32, 423-443.

Pant, Bhubanesh (2001). *Financial Crises, Recovery and Reforms*, Atlantic Publishers, New Delhi.

Pant, Bhubanesh (2002). *National Study on Trade in Goods*, UNDP/UNCTAD Research Report, Kathmandu.

Pingyao, Lai (2002). 'Foreign Direct Investment in China: Recent Trends and Patterns', *China & World Economy*, 2, 25-32, http://www.iwep.org.cn/wec/ english/articles/ 2002_02/laipingyao.pdf

Poudel, Danda Pani (1995). *International Capital Movements in the SEACEN Countries*, The SEACEN Centre, Kuala Lumpur.

Rahman, Mahmudur (2002). 'Competing for FDI: How can South Asia be more Successful?' Welcome Address for South Asia FDI Roundtable, Dhaka, 9-10 April.

Reserve Bank of India (2002). *Reserve Bank of India Bulletin*, August, Mumbai.

Sharma, Kishor (2000). 'Export Growth in India: Has FDI Played a Role?', *Centre Discussion Paper No. 16*, Economic Growth Center, Yale University, http://www/econ.yale.edu/growth_pdf/Cdp816.pdf

Stern, Nicolas (2002). 'Investment Climate in China: Lessons and Challenges', Presentation at the China Investment Climate Policy Forum, Beijing, December 3, http//www.worldbank.org.cn/English/home.asp

Talib, Azizah (1994). *Foreign Direct Investment in the SEACEN Countries*, The SEACEN Centre, Kuala Lumpur.

TradePort (1999a). 'Bangladesh: Investment Climate Statement', http://www.tradeport.org/ts/countries/Bangladesh/climate/html

TradePort (1999b). 'China: Investment Climate Statement', http://www.tradeport.org/ts/countries/ china/climate.html

TradePort (1999c). 'India: Investment Climate Statement', http://www.tradeport.org/ts/countries/India/climate.html

TradePort (1999d). 'Nepal: Investment Climate Statement', http://www.tradeport.org/ts/countries/Nepal/climate.html

TradePort (1999e). 'Pakistan Investment Climate Statement', http://www.tradeport.org/ts/

countries/Pakistan/climate.html

Timilsina, P. P. and B. P. Mahato (2000). *Economic Development and Foreign Investment in Nepal: Issues and Perspectives*, Nepal Society for Applied Economics, Kathmandu.

Urata, S. (1994). 'Trade Liberalization and Productivity Growth in Asia: Introduction and Major Findings', *The Developing Economies*, 32, 363-72.

UNCTAD (2002). *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, United Nations, New York and Geneva, http:/r0.unctad.org/wir/contents/ wir02_dl.htm

UNCTAD (2001). *World Investment Report 2001: Promoting Linkages*, United Nations, New York and Geneva, http:/r0.unctad.org/wir/contents/wir01_dl.htm

UNCTAD (1998). *World Investment Report 1998*, United Nations, New York and Geneva, http:/r0.unctad.org/wir/contents/ wir98_dl.htm

UNCTAD (1996). *The Least Developed Countries 1996 Report*, United Nations, New York and Geneva.

UNCTAD (1993). 'Explaining and Forecasting Regional Flows in Foreign Direct Investment', UNCTAD, Programme on Transnational Corporations.

World Bank (2002). *Global Development Finance*, The World Bank, Washington, D.C.

World Bank (2001). *Global Development Finance*, The World Bank, Washington, D.C.

World Bank (2000). *Global Development Finance*, The World Bank, Washington, D.C.

World Bank (1999). *Foreign Direct Investment in Bangladesh: Issues of Long-run Sustainability*, The World Bank, Washington, D.C.

World Bank (1993). *The East Asian Miracle*, Oxford University Press, New York.

Yogi, Bhagirath (2002). 'Investment Policy: How to Attract Investors', *Spotlight*, 16-22 August.

Newspapers

'Nepal fails to attract satisfactory FDI', *The Kathmandu Post*, August 2, 2002.

'Decade passed, EPZ still a distant dream', *The Kathmandu Post*, November 28, 2002.

'China may outstrip US as World's Largest FDI Recipient: UNCTAD', *People's Daily*, Oct. 25, 2002, http://english.peopledaily.com.cn/200210/25/eng20021025_105635.shmtl

'Board of Investment formed', *News & News*, FNCCI, Dec. 2001/Jan. 2002, http://www.fncciorg/newsleter/2002/decjan/nepal.html