

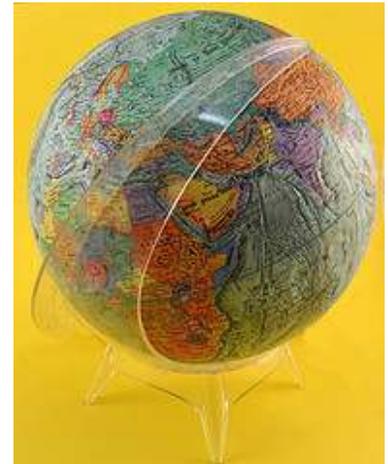
FOCUS of this ISSUE :
**FOREIGN INVEST-
MENTS IN NEPAL**

**Salient features of the
e-News Flash**

- Compilation of interesting and relevant news, views and facts
- Well written, informed and authoritative sources
- A quick read
- A completely a-political and an a-industry selection
- Well edited, personal touch

WORLD SCENE

Over the last quarter century, foreign investment has accelerated at a breathtaking pace and shifts in the flow of this investment are now reshaping the global economic landscape. Research shows that the inward foreign direct investment stock has roughly tripled worldwide over the past decade -- and that holds true for developing countries as well as developed economies. Today more than 80,000 multinational corporations (MNCs) are operating worldwide with more than 800,000 foreign affiliates. Foreign investors not only bring fresh capital, technology, competitive spirit and ideas to new markets; they also bring jobs. They employ nearly 80 million people worldwide, a figure that is roughly twice the size of Germany's labor pool – and one that has quadrupled over the past three decades. These foreign affiliates also point to a deeper level of economic integration among nations. They show a purpose and commitment beyond one-time sales or market entry into well-established trade patterns.

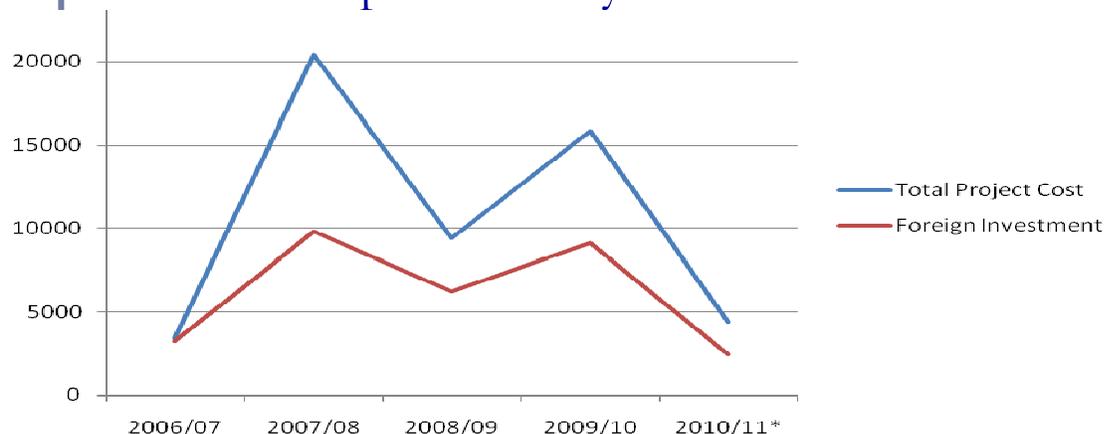


Investment not only drives jobs and innovation, but it also increasingly drives trade. Investment also drives development. To use a quote "Aid chases need; Investment chases opportunity."

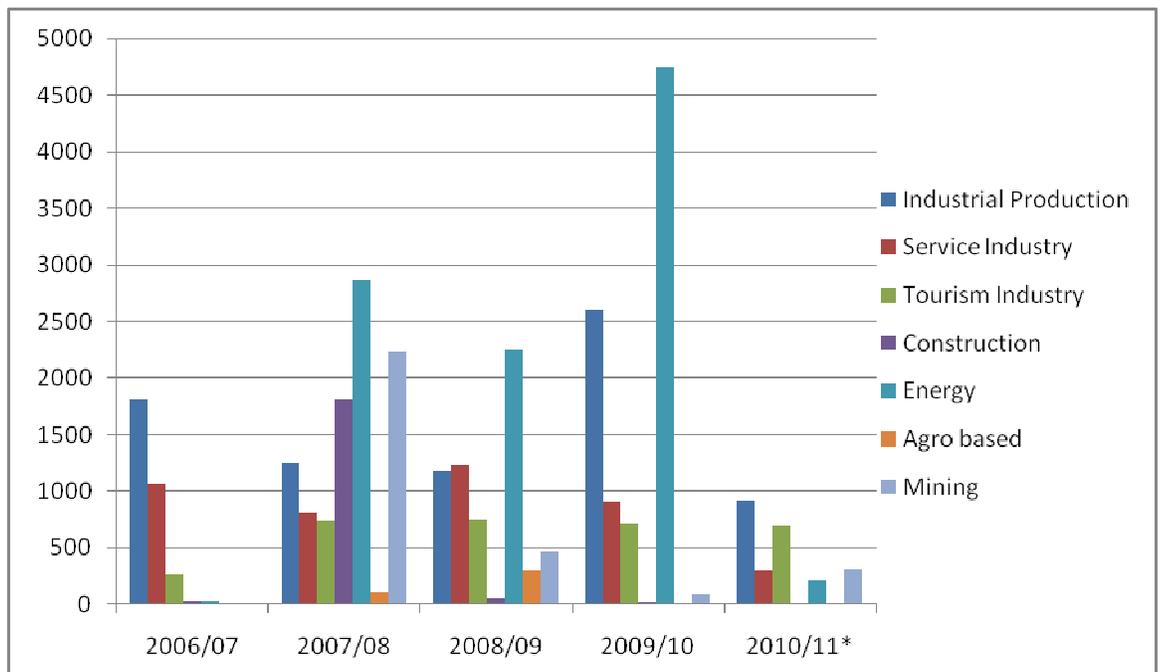
It is well accepted that many of our most daunting challenges are global, and greater levels of foreign investment will be necessary to overcome many of them: achieving global food security; mitigating climate change; resolving energy shortage and achieving better standards of living.

As foreign investment is contributing more substantially to our economic prosperity, policies designed to foster, protect and fully benefit from it require greater focus. These include improvements to the investment climate that will attract greater flows, stronger intellectual property rights protection, and better investor aftercare and dispute prevention. A rapidly changing global investment landscape brings many new opportunities as well as challenges

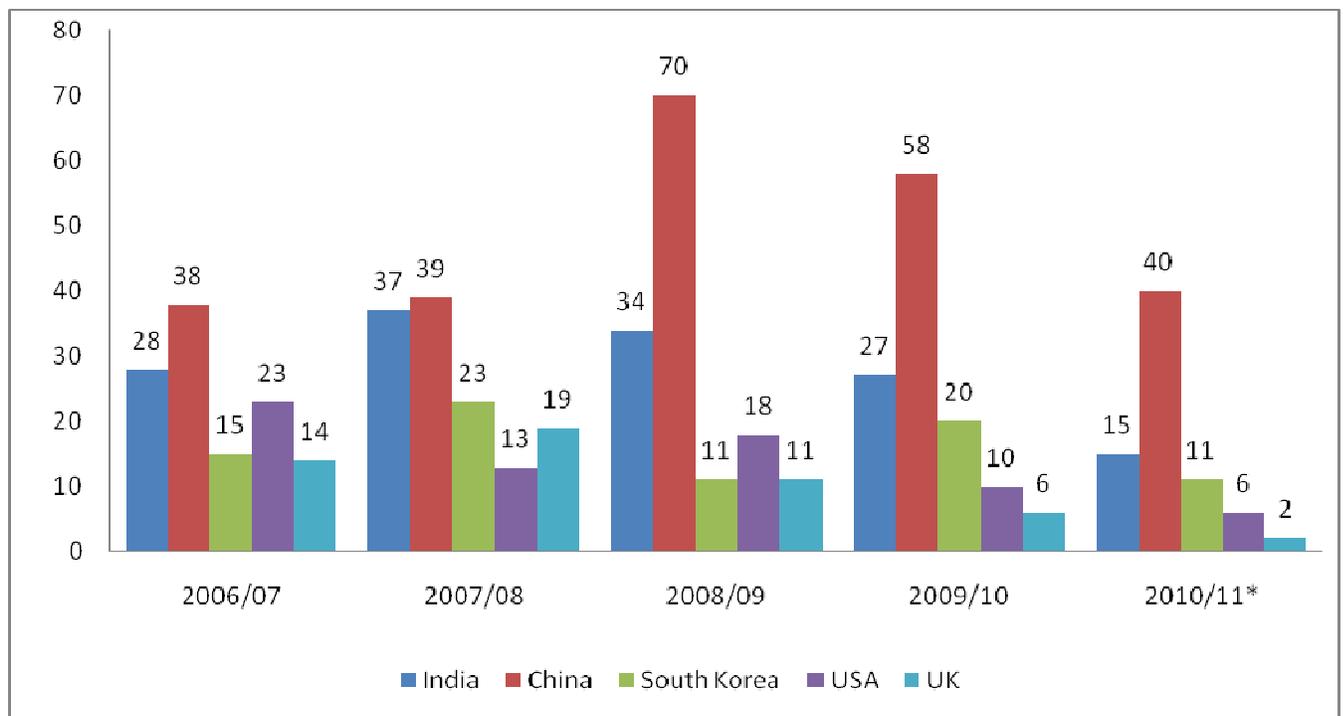
FDI in Nepal : last 5 years



SECTOR WISE FOREIGN INVESTMENTS



COUNTRY WISE INVESTMENTS



CHANGING PATTERNS OF INVESTMENT

For the last few decades, the Investment relationships between developed and developing economies had largely been characterized by outflows from developed economies to developing countries. A West to East flow. This pattern has changed and will continue to change. A East to West, South to North, flow. A number of the large emerging economies – particularly Brazil, Russia, India, China and South Africa – are now increasingly important overseas investors.

In 2009, FDI flows from emerging and developing economies into other markets approached one-quarter of a trillion dollars. These countries held overseas investment stock of nearly \$2.7 trillion – more than three times their total a decade earlier. This means that these countries now have a greater stake in the global system of rules and practices that govern investment

In the same period, note the sectors and volume that we in Nepal could bring in from these countries !

This Changing Investment landscape brings in a number of challenges, fresh perspectives and new strategies. Emerging, outward investors not only share strong interests in protecting their own foreign investment but are also reconsidering some of their own long-standing restrictions on investment and changing policies that have left important sectors closed to foreign investment.

Then there are security-related issues. Technological innovation, new sources of capital and other factors affecting the nature of security threats are evolving rapidly. Both, the investor and the host need to protect legitimate security interests and must have very clear laws and procedures to do that.

The trend of foreign of investments in Nepal over the last 5 years clearly shows the crests & troughs of hesitancy and choice of sectors. The questions one needs to ask are many. And perhaps, the response to any one will have far reaching ripples into others. Indeed, no response will be without debate and controversy.

What in a particular year or a particular sector brings on this trend ? Have some resources been exhausted in a sector? Are some new ones discovered? Has some technology increased /decreased the efficacy of a sector? How does migration of Nepali labour feature into this? How much has the inward remittance brought this on? Is there a shift in the business focus of the Nepali business community? Is there a growing mass of educated returnees? Is the political scenario the sole cause? What in Nepal directly brings on this pattern or is it a shadow play of sectors, trends and money flows in the region as a whole or any country in specific, that brings this on.

The pattern of Countries investing in Nepal, is another interesting study. India & China loom large in terms of volume, contribution to GDP, employment and resultant exports. The European countries though marked by their presence on the Development sector, fair marginally in the Direct Investments scene. A sector wise comparison shows further the focus of Investments from these countries.

***The Nepal-India
BIPPA is a measure
to foster & protect
Investments.***

***India approves the
National
Manufacturing
Policy, 2011 .
Share of mfg in the
economy to move
up to 25% from
16%***

The signing of BIPPA is a measure to assure the investor and the host. A promise to grow together. An understanding to see the Challenges together. And ofcourse, to ensure the protection of each other's interests. An instrument like BIPPA necessarily promotes an Investor friendly climate and is a Beacon to other ships looking to anchor and trade.

The BIPPA with India would assure the current investing countries as well as encourage newer ones & even encourage them to look at a larger participation in Nepal's investment portfolio. There is no gainsaying India's role & influence, not just in the region but in the entire shifting patterns of global investment.

The latest approved, 'National Manufacturing Policy of India' is indicative of India's giant strides in the economic development strategy. This Policy aims to increase the share of Manufacturing in the Indian economy to 25% from 16% and create 100 million jobs in the next 10 years.

Would Nepal not want to benefit from such measures? Harness the good work of her neighbours and take on ample share of hard work to make the benefits flow in.

The BIPPA with India, is also a message that Nepal is keen on a Development through Investments, and is ready to take on its share of responsibility in making this happen.

Such a statement will be significant in the coming years.



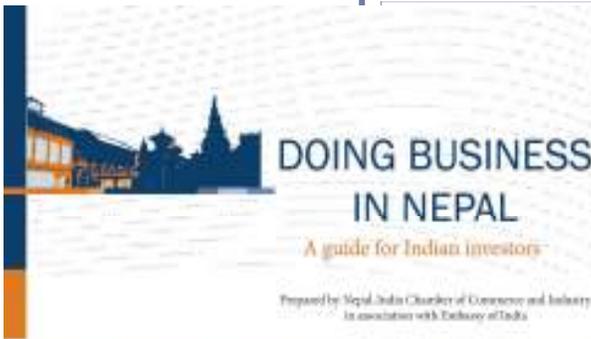
All data presented here is a part of the ongoing study of the Research Cell at NICCI, on the same topic, which will soon be ready for publication.

The data sources are the reports titled as: Economic Survey, Fiscal Year 2007/08 (2008), Government of Nepal (GoN) Ministry of Finance (MoF); Economic Survey, Fiscal Year 2008/09 (2009), GoN, MoF; Economic Survey, Fiscal Year 2009/10 (2010), GoN, MoF and the latest Economic Survey, Fiscal Year 2010/11 (2011), GoN, MoF.

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**For 2011, the first 8 months of the year are reflected here.*

CHANGING PATTERNS OF INVESTMENT (CONTD.....)



When Nepal has signed a BIPPA with India, will signing with China be far? Infact, many a voices are being heard urging Nepal to sign such a Promise of Investor friendly environment with more countries. Such voices must be backed with both the private sector and the public sector taking Initiatives to invite more and more foreign Investment in the Sectors that matter.

NICCI had begun this work of Attracting Investments form India through its initiative of publishing the 'Doing Business In Nepal : A Guide for Indian Investors' in July 2011. The response to this, both in Nepal and in India is indicative of its relevance and usefulness. A number of business Associations, Bilateral Chambers and Consultant firms are using this as the stepping stone and main source of some of their initiatives in this direction.

A 2nd edition, of this Guide, reflecting the recent Budget of the GoN and the new policies, regulations and other changes is ready for the Release too. Taking this Initiative a step further, NICCI would soon have on offer a sector wise kit of the Most Favoured Projects, MFP as it is being called now. This Investor Kit is designed to be a comprehensive, ready -to- go tool for interested investors.

Nepal has to look around for lessons in responding to this dynamic investment landscape. It is promising to note that 2/3rd of sub-Saharan African nations implemented reforms to improve their business climates. Rwanda

was the top reformer globally in 2008-09 in the World Bank's Doing Business Report. As Rwanda substantially improved its investment climate in recent years, its investment stock climbed from \$55 million in 2000 to \$412 million in 2009.

The promise of South Asian and the South East Asian region to transform their economies is even bigger!