

CHAPTER - 13

ECONOMICS OF DEVELOPMENT

MEANING:

Economic development is the development of economic wealth of countries, regions or communities for the well-being of their inhabitants. From a policy perspective, economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.

In its broadest sense, economic development encompasses three major areas:

1. Policies that governments undertake to meet broad economic objectives such as price stability, high employment, expanded tax base, and sustainable growth. Such efforts include monetary and fiscal policies, regulation of financial institutions, trade, and tax policies.
2. Policies and programs to provide infrastructure and services such as highways, parks, affordable housing, crime prevention, and educational programs and projects.
3. Policies and programs explicitly directed at job creation and retention through specific efforts in business finance, marketing, neighborhood development, small business start-up and development, business retention and expansion, technology transfer, workforce training and real estate development. This third category is a primary focus of economic development professionals.

CHALLENGES OF ECONOMICS DEVELOPMENT IN NEPAL:

Nepal is a small landlocked country having area 147181 square km with length about 500 miles and wide 100 miles, and population about 30 million with the annual population growth rate of 2.37 percent. She has neighbors China in the north and India in the south, east and west. Nepal is a developing country in the world with small size of the economy having Rs 550 billion GDP and \$ 561 per capita income in FY 2009/10. The gross domestic savings and investment are about 7 percent and 5 percent respectively, which are very low compared to other nations. Nearly one third of the people live below absolute poverty line in Nepal. Historically, Nepal hinges upon the foreign aid for its economic development. Because of the lack of infrastructure, small domestic market, and limited natural resources, Nepal's trade deficit is very high and widening rapidly over time. As a developing nation, Nepal has been facing several challenges in the path of economic development. There are so many development issues entailed to be addressed as far as possible through economic policy measures. These development issues and challenge can be outlined as follows.

1. Mass Poverty and Inequality:

Reducing the percentage of people below absolute poverty line, narrowing the ever widening poverty gap between rich and poor with implementation of the poverty reduction measures, at present, is one of the major development issues in Nepal. Data reveals that 25.4 percent Nepalese

people live below absolute poverty line in FY 2008/09 whereas inequality, measured by Gini coefficient, increased from 0.41 in FY 2004/05 to 0.46 in FY 2008/09. Alarming figure of extremely low per capita income and mass poverty present an awful image of the overall economic condition. Low growth rate about only 2 percent in the last 50 years period reveals the presence of the structural bottlenecks in the economy. Against this backdrop, one of the major development challenges to Nepal at present is to break the vicious circle of poverty and underdevelopment through rapid economic growth along with equitable distribution of the income.

2. Lack of Physical Infrastructure:

Inadequate and disproportionate development of the physical infrastructure like transportation, communication, electricity is also a major development issue which has retarded the overall development of the nation. Majority of the rural areas in Nepal have not been integrated into the mainstream of the economy because basic infrastructure including road, electricity, communication have not yet reached out to these areas. We have been facing the severe problem of energy crisis including huge burden of load shedding despite the huge hydroelectricity potential within the country. Failure to match demand with adequate production and supply of electricity has adversely affected all sectors of the economy. There is a lack of drinking water and inadequate development of the irrigation system within the economy. One of the challenges to the economy is, thus, how to develop adequate physical infrastructure in proportionate manner in the economy including expansion of the agricultural roads, access of remote districts to the road networks, production and supply of hydroelectricity as per the demand through the investment in this area.

3. Widespread Unemployment:

Issue of unemployment, disguised unemployment, and underemployment is also serious one. About 400000 workers are added annually in the labor market in Nepal. But, the opportunities for entrepreneurship, quality skill development and creation of employment opportunities are extremely low in the economy. We all know that youth force is one of the major prospective resources of our country. Unfortunately, because of the lack of employment opportunities within the nation Nepalese youth are compelled to engage in painful foreign unemployment. Brain drain of the educated and trained manpower is also alarming. Therefore, it has become a major challenge to generate employment opportunity for the youths including those who are marginalized from the mainstream of development and make all to participate in the process of development. In addition, the challenges in this sector are: producing the skilled manpower capable of competing in the international labor market, doing help and protection of workers going abroad for foreign employment, increasing access to employment opportunities for marginalized groups like women, Dalits, Tribes, Madhesis, disables etc., developing and creating the sector generating more employment.

4. Stagnation of Agriculture:

One of the major identified causes of underdevelopment and poverty is stagnation of agriculture. Despite agriculture sector being a source of employment for about 68 percent of manpower, its contribution to GDP is only 34 percent. Poverty is widespread among the people engaged in agriculture since the per capita output is low in agriculture. Since majority of the Nepalese people are engaged in agriculture, poverty alleviation is possible only when we are able to

increase agricultural productivity and shift the excess manpower from agriculture to other sectors of the economy by way of creating opportunities of gainful employment. Agricultural production still remains capricious due to high dependency on monsoon owing to weak irrigation facility. Nepalese agricultural sector has low competitiveness in the international arena because of the dearth of fertilizer, seeds, irrigation and other facilities necessary for raising productivity. Therefore, one of the prime development challenge to Nepal is to push up the agricultural growth alongside the increased agricultural productivity through various policy measures(like commercialization of the agriculture, expanding irrigation facilities, road networks, storage, fertilizers and inputs etc.) and to sustain its competitiveness by giving continuity to emphasis on investment and subsidy facilities being provided to this sector.

5. Economic Dependency:

Growing economic dependency of Nepal on foreign nation is one of the grave issue entailing solutions as far as possible. The trade deficit has been growing annually at an astronomical scale. We are importing not only capital goods but also the basic goods of daily necessities at large scale. Imports exceed exports by about 6 times resulting trade deficit of Rs 31352 crores. About 60 percent of total foreign trade has been with India in the last 10 years suggesting poor country wise trade diversification and excessively high dependency on India. In the national budget also, the huge portion is also funded by the foreign aid due to meager mobilization of the domestic resources. For example, about 10 percent of the budget in FY 2011/12 is expected to be funded through foreign aid. Since the outstanding foreign debt is also very high and at an ever increasing state, the debt servicing (principal repayment and interest) is in the growing trend. Balance of payment deficit was observed in FY 2009/10 for the first time in the previous eight years. It has resulted the gradual depletion of the foreign exchange reserve and exerted the pressure with added challenge of sustaining the external sector. Economic dependency is, thus, on rise in all sectors. In the face of economic dependency and time of transition, it a major challenge for Nepal to reduce such economic dependency and build nationally self-reliant economy.

6. Political Stability and Good Governance:

It is observed that corruption is rampant, in various forms and from the lower to the upper level of the government machinery. Since Nepal is in transition directed toward building a new constitution, she has suffered from the high degree of political instability including frequent changes in government, programs and policies, conflict due to presence of several interest groups. Problem of governance includes weak institutions and procedures, lack of ownership of development projects and programs, lack of accountability and mismanagement of the resources, deteriorating law and order, absence of well-functioning judicial system etc. Thus, the key challenge is to make peace process reach logical conclusion by building a new constitution based on common consensus and also in line with the aspirations of all class, caste, gender and the suppressed and neglected communities and region. In addition, creation of corruption free environment to ensure radical improvement in the public service delivery mechanism has become a challenge.

7. Low Level of Savings and Investment:

Slight concern of most of policy makers goes to the worst state of savings and investment. It is observed that Nepalese economy is slowly becoming consumption oriented because of increased flow of remittance income and thereby resulting hopeless drop in savings and investment rates.

For example, consumption to GDP ratio has been 93.3 percent in FY 2010/11, which has resulted savings rate down to 6.7 percent. Consumption oriented economy gradually leads to increased economic dependency on others resulting scarcity of resources for investment. Thus, it is a challenge to create the foundation of the economic growth through raising levels of savings and investment by discouraging unnecessary consumption.

8. Natural Resources Utilization:

One of the key development issues in Nepal is how to harness the natural resources available in the economy. We are rich in some resources such as water, forest, minerals etc. Nepal has about 6000 rivers and rivulets. Theoretical potential hydro power of Nepal is estimated to be about 83000 MW whereas sites those are technically feasible for development could generate 44000 MW. However, Nepal has so far been able to produce only a small fraction of this potential resource- only 697MW up to FY 2009/10. We have also minerals deposits of Iron, limestone, Zink and others in many places in the economy, but no detailed survey of these resources has been conducted yet. We have also land with different altitudes capable of producing several type cash and food crops, medicinal herbs, flowers, fruits; vegetables etc. Harnessing forest alongside bio-diversity could also become a potential resource. We can harness water resources through hydroelectricity generation and exporting it to India, and expanding irrigation and drinking water facilities. Nepal has been a tourists' paradise for many years because of incredible natural beauty and man-made to some extent. Nepal can create tourists magnetic atmosphere and can earn huge amount of foreign exchange if the government and private sector both take initiative in constructing tourism infrastructure development. It is also a challenge of developing a country as a tourist destination by conserving and expanding the existing tourists' locations with adequate publicity; and exploration, identification and expansion of the new tourist's sites. Thus, a major challenge to the economy is to harness available natural resources in optimum manner and preserve the renewable as well as non-renewable resources for future generation.

9. Human Resources:

Nepal has a huge potential of human resources, which, if utilized effectively, can be a major source for the factor of development. But, large portion of the people are still illiterate, and there is lack of skilled and trained manpower in the different field. Human development indicators are also very worse compared to other nations in the south Asia. Due to the lack of employment opportunities within the country, about 250000 people leave the country for foreign employment and the number is on the rise. Even though foreign employment is a major source of foreign exchange earnings and sustaining the BOP, we are supplying only untrained, unskilled or semi-skilled workers for foreign employment. It is also necessary to make this sector systematic and making institutional arrangement for imparting training and skill for raising the demand for Nepalese workers at the international level. Now it is a challenge of engaging the youths in the nation's development by creating employment opportunity within the country itself. Furthermore, one of the major challenges is to eradicate illiteracy by ensuring production of efficient manpower to cope with the need of the time and production and utilization of the manpower needed for the modern and developed economy.

10. Benefiting from Globalization:

The issue of taking advantage from liberalization and globalization is also a prominent one. Privatization of public enterprises and liberalization of the sectors like foreign trade, financial

sector are in progress. Nepal is a member of WTO, SAFTA and BIMISTIC. We cannot move ahead without the integration of our economy with global economy. Trade liberalization in Nepal has become only import liberalization because of the many reasons like poor infrastructure, low competitiveness of domestic products etc. The export sector is in the severe problems due to lack of physical infrastructure, failure in maintaining the set quality and standards in the production of exportable goods, failure to identify niche products and niche markets for export promotion, low competitiveness in the international market. There is lack of investment and trade friendly environments due to weak peace and security situation, uneasy labor relations, and shortage of energy in the country. Thus, raising the level of production and employment of the industrial sector by attracting domestic and foreign investment through investment friendly environment has become also a challenge. In the face of globalization, it is a challenge for our nation to take maximum advantage of greater degree of liberalization and globalization by ensuring appropriate policies, legal and structural reforms, adequacy of physical as well as administrative infrastructures etc.

In addition to the above mentioned issues and challenges, there are so many development challenges we are facing continuously in the path of building a well-advanced, egalitarian and discrimination-free society. In the financial sector, we are facing a problem of weak institutional governance of the financial institutions. Therefore, one of the challenges is to build financial sector strong and stable alongside making institutional governance and self-regulatory system of the banks and financial institutions effective. Addressing the issue of financial inclusiveness is also prominent one because of the difficulty in increasing access to banking and financial services of the ultra-poor, remote and rural areas. One additional challenge is of simultaneously sustaining both monetary and demand management for avoiding the undesired pressure on the price level. As a least developing country, Nepal has several development changes in its way of economic development, which needs immediate policy consideration and implementation from all Nepalese.

PROSPECTS OF ECONOMICS DEVELOPMENT IN NEPAL:

1. EMPLOYMENT TRENDS:

Economic transformation has been taking place in Nepal as the economy slowly moves away from the agriculture sector to other sectors. There is growing displacement of the labor force from the agriculture sector. This transformation has various implications for the national economy. The emerging labor market trends are as follows:

- ☑ The people are giving up their traditional family occupations like a cottage and small industries and informal farming. They are now attracted toward new occupations. These displaced agricultural workers thus need to be absorbed by other modern sectors.
- ☑ Due to shrinking employment opportunities in the rural areas, the population has now been migrating to urban areas for employment. Some people are even migrating abroad for employment.
- ☑ Immigration is also a factor that significantly influences the Nepalese population and labor forces. Over the past few decades, migration has grown gradually. This trend has an important impact on the composition of the labor force.

- ☑ The impacts of economic transformation taking place in the country can be observed by the development of the settlements along the highways. In many places, new townships have developed generation new employment opportunities for people.
- ☑ With the frequent rise in the literacy and educational level, the educated women are now seeking out employment opportunities. They continue to join the Nepalese labor force in record numbers. This trend provides business firms with more talent from which to choose.

The more diverse workforce has its advantages. However, organizations have to make certain that they provide equality and fair treatment with respect to employment, advancement opportunities, and compensation. Strategic plans must be made for recruiting, retaining, training, motivation and effectively utilizing people of diverse demographical backgrounds with skills needed to achieve the firm's mission. These demographic trends also lead to policies such as part-time employment, contract work, job sharing, child-care assistance, and flexible work schedules.

2. LABOR MARKET ISSUES:

Labor market mechanisms are crucial for the stability and productivity of the workforce. Particularly, the labor market regulations play a major role in these areas. In the context of Nepal, labor market regulatory frameworks are rigid and the quality of education is relatively lower. These regulations include the Labor Act, 1992, which prohibits the dismissal of permanent employees (i.e. all employees with more than 240 days of employment). In addition, minimum wages regulations cover skills categories in firms with more than 10 employees, the mandatory payment of 10 percent of profit to a workers' benefit fund. Rigid regulatory frameworks has thus been affecting labor market and productivity in the following negative ways (MICS, 20040):

- ☑ There is a disincentive for labor to be efficient and productivity.
- ☑ Business firms are inclined toward the use of a more capital-intensive system.
- ☑ There is a disincentive for firms to invest in training and education of their workforce.
- ☑ Business firms are inclined to employ Indian labor in highly skilled positions rather than Nepali workers.
- ☑ Performance-related pay and incentive system cannot be implemented due to trade union resistance.

Without labor market improvements, Nepal will find it difficult to increase competitiveness and formal sector employment significantly.

GLOBAL ECONOMY:

The international spread of capitalism, especially in recent decades, across national boundaries and with minimal restrictions by governments. The global economy has become hotly controversial. Critics allege that its props, free markets and free trade, take jobs away from well-paid workers in the wealthy nations while creating sweatshops in the poor ones. Its supporters insist that the free movement of capital stimulates investment in poor nations and creates jobs in them. The process is also called globalization.

1. PRIVATIZATION:

In general Privatization, means leaving the economy from government control to market. In the broad sense, privatization implies the policy meant to give the greater role to the market mechanism and lessen the government intervention in the economy. It means production of goods and services by NGOs or private limited. It covers various ideas and policies and evokes political reactions.

In the current scenario, privatization is an international phenomenon, and it is on the progress in every countries of the world. The prime purpose of privatization is to make industries competitive by transforming public sector ownership and control to the private sector. Privatization in fact, envisages the shifting of control or ownership of the means of production from the state to common people, so that these enterprises are not more under the domain of political system. Due to effectiveness and efficiency, the governments rely on private sector for commercial activities.

Political economist have interpreted, defined privatization differently,

- ☑ **World Bank (1988):** is broadly defined as increased private sector participation in the management and ownership of activities and assets controlled and owned by the government.
- ☑ **Mary Shirley:** not only the state of state assets but also privatization the management of state activities through contras and leases and contracting out activities that were previously done by the state.
- ☑ **Kikeri et.al.** Privatization is the transfer of responsibilities from the state to private sector of economy.
- ☑ **Rondinelli and nellis (1986):** it is the transfer of responsibility for certain government functions to nongovernmental organizations voluntary organizations community associations and private enterprises.

TYPES OF PRIVATIZATION:

There are five types of privations

1. **Mega:** advocates the concept of minimalist state and the reduction of stasis power in all sectors, dimensions and spheres and activating private sector in this direction.
2. **Macro privatization:** refers to the greater use of market forces and ensures maximum degree of competition reducing the active role of the state or state as regulator, facilitator welfare provider and producer.
3. **Micro privatization:** refers to the transfer of ownership of public assets/enterprises to private sector /individuals.
4. **Liberal democratic privatization:** refers to the process of privatization adopted in the liberal democratic system.
5. **Socialistic privation:** refers to the deregulation to enhance the competition among the various economic actors, reducing the role of all powerful or active state and converting it into a minimalistic state or state acting as simply facilitator than acting as initiator of development.

IMPORTANCE OF PRIVATIZATION IN NEPAL FOR RURAL DEVELOPMENT:

Our country Nepal has the experience of privatization since the period of Panchayat. The Panchayat government in order to meet the growing challenges of increasing the quality and quantity of basic services, facilities, basic needs of the people, particularly the rural poor, made a number of efforts and undertook several policies to invest public money in a number of governments owned, controlled and regulated enterprises. During the Panchayat period, some attempts were made to encourage the process of privatization. During the sixth five year plan period two public enterprises i.e. "Nepal Cehuri Ghee Plant" and "Chandeshwori Textile Factory" were privatized. In the year 1985, HMG attempted to privatize twelve PEs, which could not be materialized in practice.

With the formation of the first elected government in 1991 under the prime minister ship of G.P. Koirala in 1991, privatization policy got encouraged in different forms. Immediately after assuming power, the NC government in 1991 issued a policy paper on privatization as the integral part of its economic reform policy and consequently adopted certain policies, programs administrative mechanism and modalities for it. Three PEs i.e. "Bhrikuti Paper Mills", "Harisiddhi Brick and Tile Factory" and "Bansbari Leather and Shoe Factory" were sold to private individuals from India at cheap rate. The objectives of the phase wise program of privatization were reducing financial and administrative burden of government, improving operational efficiency and involving the participation of general public and the private sector in the management of public enterprises.

As privatization encourages industrialization, it also provides/ generates employment opportunities in private sectors. Privatizations helps the capable and competent persons/ firms to involve in economic activities and thus contributes in most calls, for the just distribution of wealth and income in society but the state has to check the trend of over contraction of capital in the hands of few economic elites and market actors. It may be process of converting black money into white money because it encourages private investment.

2. LIBERALIZATION:

Economic liberalization is taken as the reform processes directed at freeing economic agents and activities from state control. It may be associated with an enhanced role of the private sector as opposed to the state sector. Liberalization is simply to relieve the economy from governmental control and directives and to promote the private sectors. Liberalization is analyzed in terms of internal economic reform which can be discussed in terms of reforms in the fiscal and the financial sectors.

Liberalization according to John Black is a program of changes in the direction of moving towards a free market economy. This normally includes the reduction of direct controls on both internal and international transactions and a shift towards relying on the price mechanism to coordinate economic activities. In such a program, less use is made of licenses, permits and price controls, and there is more reliance on prices to clear markets. It also involves a shift away from exchange controls and multiple exchange rates towards the convertible currency. The extent to which an economy is controlled can vary greatly, liberalization is a matter of degree and does not imply a shift to total laissez faire. Liberalization is an act of freeing somebody from political or moral restrictions. According to "World Development Report 1996", liberalization means 'freeing prices trade and entry of markets from state controls while establishing the economy'.

IMPORTANCE OF LIBERALIZATION IN NEPAL FOR RURAL DEVELOPMENT:

The need and importance of liberalization in Nepal in post 1990 period was felt due to various reasons. The supporters of economic liberalization advocated that the existing government investment in most cases had proved unproductive and unfruitful to the people and the nation, consequently creating deficit budget every year. As the economic policies including market prices, production, consumption and distribution were government controlled, the private sector, and individual investors remained passive in economic activities often directly encouraging their capital to invest in foreign banks or invest outside the country in different forms. The supporters of liberalization advocate that it can reduce the growing government deficit every year.

The liberalized economic reform measures in post 1990 periods have played very significant roles in the economic life of Nepal. Its role in Nepal's particular context can be outlined as:

1. Since the economic liberalization measures in post 1990, Nepal have contributed to the all-round development and rapid economic growth inside the country, though economic development in Nepal in post days remained negatively affected by the political factor.
2. Like in other liberalized economics, liberalization in Nepal has also benefited people in different ways and has reduced the role of command economy.
3. Liberalization contributed much for the development of Nepal in different ways including improving the quality of Nepalese people and their living standard by generating income in different ways.
4. As liberalized economic reforms have encouraged the establishment of new industries or enterprises of new industries or enterprises, it would encourage the increase the volume of export items and contents, contributing to earn foreign currency and making economy self-sustaining.
5. Liberalization process has also contributed much to the utilization of country's existing resources and the development of raw materials based industries, new enterprises and business/ commercial activities.
6. The liberalization in Nepal has contributed to generate employment opportunities to Nepalese in new established enterprises, firms, industries and business houses.
7. The state owned enterprises, after liberalization process was encouraged and have also made several attempts to improve their working styles in course of competing with the private sector banks.
8. A number of financial institutions, aid services, film industries, media houses, insurance companies and joint venture companies in different sectors, travel agencies and man power companies were established which have brought positive impacts in Nepalese economy in different form including the increment in revenues and taxes.
9. It has promoted private sector, prices have been freed from government control and economy has been more or less stabilized.

3. GLOBALIZATION:

Globalization is a worldwide phenomenon and has become quite a fashionable term among political economist, planners, development practitioners, media persons, which generally means the free flow of ideas, information, goods and services. It is generally referred as the international flow of trade and capital, growing integration of economics and societies around

the world through free movements of goods, services, people, and information across boundaries. It has both descriptive and prescriptive interpretation. It refers to widening and deepening of international flow of trade capital and technology, ideology, culture and information within a single and integrated market and also involves the liberalization of national and global markets in the belief that free flow of trade, capital and technology, and information would produce box outcome of growth and human welfare.

Globalization is the process by which an activity becomes worldwide in scope. It is a process of integration of the world as one market. The free movements of the elements like information, economy, technology and ideas are well knitted production network help to create bigger market which in turn is expected to generate opportunities for product specialization. Globalization according to Todaro is the increasing integration of national economics into global markets.

Speaking from political point of view, globalization refers to the integration of national economy with the powerful global economy through a number of processes and measures including privatization, liberalization, marketization and liberal economic reforms, removing existing trade barriers consequently leading the world towards “one huge market” and increasing the process of “interdependence” among sovereign nation states on the ground of mutual interest and benefit. Globalization in most cases leads to an integrated global economy. The process of globalization ultimately converts the huge globe into a small global village. Structurally speaking, structural globalization refers to the activation of global economic actors including Britton woods institution, multinational corporations and enterprises virtually establishing their organization networks though out the world powerfully controlling the economy in the independent nation states.

IMPORTANCE OF GLOBALIZATION NEPAL FOR RURAL DEVELOPMENT:

Increasing globalization has direct/ indirect impact and consequences on individual, business groups, nation economy, political system, socio cultural and other sectors which may be both negative and positive. The major effects of globalization are on liberalized international trade, import penetration, foreign direct investment, multinational companies and competitive environment. In this connection, it would be appropriate to study the regional reaction to the increasing globalization. Late his majesty king Birendra addressing in the inaugural session of form for Asia in the capacity of chief guest, stated that this phenomenon of opportunities for economic and social development yet are facing a number of challenges on the same occasion. Chinese president Jiang Zemin viewed that the forum reflected the aspirations of the Asian countries for common development through enhanced dialogue and cooperation against the backdrop of economic globalization.

Malaysian Prime minister Mohammad Mahathir stated when the weak countries are forced to open their borders to globalization; giant banks and corporation would come in and destroy the small local counterparts. In such a terrible situation can the states ignore the growing wave of globalization and the answer would be strictly not because in today's globalize world, these nation states which are mostly the members of international community and have to depend on them on a number of sectors cannot get international support and thus cannot remain in complete isolation. Moreover, these states cannot explore and exploit the opportunities for economic growth and efficiency to the maximum possible extent provided by the increasing wave of globalization. They also need to protect their national interest, adjust with the changing

world, redefine their foreign policy, goals, objectives, strategies, interests, and re-orient their diplomatic practices in the light or context of globalization.

The only thing the small countries like Nepal in this context can do is that it can make attempts to minimize the negative impacts of globalization, increase its capability to cope with the changing regional and international environment. The factors responsible for global economic boom during the 1990's include growing economic interdependence, technological revolution and low transport costs, globalization, increasing gross national product, changing structure of world economy, increasing global trade, increasing foreign direct investment, foreign aid, increasing subsidies and current transfers.

Globalization has impacts on Nepalese economy in a number of areas both positive and negative ones. It attempts to widen or broaden individual attitudes, encourages tough competition and consumer satisfaction encourages access to global markets, increase in investment and improvement in quality of products influence on performances. However globalization in today's world is relevant to the Nepali context and has contributed much positive impact on rural development of Nepal. The Nepalese rural areas have taken better advantage of the process of globalization in a number of ways. Rural population have become conscious about their human rights including their right to development and right to protect their own clean and beautiful environment and protect rural natural resources.

CONCLUSION:

From the above discussion, it can be concluded that the process of liberalization, privatization, and globalization has done a lot and can do a lot for the development of the rural area of Nepal. For the development of the country, we should go from the rural area and should apply the weapon of liberalization, privatization and globalization properly. As most of the places of our country are rural, the development step should be started from the rural place and the media of liberalization, privatization and globalization can play a very important role in this step.

REGIONAL TRADE AGREEMENT:

Regional Grouping or Integration is a way in which neighboring states participate into an agreement in order to increase cooperation through common institutions and rules. The aim of the agreement could extend from economic to political to environmental, although it has particularly accepted the form of a political economy initiative where commercial interests are the center for achieving security and broader socio-political goals, as explained by national governments. Regional integration has been managed either via intergovernmental decision-making or through supranational institutional structures, or a combination of both.

Past efforts made at regional integration have often centered on reducing barriers to free trade in the region, improving the free movement of people, labor, goods, and capital across national borders, decreasing the possibility of regional armed conflict (for instance, through Confidence and Security-Building Measures), and accepting cohesive regional stances on policy issues, such as migration, the environment and climate change.

Regional integration has been explained as the way through which national states "voluntarily merge, mingle and mix with their neighbors so as to sleep off the factual qualities of sovereignty while achieving new techniques for resolving conflicts among themselves."

According to Van Langenhove, Regional integration initiatives should fulfill at least eight essential functions:

1. Making strong trade integration in the region
2. The creation of a proper enabling environment for private sector growth
3. The development of infrastructure programs in respect of regional integration and economic growth
4. The development of good governance and strong public sector institutions
5. The development of an inclusive civil society and the decrement of social exclusion
6. Contribution to security and peace in the region
7. The development of environment programs at the regional level
8. The increasing and strengthening of the region's interaction with other regions of the world.

Regional integration agreements (RIAs) have led to major developments in international relations among and between many countries, particularly increases in international trade and investment and in the arrangement of regional trading blocs. As fundamental to the multi-faceted way of globalization, regional integration has been an important development in the international relations of recent years. As such, Regional Integration Agreements has achieved high importance. Not only some nations, almost all the industrial nations part of such agreements, but also a large number of developing nations too are a part of at least one, and in cases, more than one such agreement.

The quantity of trade that takes place within the scope of such agreements is about 35%, which calculates to more than one-third of the trade in the world. The main goals of these agreements are to decrease trade barriers among those concerned nations, but the structure may differ from one agreement to another. The liberalization or removal of the trade barriers of many economies has had double impacts, in most of the cases increasing Gross domestic product (GDP), but also leading in the larger concentration of wealth, global inequality and an increasing frequency and intensity of economic crises.

REGIONAL TRADE AGREEMENTS IN SOUTH ASIA:

1. SAARC (THE SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION):

The South Asian Association for Regional Cooperation (SAARC) is an economic and geopolitical organization of eight countries that are primarily located in South Asia. The SAARC Secretariat is based in Kathmandu, Nepal. SAARC nations are having 3% of world's area and in contrast having 21% (Around 1.7 Billion) of world's total population. India makes up over 70% of the area and population among these eight nations. The idea of regional political and economical cooperation in South Asia was first raised in 1980 and the first summit was held in Dhaka on 8 December 1985, when the organization was established by the governments of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Since then the organization has expanded by accepting one new full member, Afghanistan, and several observer members.

The SAARC policies aim to promote welfare economics, collective self-reliance among the countries of South Asia, and to accelerate socio-cultural development in the region. The SAARC has developed external relations by establishing permanent diplomatic relations with the EU

(European Nation), the UN (United Nation) and other multilateral entities. The official meetings of the leaders of each nation are held annually whilst the foreign ministers meet twice annually. The 18th SAARC Summit was finished in Kathmandu in November 2014.

The guiding principles of SAARC are:

1. Respect the principles of sovereign equality, territorial integrity, political independence, non-interference in internal affairs of other States and mutual benefit.
2. It is no substitute for bilateral and multilateral cooperation but complements them.
3. Its obligation shall not be inconsistent with bilateral and multilateral obligation; the charter excluded bilateral and contentious issues from its deliberations.

Its Goals and Objectives:

1. It promotes quality of life and economic growth in the region.
2. It strengthens collective self-reliance.
3. It encourages active collaboration in economic, technical and scientific fields.
4. It aims at increasing people to people contact and sharing of information among the SAARC members.
5. It aims at increasing people to people contact and sharing of information among the SAARC members.

2. BIMSTEC (BAY OF BENGAL INITIATIVE FOR MULTI-SECTORIAL TECHNICAL AND ECONOMIC COOPERATION):

The Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC) is an international organization involving a group of countries in South East Asia and South Asia. These countries are: India, Sri Lanka, Bangladesh, Myanmar, Thailand, Nepal and Bhutan. On 6 June 1997, a new sub-regional grouping was established in Bangkok and given the name BIST-EC. Myanmar attended the inaugural June Meeting as an observer and participate the organization as a full member at a Special Ministerial Meeting held on 22 December 1997 in Bangkok, upon which the name of the grouping was altered to BIMSTEC. Nepal was given observer status at the second Ministerial Meeting in December 1998 in Dhaka. Later on, full membership has been provided to Nepal and Bhutan in 2003.

On 31 July 2004, in the first Summit, leaders of the group believed that the name of the grouping should be called as BIMSTEC or the Bay of Bengal Initiative for Economic Cooperation and Multi-Sectorial Technical and. BIMSTEC Headquarters established by Bangladeshi Prime Minister Sheikh Hasina (13 September 2014) and is situated in Dhaka, Bangladesh and the main aim of BIMSTEC is economical and technological cooperation among southeast Asian and south Asian countries along the coast of the bay of Bengal . Investment, human resource development, leather commerce, technology, tourism, agriculture, communication and transport, textiles, fisheries, etc. have been involved in it.

➤ **BIMSTEC Priority Sectors:**

BIMSTEC has 14 priority sectors that enclose all areas of cooperation. 6 priority sectors of cooperation were determined at the 2nd Ministerial Meeting on 19 November 1998 in Dhaka. They include the following:

1. Communication and Transport, led by India

2. Investment and Trade, led by Bangladesh
3. Energy, led by Myanmar
4. Technology, led by Sri Lanka
5. Fisheries, led by Thailand
6. Tourism, led by India

Since 2005, The Asian Development Bank has become BIMSTEC's development partner, to operate a study which is designed to improve transport infrastructure and help promote and logistic among the BIMSTEC countries. So far, ADB has already completed the project so called BIMSTEC Transport Infrastructure and Logistic Study. The final report of the said study from ADB has already been suggested to all members and being waited for the feedback. Other fields of cooperation will be designed later on. Its headquarters is located at Mandaluyong, Philippines

➤ **BIMSTEC Free Trade Area Framework Agreement:**

Free Trade Area Framework Agreement in order to stimulate investment and trade in the parties, and attract outsiders to trade with and invest in BIMSTEC at upper level. Except for Bangladesh, all members because of domestic procedure became signatories to the Framework Agreement in the 6th Ministerial Meeting, as witnessed by the Prime Minister of Thailand and BIMSTEC's Foreign Ministers. Later on, Bangladesh joined the Framework Agreement on 25 June 2004. The Trade Negotiating Committee (TNC) was maintained and had its 1st 'Khyoiujholiach country's chief negotiator act as TNC's spokespersons, while TNC's chairperson will inform the result via STEOM to the Trade and Economic Ministerial Meeting. TNC's negotiation areas enclose trade in services and goods, economic cooperation, investment, as well as trade assistance and also technical assistance for LDCs in BIMSTEC. It was believed that once bargaining on trade in goods is finished, the TNC would then proceed with bargaining on trade in investment and services.

3. SAPTA (SAARC PREFERENTIAL TRADING ARRANGEMENT):

The Sixth Summit held in Colombo in December 1991, approved the development of an Inter-Governmental Group (IGG) to regulate an agreement to develop SAARC Preferential Trading Arrangement (SAPTA) by 1997. The given consensus within SAARC, the Agreement on SAPTA was signed on 11 April 1993 and participated in force on 7 December 1995 well in advance of the date provided by the Colombo Summit. The Agreement shows the desire of the Member States to sustain and encourage economic cooperation and mutual trade within the SAARC region through the interchange of concessions.

The basic principles underlying SAPTA are:

- Overall mutuality and reciprocity of advantages so as to advantage equitably all Contracting States, taking into consideration their respective level of industrial and economic development, the process of their external trade and tariff systems and policies;
- Bargaining of tariff reform step by step increased and enhanced in successive stages through periodic reviews;
- Identification of the special needs of the developing States and agreement on practical preferential process in their favor; and
- Involvement of all manufacturers, products and commodities in their raw, semi-processed and processed forms.

There are four rounds of trade negotiations have been defined under SAPTA enclosing over 5000 commodities. Each Round dedicated to an incremental trend in the product coverage and the intensifying of tariff concessions over previous Rounds.

4. SOUTH ASIAN FREE TRADE AREA (SAFTA):

The South Asian Free Trade Area (SAFTA) is a contract made on 6 January 2004 at the 12th SAARC summit in Islamabad, Pakistan. It is created with the motive of a free trade area of 1.6 billion people in Bangladesh, Afghanistan, Bhutan, India, Maldives, Nepal, Sri Lanka and (as of 2011, the total population is 1.8 billion people). The seven foreign ministers of the region signed a framework agreement on SAFTA to decrease customs duties of all traded goods to zero within the year 2016. The SAFTA agreement came into an act on 1 January 2006 and is operational following the confirmation of the agreement by the seven governments. SAFTA needs the developing countries in South Asia (Pakistan, India and Sri Lanka) to carry their duties down to 20 percent in the first stage of the two-year period ending in 2007. In the final five-year stage ending 2012, the 20 percent duty will be decreased to zero in a series of annual cuts. The least developed nations in South Asia (Bhutan, Nepal, Bangladesh, Maldives and Afghanistan) have an additional three years to decrease tariffs to zero. Pakistan and India provided the treaty in 2009, whereas Afghanistan as the 8th member state of the SAARC provides the SAFTA protocol on the 4th of May 2011.

SAPTA was predicted primarily as the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading eventually towards a Common Market, Customs Union and the Economic Union. In 1995, the Sixteenth session of the Council of Ministers agreed on the requirement to struggle for the realization of SAFTA and to this end, an Inter-Governmental Expert Group (IGEG) was set up in 1996 to define the necessary steps for developing a free trade area. The Tenth SAARC Summit (Colombo, 29-31 July 1998) come up to set up a Committee of Experts (COE) to draft an all-around treaty framework for creating a free trade area within the region, taking into discussion the irregular in development within the region and supporting in mind the demand to fix achievable and realistic targets.

➤ Purpose Of The Agreement:

The aim of SAFTA is to persuade and elevate usual contract among the countries such as long term and medium contracts. Contracts including trade operated by states, supply and import assurance in regard to particular products etc. It includes agreement on tariff concessions like national duties concession and non-tariff concession.

➤ Objective:

The main objective of the agreement is to encourage competition in the area and to give equitable benefits to all the involved countries. It aims to advantage the people of the countries by bringing integrity and transparency among the nations. SAFTA was also established in order to improve the level of economic cooperation and trade among the SAARC nations by decreasing the barriers and tariff and also to provide special importance to the Least Developed Countries (LDCs) among the SAARC nations.

➤ **Instruments:**

The instrument involved in SAFTA is: Rules of Origin, Consultations and Dispute Settlement Procedures, Safeguard Measures, Trade Liberalization Programmer, Any other instrument that may be agreed upon and Institutional Arrangements.

MULTINATIONAL COMPANIES:

Multinational companies are like the tree which has multiples branches having one operating root. Multinational companies are entering too many countries due to the international trade act of globalization. Every entity has right to cross the border with their product and services all around the world. No, any intervention can be done by the nation because of it's the rule of international trade. That is why we can see then, various foreign companies have rooted their business in Nepalese territory with product and services. They may have different product and services and some have substitute goods, while some are doing the business of complementary goods.

If we talk about the features and their grounding in the landlocked country like Nepal, then they have captured the large Nepalese market with their product features and facilities. Many names come in the list racially when we put our eyes on multinational companies. Many have also said that Nepalese economy is handling and existing the pressure of economic fluctuation and surviving due to their paying of tax to the government of Nepal. A lot of multinational companies is day by day entering to Nepal with their huge capital, unique technology and substitute and well as complement goods and services which is also helping the country to move towards the national development in every sector.

Multinational companies are important factors in today's international business. They are the outgrowth of international business. They control and manage a large part of world's productive assets. They are created by the foreign direct investment.

Multinational companies are giant enterprises. They operate across national boundaries. They have headquarters in a home country with business operations in several countries. The home country is mostly a developed country. The host countries are generally developing countries anywhere in the world

CHARACTERISTICS OF MULTINATIONAL COMPANIES:

Multinational companies have the following characteristics:

1. Big Size Business:

Big Size Business is one the characteristics of multinational companies. They are giant business enterprises. They are big in size and high in complexity. They command huge resources and capabilities. However, smaller firms can also operate as multinationals.

2. Multi-country Operations:

Multi-country Operation is one the characteristics of multinational companies. They operate in two or more countries. Their operations are diversified. They can have production, service, marketing or other types of operations. They have a geographically dispersed portfolio of investments. They treat the world as one market.

3. Various Environments:

Various Environments is one the characteristics of multinational companies. They operate in various host country environments. The environments provide the context in which they operate. Political-legal, economic and socio-cultural forces vary from country to country. The sources of laws and regulations are multiple. Cultural differences are pronounced.

4. Centralized Ownership and Control:

Centralized Ownership and Control is one the characteristics of multinational companies. The ownership and control are centralized. The managerial headquarters are located in the home country. Resource transfers are done from a common pool of resources between home country and host countries. They are integrated with local resources. MNCs repatriate profits to the home country.

5. Multiple Currencies:

Multiple Currencies is one the characteristics of multinational companies. They deal in multiple currencies of host countries. The values of these currencies keep changing. The risks of future exchange rate shifts are high.

6. Common Strategic Vision:

Common Strategic Vision is one the characteristics of multinational companies. MNCs have a common strategic vision. All their operations in various host countries are linked together by this common strategic vision. Their management has a geocentric orientation. It is globalized.

TYPES OF COMPANIES:

- **Multinational Company (MNC):** It is a company that takes a global approach to foreign markets and production. It is willing to consider market and production location anywhere in the world. It lies operations in more than two countries.
- **Transnational Company (TNC):** UNO uses this term for MNCs. It means a company in which capabilities and contributions differ by country but are developed and integrated into worldwide operations.
- **Global Company:** It has operations in many countries of the world. The home country integrates the operations located in different countries.

SOME OF THE MULTINATIONAL COMPANIES OF NEPAL ARE:

1. Unilever Nepal:

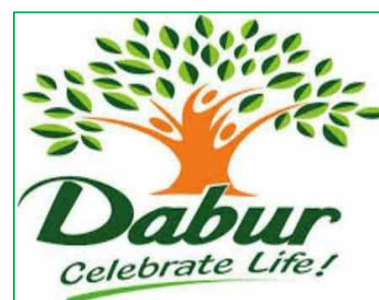
It is an old multinational company which is doing their business with many products and making their branches and product expansion day by day in the large circle. In Nepal, it is selling many products of national production or by importing the international product. Its brand has well valued and has gained the trust of Nepalese customer. As it deals with multiple products, Nepalese do not want to get connected with other for using or choosing the next one. There are many customers who also comment on its product but the huge group is using the product happily. Approximately, it is treated as one of the top largest companies selling over 100 items in every shop.



Unilever product includes Sunsilk Shampoo, Soap, Ice-cream, Salt and flour, Foods and Beverages, Tea, Coffee, Milk, Cooking oil, Lighter, Butter jams, Soups, Smoked Sausage, Dove Shampoo, Surf, Magnum, Surf Excel, Persil Rexona, Sure Degree Shield etc. in large quantities. The company is serving the product services in Nepal from long time its products include foods, beverages, cleaning agents and personal care products. The company have drawn good remarks in almost Nepalese community by their well-known product and have become able to gain the trust and trapped the emotion in their own hands by the influence of products consequences. There are many product which are familiar to most of the groups. Unilever have make connected to every homes by any of their classified products. Unilever Nepal is treated as one of the largest conglomerates in south Asia as it is expanding their productive and services wings more and more part of Nepal. Unilever is also selling their product in more than 50 country including USA, Germany, UK, Brazil, India etc.

2. Dabur Nepal:

There are only few person who has not used the product of Dabur Company and those who has not used the product of Dabur Company have surely listen its name. It is popular company across Nepal and India by their product influences and reaching in almost every home through any of its company marked product. It is mostly famous for their Ayurvedic medicine and product which is very much useful and beneficial. The company have drawn the shining image in the mirror of Nepal and Indian market. Dabur is very much popular product and mostly the medicine is used by many patients who mostly trusts on Ayurveda.



Dabur's ChawYanprash is one of the high qualitative and most deserving product that is supplied and sale in Nepal by hiring the brand ambassador Rajesh Hamal, the Megastar of Nepal. In Nepal, also it has able to made and capture the large market by its product features and quality. The product of Dabur company is especially very much favorable and even affordable by lower class to higher class people. It mostly deals with biotech and Pharma industry.

Dabur has started their business in Nepal by 1989 having prospection relating to manufacturing, fabricating, or processing of drugs in pharmaceutical preparations for human or veterinary use but later on increases its expansions sectors in other relevant fields too. Dabur's Healthcare Division has over 260 products for treating a range of ailments and body conditions, from the common cold to chronic paralysis dealing and picking out the people from their suffered problem because of the impact of the product released from its hub. Dabur is also one of the top multinational companies of Nepal working the sector of Health, Digestives, Foods, Home care, Personal care Ayurvedic medicines in Nepal and renovating the health of Nepalese people.

3. Coca-Cola:

It would be not be wrong if we say Coco-cola is one of the largest beverage company in the world. Coca-Cola has made its different remarks in the mind of customer. Its beverage is found easily in almost every country and every part due to its easily supplying and roots establishment. According to the reports and research, 98% of American drink Coca-Cola. Its tastes is popular all over the



world. Nevertheless, there is saying by many people that, its tastes is different according to the country. In developed country, it has superior taste while in developing and undeveloped country it has other tastes.

Turning the story towards the Nepal in the therapy of Coca-Cola, it has able to make the Nepalese addict too by its flavor or tastes by giving the slogan "Chiso Vanekai Coca-Cola", that means cold means Coca-Cola. It has ranked its name in the top under the FMCG companied leveling its level in high speed. Coca-Cola has able to acquire the large groups mostly the youth by providing the taste of thunder in a different pack from small, bottle to jumbo pack by giving the additional offers and other schemes in its buying. When people needs the breakfast they also add or ask for Coca-Cola. Coca-Cola is high-level multinational companies which are operating its server in many countries by providing the different tastes in beverages. When people get thirsty, their minds first notice them for Coca-Cola.

4. Pepsi:

It is the competitor of Coca-Cola and also standing in the Nepalese market with its own taste of beverages. Pepsi is also the largest beverage company which is operating its network from the USA. Pepsi is the substitute of Coca-Cola because both are in same version and same color even almost having the same taste. But there is a great difference in Pepsi and Coca-Cola as said by the manufacturers. Pepsi has also trapped the huge market and has listed their name under the FMCG Company. The company is also producing the other beverages but the Pepsi has taken the large market due to its high demand due to sweetness in taste. The taste has understood the demand of the tongue of Nepal too.



Pepsi is also one of the largest beverage suppliers of Nepal having the unique version of bottling and packaging and also different schemes. It has also achieved the high reputation in Cola world. It is producing the beverage in many variants like Diet Pepsi, Pepsi Wild, Cherry Crystal Pepsi, Caffeine-Free Pepsi, Pepsi-Cola Made with Real Sugar, Pepsi Vanilla Pepsi, Zero Sugar, Pepsi Next, variants are popular according to country basis. Once it was also the situation when the Coca-Cola Company has given offers to the Pepsi for purchasing it but they declined their offer. They have made their own umbrella in the world of beverages. Thus, it is also one of the top multinational companies of Nepal having their own standard and stamps in the Nepalese market in the sector of beverage. Pepsi has acquired the largest choices of youth who are mostly interested to get together with friends and in celebration ceremony.

5. L.G. Television:

There are many television company in the Nepal but the LG television has made the qualitative remarks in the mind of Nepalese customer. LG is one of the oldest brands of Nepal and serving from 22 years in various forms of electronic goods. LG has multiple product in electronic forms that is helping people to buy at cheap and affordable rates having qualitative installation inside. LG television has created his own unique appreciation and brand by giving the modern technology in screen of television and its m internal programming. LG is one of the most selective and favorable brand that Nepalese mostly want to purchase it due to its long life of existence. Due to its assembling and production in Nepal,



it's also easy to find out the parts in the case of any error and default. LG is also running its systems and approach to the surveillance of group.

And we know that CG group is one of the leading brand of Nepal which has able to reach in very homes through any electronic goods even affordable characteristics. CG has made the Nepalese trusted and followed the brand LG and CG products. LG has been able to acquire the No. 1 position in Nepalese market through its effective product that has made people more likely to use and purchase by its working phenomenon. LG is also multinational companies which has made its roots and qualitative fruits in the means of product in Nepalese market. LG has made its brands more auspicious through technology that is mobile and other electronic goods like refrigerator, television, iron etc.

FOREIGN DIRECT INVESTMENT:

Foreign Direct Investment (FDI) can be defined as the process of controlling business enterprise in one country by an entity based on other country. It may include merge and acquisition, building new facilities, reinvestment of profit earned from overseas operation and intra company loans. FDI helps in free movement of capital, technology and resources. In simple term, foreign direct investment are those investment made by company or entity based on one country to other foreign country. Such investment are typically differ from indirect investment like portfolio investment, where foreign company investment in equity listed in national stock exchange. But here on direct investment investors do have certain degree of control and influence over the company.

TYPES OF FDI:

1. **Horizontal FDI:** This type of FDI occurs where home country Firms duplicates its activity at same value chain with host country.
2. **Platform FDI:** When FDI is made by host country to destination country with the propose of exporting to third country.
3. **Vertical FDI:** Such type of FDI arise when activity between two firms duplicates at different value chain.

METHODS OF FDI:

1. By establishing fully owned subsidiary or company anywhere.
2. Merge and acquisition
3. Equity joint vendor with another investors or enterprise
4. Reinvesting profit earned from foreign investment.

It reflects the long term relationship between investors and investing company with the involvement of investors in the management of the company. FDI here is an important source for developing countries like Nepal where there are plenty of resources but lacks capital, technology and management capabilities.

Foreign investment are categorized into foreign portfolio investment and foreign direct investment. Portfolio investment are equity of investment without control on the management of the entity. Whereas FDI are direct investment on the entity with certain degree of control along with the inclusion of technology, skills and other required resources.

FDI is relatively new term for the global economy. It was introduced in early 19th century and its growth and development continued over the period since first UN development decade in 1960. Along with its development voice against and for of FDI have been raised. Some argued that it is totally unhelpful, threat to national sovereignty and culture and most of the time transfer inappropriate technology to the developing country.

MERITS AND DEMERITS OF FDI:

Merits:

- Helps to raise the level of investment. FDI often helps to fulfil the gap of desired investment and locally available saving .Generally in country like Nepal capital for large project cannot be raised locally.
- Technological transfer is an important aspect of foreign direct investment. It helps to upgrade the technological standard in developing countries.
- Helps in the employment generation with the establishment of larger projects.
- Provide benefits to the local customer with new, innovative and quality product.
- Helps in the proper utilization of unused resources.
- With the industrial development, export of the developing countries increases which helps in balance of payment.
- Finally FDI helps to generate revenue to host country government through various taxes.

Demerits:

- Can hamper in the growth and development of local industries.
- Benefits to host country might be very less due to liberal tax policy, investment allowance, tariff protection etc.
- Foreign firm may over exploit the available natural resources.
- Sometimes foreign firm do have negative impact on the socio- cultural aspect of host country.
- With large size and huge capital, they have bargaining power with the government of host can influence the political decision. Moreover in developing countries they can be close to certain political party to have undue favor. Hence it can be threat to national sovereignty

FDI IN NEPALESE CONTEXT:

Till now Nepal had attracted modest FDI in niche sectors such as tourism, herbal products, mineral deposits (lime stone), and light manufacturing apparel; hydropower and that it had positive impacts on exports, particularly garments. Similarly FDI has also facilitated the country to export non-traditional manufactured products such as micro-transformers and personal consumer products (Te Velde and by UNCTAD 2006) Investment is basically concentrated in low-technology and labor-intensive production.

The impact of FDI had in job creation is below moderate. According to the study, the inflow of FDI has been constrained by political instability, geographical structure, rigid labor regulations and poor physical infrastructure. This situation remains current due to political instability and phase of political transition. Foreign investment in Nepal is regulated, monitored and controlled by foreign investment and technological transfer and industrial enterprise act. The department

of industry (DOI) is responsible to implement and administrate foreign investment and technology transfer act in Nepal.

Foreign investment in Nepal can be in various forms as listed below:

1. Equity/ investment in share
2. Reinvestment of earning from dividend
3. Investment in kinds. Example: equipment and machineries
4. Investment made in forms of loan and loan facility

Any investment below US dollar 50,000 (NRP 50000000) per investors is not approved for investment. By act there are some defined sectors where 100% equity share cannot be obtained by foreign investors. They are:

1. Cottage industry
2. Personal service business
3. Radioactive materials
4. Real estate.(except construction)
5. Film
6. Security printing
7. Arms and ammunition
8. Bank notes and coins
9. Retail except international chain retail
10. Tobacco
11. International courier
12. Atomic
13. Poultry
14. Fishery
15. Bee keeping
16. Processing of food grains
17. Consultancy
18. Local catering service
19. Rural tourism

Each investors should go through certain procedure to set up the entity. Brief of procedure are as:

- Need to obtain of Department of industry for foreign Investment.
- Incorporate the company at company register's office.
- Industry register in department of industry.
- Obtain PAN from inland revenue office
- Register trademark, design, patent etc. at DOI.

WORLD TRADE ORGANIZATION:

World Trade Organization (WTO) is a worldwide legally accepted organization for maintaining trade relation among different countries. The organization officially commenced on 1, January 1995. Nepal got the membership on Baisakh 11, 2061 B.S. from WTO. Nepal is 147th member of WTO. WTO helps in setting trade disputes among countries and creates a healthy environment for trading globally.

The organization deals with regulation of trade between participating countries by providing a framework for negotiating and formalizing trade agreements and dispute between the participatory countries. The head office of WTO is situated at Geneva, Switzerland.

WTO helps and promotes world trade. It works for the implementation and operation of the various agreements made among two different countries. It monitors the trade policies, rules of the member country and helps in the improvement. It conducts various programs for the livelihood upliftment and ensuring employment opportunities for the people of the member countries.

WTO facilitates in increasing the production and productivity and increasing the income level of the ordinary people. Recently, WTO is active in ensuring food security in most of the countries of the Africa. It determines the Terms of Trade, International Policies, and Rules for Global Trade.

BENEFITS OF WTO IN NEPAL:

- Market access opportunities
- Policy stability
- Attract foreign direct investment
- Gearing up domestic institutional capability
- Benefits of positive discrimination
- Establishment of trade and transit rights

Opportunities for WTO membership:

- Government will become more rational in decision-making
- Rent seeking activities will decrease
- Problem of transit will be less
- Provisions of technical support
- Access to markets, duty-free-quota-free access among member countries

WTO CHALLENGES FOR DEVELOPING COUNTRIES

- Improving national policies
- Amending some laws and developing new laws
- Changing trade administration attitude
- Human resource development and infrastructure development
- Quality control of goods and services