

## Closing Case: Investment Regimes in Nepal and Bhutan

Nepal and Bhutan are India's neighbour and constitute an integral part of South Asian Association for Regional Cooperation (SAARC). With the evolving investment regime in India, it is imperative that we understand the same in context of Nepal and Bhutan. A harmonisation of investment regime, though a distant reality, would definitely lead to more FDI inflows in South Asia.

Also, it is important to note that both Nepal and Bhutan are least developed countries (LDCs) and get preferential treatment by many developed and developing countries under the multilateral trading system.

### *Nepal*

It was in the year 1987 that Nepal enacted its Investment and Industrial Enterprise Act. This act was instrumental in developing an institutional framework for investment. It focused on joint ventures as a preferred mode of investment and attracted FDI inflows to the medium and large-scale industries.

Nepal's Ministry of Industry has a Foreign Investment Promotion Division (FIPD) that is mandated to grant approval for the new projects. A 100% foreign equity was allowed in such large-scale industries, which export 90% of their total industrial production. Also, 50% foreign equity was allowed in medium-scale industries.<sup>19</sup>

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19. Ramesh, C. and Weiss, J., 'Foreign investment in Nepal in the 1980s: A cost benefit evaluation', *The Journal of Development Studies*, 31(3), 1995.

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Some of the sectors which are open through either equity or joint ventures (JVs) include the following:

1. Agro-based industries
  2. Manufacturing
  3. Tourism
  4. Services
  5. Mineral-based industries
- Foreign investments are not allowed in the sectors including cottage industries, real estate, and those related to defence.
- Some of the characteristics of the investment regime in Nepal include the following:
1. It provides incentives for export-related industries.
  2. Such incentives could be relaxations or exemptions in taxation.
  3. Process patent have been protected in case of IPR.
  4. Product patents are yet to comply to the international commitments.
  5. Institutional framework for investment need to be strengthened in terms of protection of investor's rights.

## **Bhutan**

Bhutan is another South Asian country, which is continuously improving its investment climate. The country has a unique concept of maximising gross national happiness, which actually guides its development interventions. Tourism is a major sector attracting FDI to Bhutan largely through JVs.

The Royal Government of Bhutan has adopted FDI policy in 2010.

The policy outlines that the FDI calls for encouraging FDI to contribute to the following:<sup>20</sup>

1. Investments in services that promote Brand Bhutan
2. Development of green and sustainable economy
3. Promotion of socially responsible and ecologically sound industries
4. Creation of a knowledge society
5. Promotion of culturally and spiritually sensitive industries

Some of the key features of this policy are listed below:

1. It provides for the protection of IPRs, as it is a member of World Intellectual Property Organisation (WIPO) and is also a signatory to Paris Convention, Madrid Agreement and Berne Convention.
2. It provides the guarantee to the foreign investors in terms of equal treatment.
3. It calls for carrying out nationalisation or expropriation in a non-discriminatory manner.
4. The Policy also provides incentives related to taxation.

Table 1 gives an account of the FDI inflows in Nepal and Bhutan as compared to some other South Asian economies including India.

20. FDI Policy 2010 document, Ministry of Economic Affairs, Royal Government of Bhutan, [http://www.wti.dit.gov.bt/sites/default/files/FDI%20POLICY%202010\(new\).pdf](http://www.wti.dit.gov.bt/sites/default/files/FDI%20POLICY%202010(new).pdf)

**Table 1 FDI Inflows in Select South Asian Countries (US\$ million)**

Countries	1990	2000	2005	2008	2009	2010	2011
Afghanistan	-	0.0	271.0	94.0	76.0	211.0	83.0
Bangladesh	3.0	579.0	845.0	1,086.0	700.0	913.0	1,136.0
Bhutan	2.0	0.0	9.0	7.0	18.0	16.0	14.0
Nepal	6.0	0.0	2.0	1.0	39.0	87.0	95.0
India	237.0	3,588.0	7,622.0	43,406.0	35,596.0	24,159.0	31,554.0

**Source:** World Investment Report 2012, UNCTAD.

Some of the potential sectors for attracting foreign investment to Bhutan include power projects, hydropower, construction, communication, airports infrastructure, etc. In case of Nepal, the potential sectors include tourism, services, hydroelectric power generation, manufacturing, pharmaceuticals, transport, communications, financial services, etc.

**Source:** This case is written by the authors based on inputs from the following sources:

1. FDI Policy 2010 document, Ministry of Economic Affairs, Royal Government of Bhutan, [http://www.dit.gov.bt/sites/default/files/FDI%20POLICY%202010\(new\).pdf](http://www.dit.gov.bt/sites/default/files/FDI%20POLICY%202010(new).pdf)
2. C. Ramesh and J. Weiss, 'Foreign investment in Nepal in the 1980s: A cost benefit evaluation', *The Journal of Development Studies*, 31(3), 1995.

## CASE QUESTIONS

1. Find out the most recent developments in the FDI regime in Nepal.
2. Examine Bhutan FDI Policy 2010 in detail and find out its major provisions.