

Non-Resident Nepalis as Investors in Nepal

An attempt to assess the real opportunities they offer

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On this paper

This paper was written as *Facharbeit*, a thesis which is obligatory in grade twelve of German grammar schools. Its purpose is to make the students familiar with scientific research and writing.

No own field research was conducted, this paper is merely the product of the few weeks of research in libraries and the internet that were allowed under the regulations for the *Facharbeit*.

The paper was given 14 out of 15 possible points, equalling the American grade A.

On the author

Basanta Thapa, born 1986 in Bamberg, Bavaria, is a German high school student with Nepali roots. He has made several trips to Nepal and knows the Nepali community in Germany. He also is layouting editor for the magazin *Nepal Information*.

His special interests are geography and development studies, which he also plans to study.

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Basic facts on Nepal

History

First of all, it is important to understand that in ancient and medieval times, Nepal meant merely the Kathmandu Valley and the rulers of Nepal were only the rulers of the valley, not necessarily of other territories that belong to modern Nepal.

Early history and the Kiranti

“[It seems], as if the Indo-European immigration from the south can be dated between the 10th and 7th pre-Christian century.”¹

The area of Nepal belonged probably between the 7th century BC and the 2nd century AD to the kingdom of the Kiranti, a Tibeto-Burmese people. “In those days Nepal had become a trade centre for the traders of distant countries like India, Tibet and China. This contact with foreigners led to the moral and material progress of the country.”²

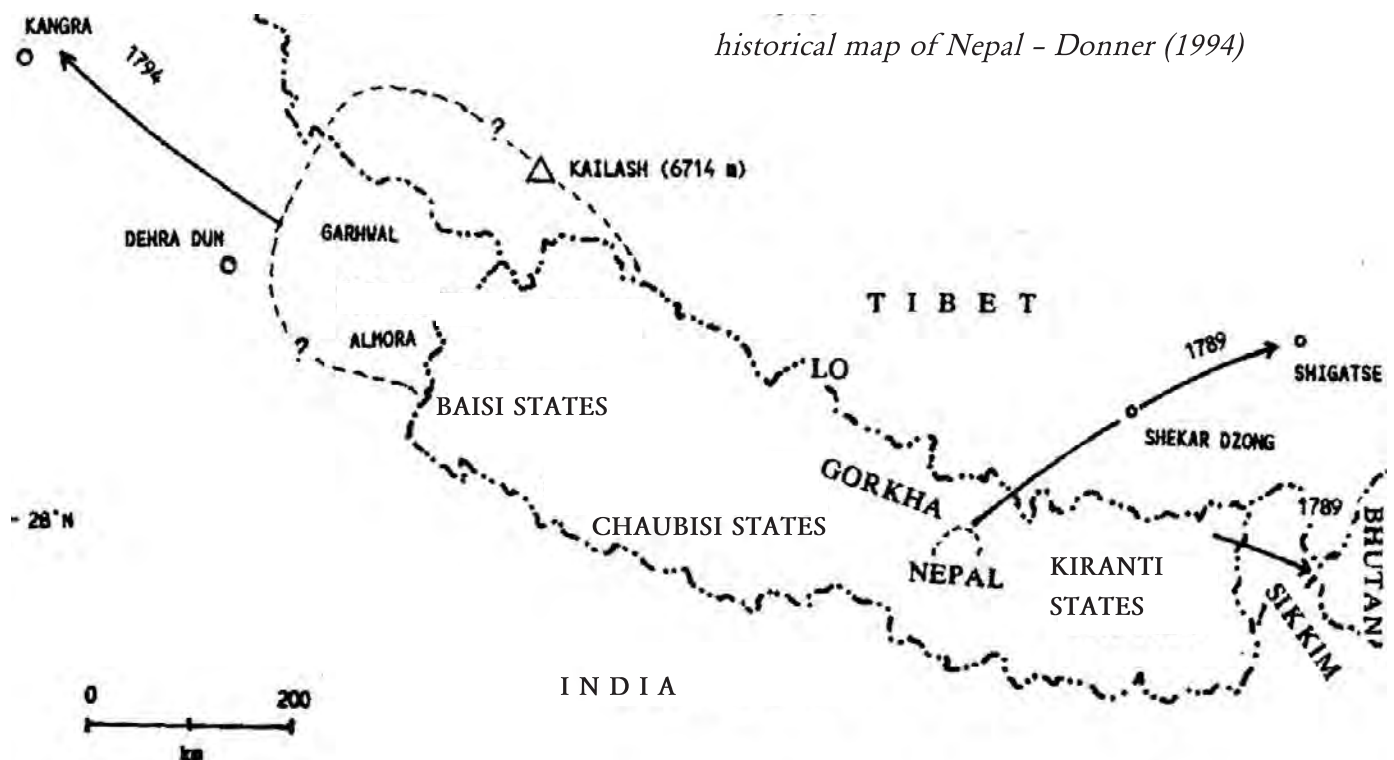
In 566 BC Gautama Buddha was born in Lumbini whose religious teachings quickly spread.

Lichhavi dynasty

The Kiranti kingdom was defeated by Hindu invaders in 205 AD who introduced Hinduism and the caste system. Their dynasty is called Lichhavi, who were able to keep the Indian rulers at arm’s length and to maintain peaceful relations to China by matrimonial alliances.

“During the rule of the Lichhavis, the Kathmandu Valley became a thriving centre of trade between Tibet and India.”³ This made the kingdom comparatively rich, as Thapa illustrates: “For the comfort of transport and communication [the rulers] had paved roads with bricks. They offered golden spires and roofs to the temples of Gods and Goddesses.”⁴

Nonetheless, the Licchavi period is considered a time of decline as the country disintegrated into many small fiefdoms, each ruled by its own Raja.



historical map of Nepal - Donner (1994)

1 Donner (1994:38)
2 Thapa (1981:14)
3 Donner (1994)
4 Thapa (1981:24)

The Malla dynasty

The Malla, a family of local rulers, succeeded the Licchavi in 1200 AD. They reintroduced strict Hindu law and extended trade. Although troubled by several invasions from India, the dynasty was most severely weakened by inner conflicts. "They even had court intrigues, so the trade with Tibet and other states outside the valley dwindled very much."⁵

Nepali dependence on trade is shown here once again, as this collapse of international trade had such influence on the royal treasuries that "they had even robbed the treasury of the temple..."⁶.

Unification by the rulers of Gorkha

The Gorkhali rulers, descendants of Rajput princes with a kingdom in the Hills north west of Kathmandu, slowly expanded their territories and increased their kingdom's inner strength by wise inner reforms.

In 1742, Prithvi Narayan Shah, national hero of Nepal, ascended the Gorkhali throne. He conquered all fiefdoms around the Kathmandu Valley, repelled British and Bengali invasion forces and finally took the Valley in 1768. He made Kathmandu the capital of a united Nepal and continued his expansionist policy. In 1794 the Kingdom of Nepal stretched from Sikkim to Kashmir. When Nepal lost the Anglo-Nepali War of 1814-1816, Nepal was cut down to its present size and had to accept a British resident at the royal court.

In 1857, Nepal proved its friendship to Britain by assisting them in quelling the Sepoy Mutiny. In both wars, the high skill of Nepali warriors impressed the English and soon Gurkhas became mercenaries both for the British and the Indian army, the first non-resident Nepalis.

Rule of Rana prime ministers and the Panchayat era

"The domestic political situation 1775-1951 was dominated by struggles for power between king and nobles. [...] Most influential was initially the Thapa

family (1806-1837), until the Ranas asserted themselves. In 1846 [...] power went for the next 104 years into the hands of the Rana family who claimed the office of the prime minister in dynastic succession and thus reduced the king's power to a minimum."⁷

The Rana family proved to be pro-British and was able to secure Nepal's independence by friendship treaties. Still, the Rana era was a time of economic decline: "[T]he selfish rulers never cared for the welfare of the people. For want of state support many of the native industries and native genius died down."⁸

King Tribhuvan Bir Bikram Shah was with Indian help able to seize power from the Rana family in 1951. The new constitution he installed made Nepal a constitutional monarchy and abolished the caste system. In 1960, after struggles between king and parties, the king prohibited parties and introduced the Panchayat-system, a partyless system of councils where elections were only held on local level.

Recent past

After demonstrations and violent risings in 1990, King Birendra accepted a democratic multi-party constitution. This did not bring any political stability, especially after the rise of the Maoists in the 1990s, a communist faction that leads a civil war to erect a People's Republic of Nepal. In October 2003, when government proved unable to cope with the Maoist threat and the ruling coalition collapsed, King Gyanendra dissolved parliament and installed an interim government.

Conclusion

As a conclusion, one can say that Nepal has been dependent on trade between Tibet and India for many centuries which broke down in the last 200 years and that remittances from non-resident citizens have a very long traditions considering the Gurkha mercenaries. Political instability has been and still is a major hindering factor for economy.

5,6 Thapa (1981:85)

7 Chronik Handbuch (1996:309)

8 Thapa (1981:158)

Geography

Physical structure

Nepal is a rectangular shaped country situated landlocked at the southern slopes of the Himalayan mountains. With a length of 885 km and a mean width of 193 km, it covers 147,181 km² which equals 41% of Germany's territory. To the west, south and east, it is surrounded by India, its northern border is shared by the Tibetan Autonomous Region of the People's Republic of China.

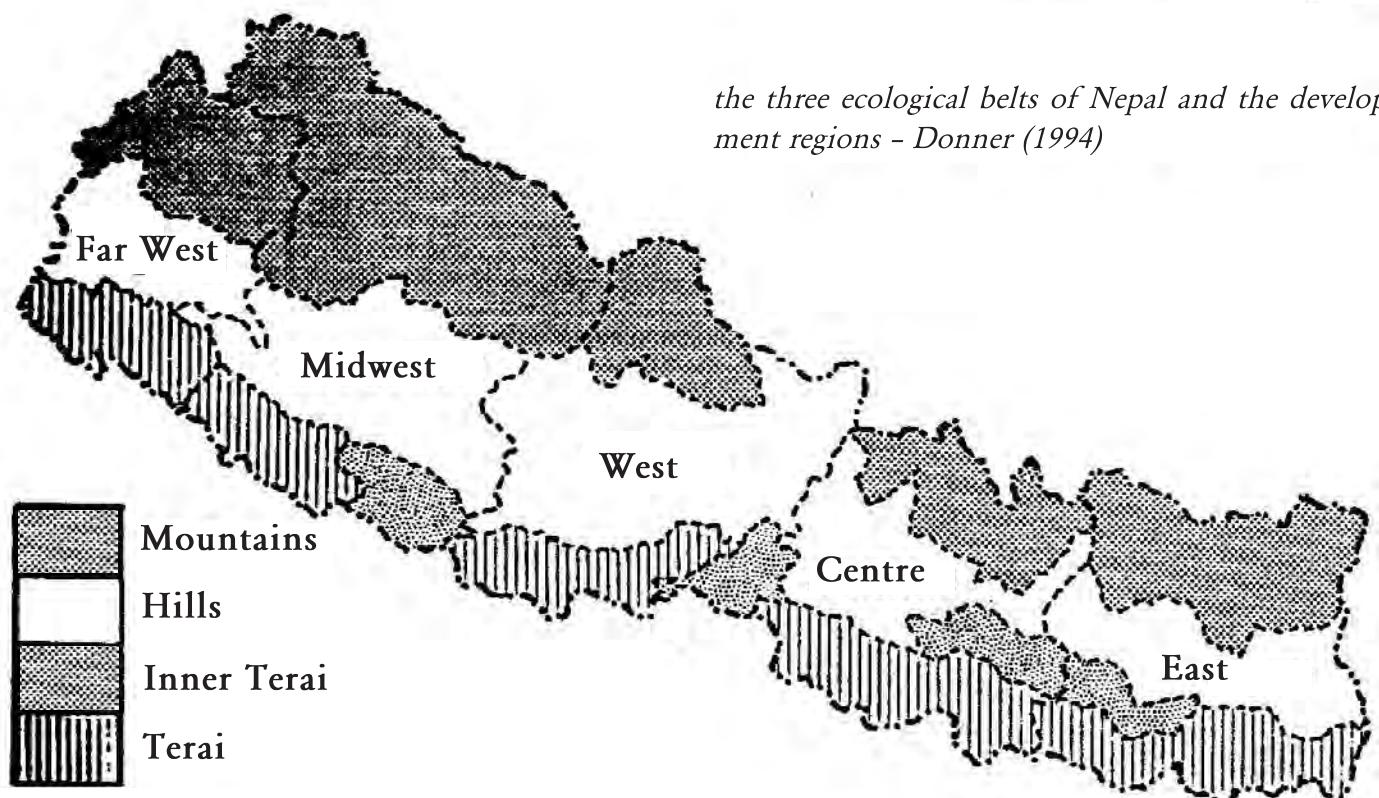
"North to south, within a distance of about 160 air kilometres, the terrain drops in altitude from Himalayan peaks averaging over 6,000 metres high, to nearly sea level at its southern borders. This steep north-to-south drop gives Nepal an enormous hydropower potential but also contributes to soil erosion."

The lowest and most southern of the three geographical and ecological zones into which Nepal can be roughly divided into is the Terai. The Terai is around 0-300 m above sea level, an extremely fertile area that makes up about a fifth of Nepal's territory and used to be covered by subtropical and tropical forests, but is now, after malaria has been mostly extinguished, densely populated by internal Nepali migrants and

Indian immigrants and is under intensive cultivation.

The second of the three belts are the Hills, as they are called, the area in altitudes between 300 and 4500 m, historically the most populated area and former breadbasket of the nation with its terraced fields. The Hills make up about 60% of Nepal's territory, they are limited in the south by the Mahabharat Range which rises up to 3000 m and in the north by the glaciers of the High Himalayas. The landscape of the Hills is very diverse, however a characteristic are terraced fields and rather even valleys in relatively high altitudes. One of these valleys is the Kathmandu Valley, basin-shaped, about 20 x 25 km in area, 1500 m high and extremely fertile.

The last belt are the high mountains in the very north of the country that still make up about 20% of the country's area. The mountain belt begins with the main range of the Himalayas which can only be crossed via mountain passes or narrow valleys and rises up to almost 9000 m. Behind this first elevation lie the dry plateaus of the Inner Himalaya in altitudes around 4000 to 5000 m which are enclosed from the north by the Transhimalayan mountain range. Access to these areas is only possible by foot or by plane.



the three ecological belts of Nepal and the development regions - Donner (1994)



map of annual precipitation - Hagen (1998)

The Himalayas are young mountains and seismically still active. Nepal has been devastated by earthquakes many times in known history, the latest of which occurred in 1934 with ruinous effects on Kathmandu. This permanent threat of earthquakes is however not reflected in local construction laws.

Climate

Nepal's climate is for the most part characterized by the monsoon that usually last from July to September. The monsoon is blocked by the Himalaya as the clouds do not rise in altitudes above 7000 m, so the Inner Himalaya stays arid. While precipitation in

areas south of the main Himalayan range is around 1000 mm to above 3000 mm per year, it is clearly less than 1000 mm on the northern slopes. Precipitation usually occurs in the shape of rain or hail, but above 2000 m in western Nepal and above 2800 m in eastern Nepal it comes down as snow.

Temperatures also vary greatly in the different zones. The subtropical Terai experiences summer days above 40 °C and in winter temperature hardly drops below 20 °C. The Hills are similar to temperate climates, in Kathmandu temperature rises up to 30 °C in summer and in winter, frosty nights are not unusual. The mountain region has an extreme climate, in Namche Basar, 3500 m high, temperatures range between 14 °C in summer and -10 °C in January.

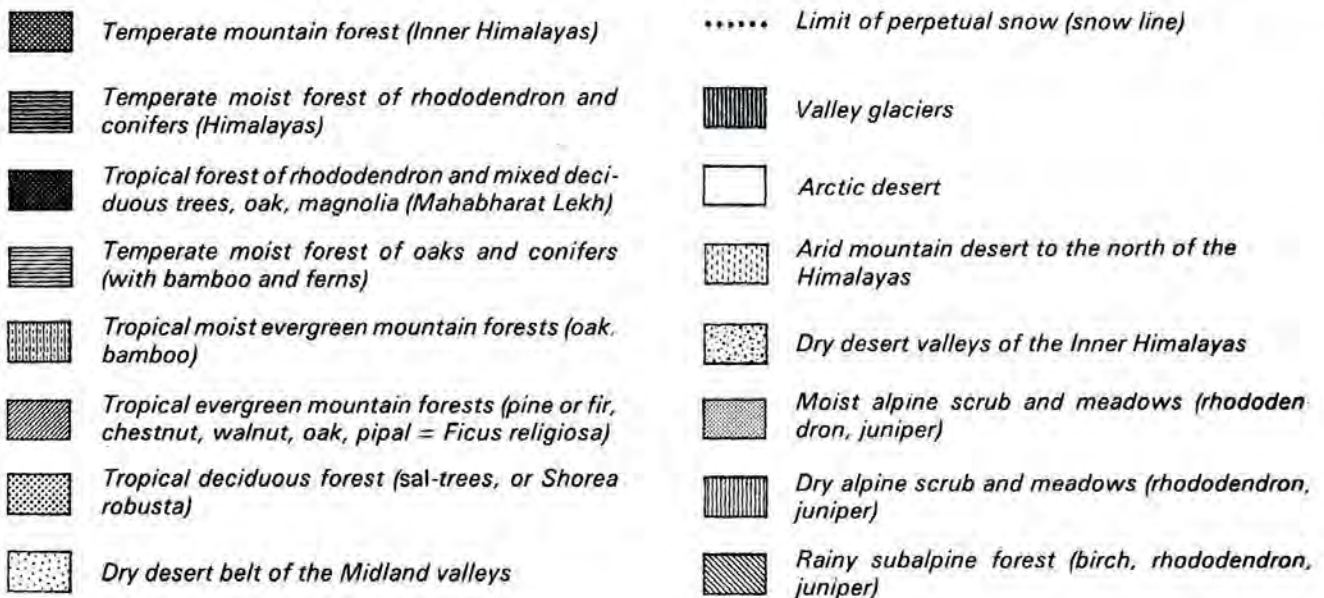
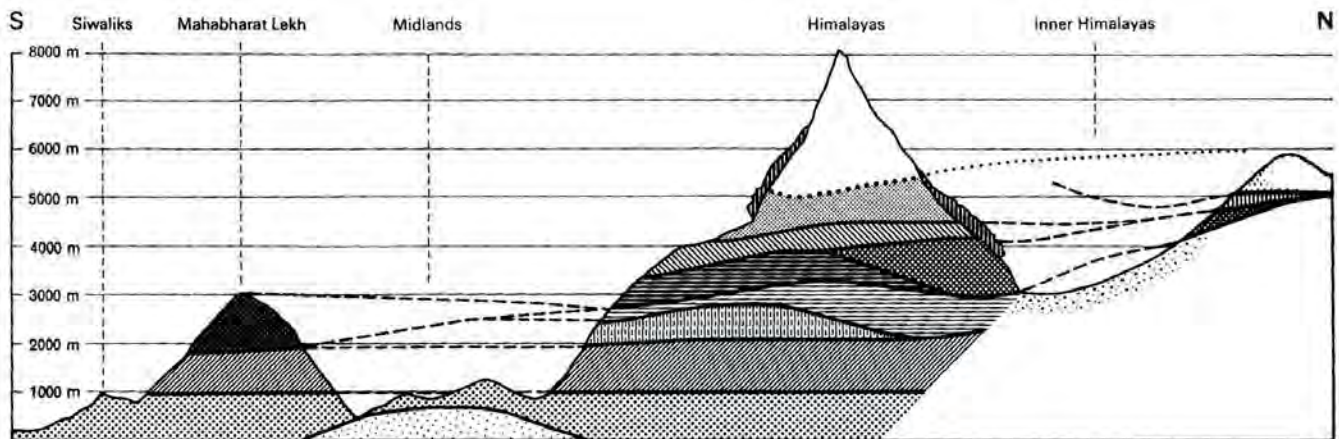


Vegetation

Vegetation clearly follows the lines of climate. The Terai is tropical to subtropical in vegetation and used to be densely covered with rainforest, now agricultural fields and savannas of elephant grass have replaced the forests to the greatest extent.

The Hills used to be covered with forest as well, however there it is rather similar to Mediterranean, temperate and East Asian vegetation, depending on the individual valley. Up to 1300 m these forests still contain deciduous trees, in more humid regions there is also bamboo. Above 2000 m, the forest is dominated by coniferous trees. The area between 3500 to 4000 m is covered in rhododendron and small conifers. The tree line is in general at 4200 m, above this there are only alpine pastures up to 5000 m where vegetation disappears totally.

vegetation cross-section - Hagen (1998)



Consequences for economy

Put into connection with economy, the geographical situation gives three main opportunities.

First of all trade between both sides of the Himalayas, Nepal's traditional source of income that nowadays has either ceased or uses other routes. The second opportunity is of course tourism, for conditions for Alpinists and trekkers and the extremely diverse fauna and flora are unique. The third opportunity is the hydropower potential that results from the steep surface structure and reliable water supply by glaciers and monsoon.

Problems that arise from the geography mostly concern infrastructure. The rough relief is a huge obstacle for transportation. Road construction is complicated and expensive, many routes remain undeveloped. Thus traffic infrastructure is one of the very weak spots. Another problem connected with geography is that each of the three belts needs a different approach for development, overtaxing administration.¹⁰

Population

Population growth and density

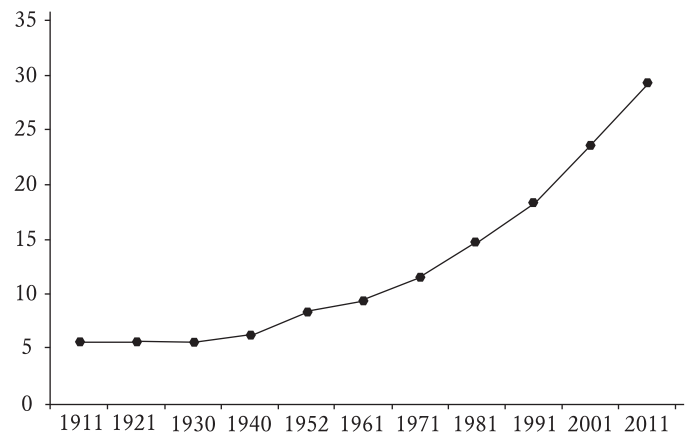
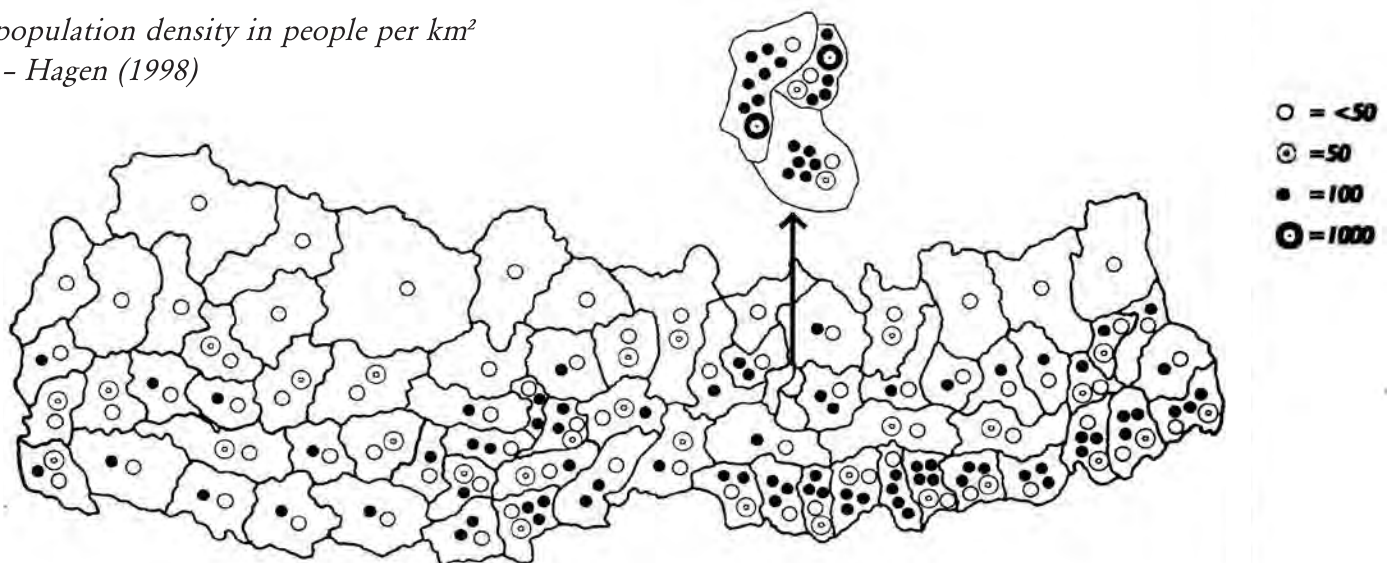
The census of 2001 set the population of Nepal at about 23 million. Since 1980 the growth rate is stable around 2.3% and is accounted for by improving medical care, which means decreasing infant mortality, i.e. increasing life expectancy and a birth rate that, although decreasing, still exceeds mortality.¹¹

These factors also cause a certain distribution on the age pyramid with the effect that 41% of the population were below 14 in 2001. This puts a huge pressure on the labour market as every year hundreds of thousands of new potential workers enter the market.

On the other hand, constant population growth has led to a high population density. Although Nepal's official population is estimated at 157 people per km, Banister & Thapa point out rightly that large parts of the country are not suitable for human settlement.

“In an agricultural and mountainous country like Nepal, a more meaningful measure of density is the ratio of people to cultivated land.”¹² The population density calculated from this ratio was 579 people per km of cultivated land in 1971 when conventionally calculated population density was at 80 persons per km. So one can imagine what these ratio looks like today, as population doubled, but cultivated land could basically only be gained in the Terai.

population density in people per km²
- Hagen (1998)



population growth (projections) - Hagen (1998)*

Urbanisation

One of the results of an increasing population density is a growing urbanisation rate. Compared to other countries in the region, Nepal's urbanization rate is still low, although it increased from 3.6% in 1961 to 14.2% in 2001.

Banister & Thapa explain the comparatively low urbanisation rate with internal migration to the Terai.¹³ This internal migration lessened population pressure on the Hills which prevented high urbanisation. Additionally, the definition of “urban” was a different with almost every census.¹⁴

The rising trend towards urbanisation indicates that the rural labour market is saturated and surplus workforce has to look for new opportunities in the towns.¹⁵ This can not only be attributed to population growth but also to changes in rural employment structure like the abolition of the Kamaiya debt bon-

11 Central Bureau of Statistics (2002:Chapter 2)
12 Banister & Thapa (1981:26)
13 Banister & Thapa (1981:87)
14 Central Bureau of Statistics (2003:Chapter 9)
15 Sharma (1993)

dage system in the 1990s which caused tens of thousands of landless peasants to move to the cities and Nepali laws of inheritance which split up the plots until they are too small and people have to look for other sources of income, usually in the cities.

Caste, ethnicity and religion

Nepal is the only Hindu kingdom in the world, as Hindus make up 80% of the population. 10% are buddhists, these are mostly tribes of Tibetan origin and Tibetan refugees. Muslims, mostly descendants of Kashmiri traders, add up to 4%. Kiranti believers in east Nepal are 3.6% of the population. Christians are only a marginal group with 0.45%.¹⁶

Another interesting population factor that does have quite some impact on the country's economy, although exact effects are yet to be scientifically examined, is the caste system and ethnic diversity.

The 2001 census has listed 103 ethnic/caste groups. These can be categorized roughly into the Tibeto-Nepali and the Indo-Nepali group.¹⁷ The Tibeto-Nepali group consists of ancient Nepali groups like the New-

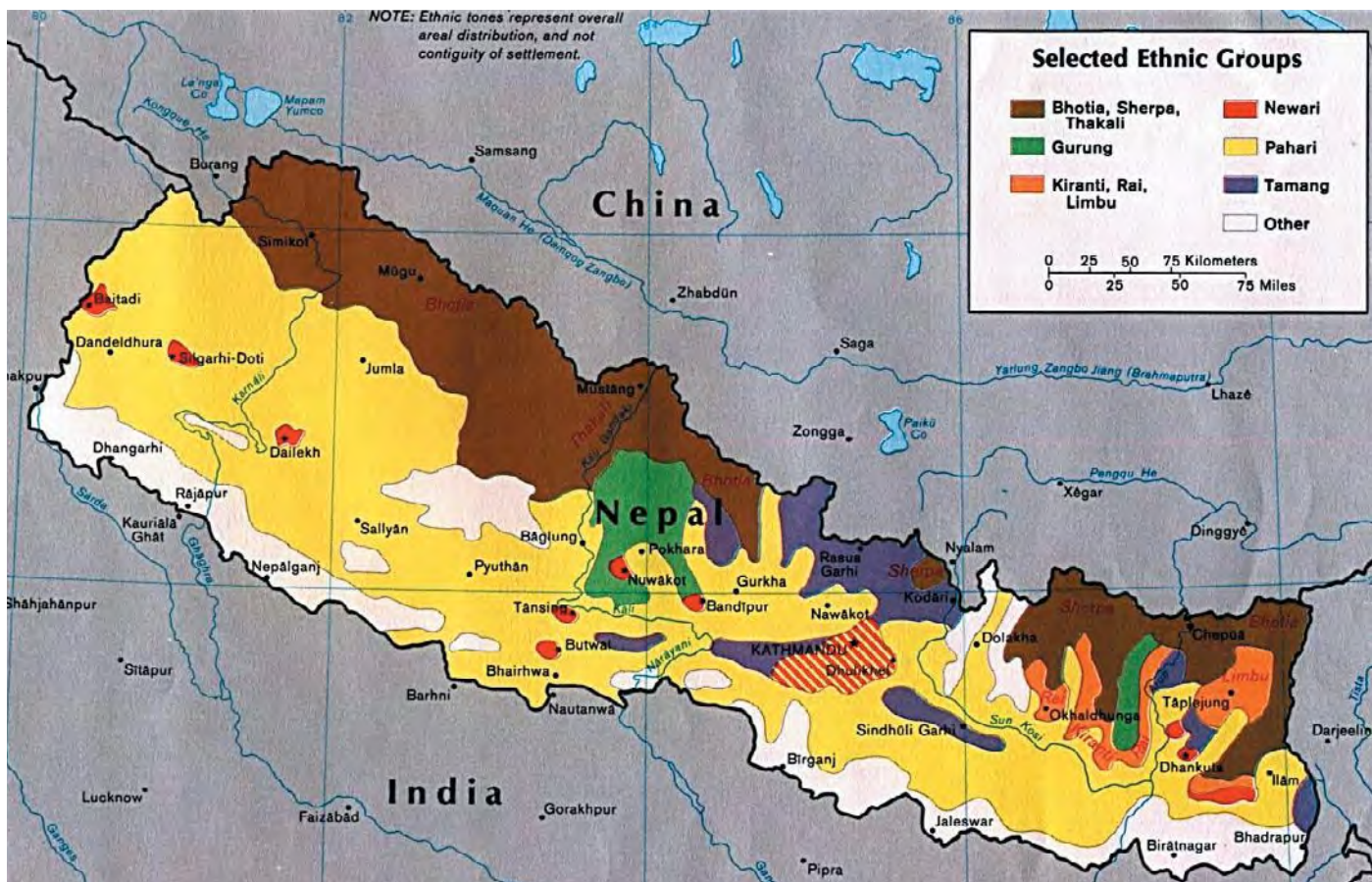
ar or Tharu and Tibetan immigrants like the Sherpa, most of these groups have their own language.

The Indo-Nepali group is made up by ancient Aryan immigrants and recent Indian immigrants. This group speaks Nepali, except for the Indian immigrants who stick to their own languages. Although Nepali is the lingua franca, it is the mother tongue of only 48% of the population.

However, much more restricting than language is the caste system. The Indian style Hindu caste system was imported around the 15th to 17th century and adapted by most of the Hills' population. But the Nepali caste system is much less elaborate than its Indian counterpart. Although there are Brahmin, Chhetri (equivalent to the Indian Kshatriya) and castes of professions, most groups, especially the Tibeto-Nepali groups, do not have a set position in the system and have their own caste systems inside their group.

What is important is that each group is rather isolated concerning social activities and economic ventures. So, a Rai employer will rather employ a fellow Rai than a Newar. This and the low permeability of the social strata is a crucial obstacle for economic growth.

areal distribution of the main ethnic groups in Nepal



16 Central Bureau of Statistics (2003:Chapter 5)

17 Hagen (1998:100)

Economy

“Nepal has been designated a least developed country (LLDC) for reasons such as income levels and other social indices. An examination of its economic condition reveals that it has few internationally competitive exports products and a weak economic and financial base. [...] Low economic growth and persistent deficits in financial and trade balances in recent years have left Nepal with very limited resources for development funds needed for national building. At present it depends on assistance from western developed countries, neighboring countries such as China and India, and multilateral organizations for around 60% of its development expenditure.”¹⁸

Nepal remains a largely agricultural country. In the 1970s, 95% of the workforce was employed in the agricultural sector and 71% of the Gross Domestic Product were produced agriculturally. In 2000 the share of agriculture in the GDP fell to 39.5% and 76% of the workforce worked in the agricultural sector, 67% in subsistence agriculture.¹⁹

This change can be attributed to the greatest part to tourism which initiated a strong growth in service industries and transportation where 14% of the workforce is employed.

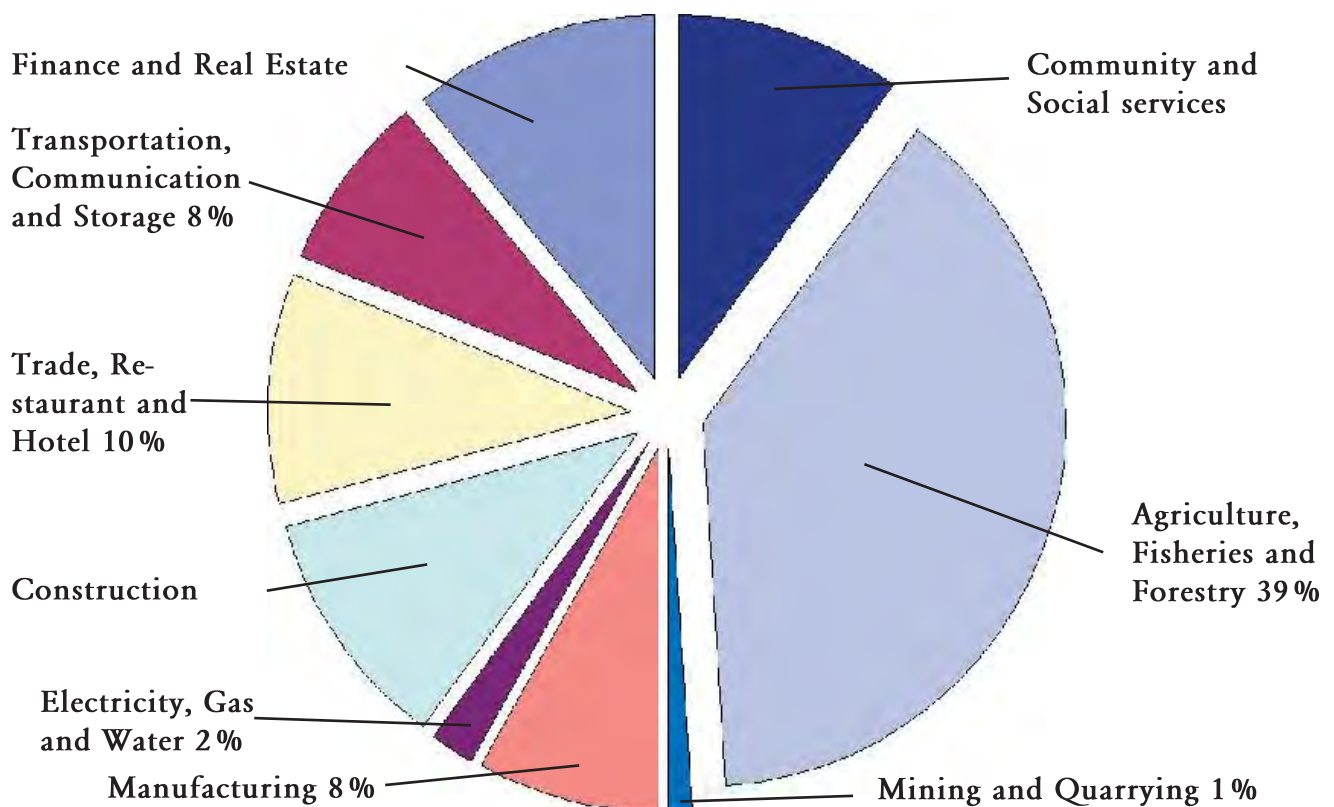
The tourism sector has suffered severely under the recent slump of tourist arrivals and is unlikely to recover as long as the Maoist problem continues to exist.

The second factor that led to an increase in non-agricultural activities are exports. Major items of exports from Nepal are carpets and ready-made garments. Other considerable export items are jute and jute products, hides and skins, toothpaste, polyester yarn, handicrafts and woolen goods. Most of these goods are produced in the manufacturing sector that employs 5% of the workforce.

Nonetheless, Nepal has a trade deficit of 20% as it has to import petroleum products, machinery, transport equipment, pharmaceuticals, textiles, raw wool, electrical goods, fertilizers, chemicals and so on. This partially reflects one of the major problems of economic development in Nepal - the lack of natural resources.

There are some mineral resources like copper or iron ore, but only of marginal tonnage. The only natural resource the country can make use of on larger scale is hydropower, but this sector is only feebly developed.

Nepal's GDP structure in 2001/2002 - Trader's Manual for Least Developed Countries: Nepal



¹⁸ NepalNet (2003)

¹⁹ Central Bureau of Statistics (2002:Chapter 8), Khatiwada & Sharma (2002), Asian Development Bank (2003)

Nepal as a remittance economy

“The Nepali economy would have crumbled after the disastrous 2001/02 fiscal year. All major economic activities – tourism, manufacturing, investments and exports – reported major downslides and even agricultural production and imports slackened. Revenue barely covered government spending, and collection has almost come to a trickle.”²⁰

The only reason why the Nepali economy has not collapsed yet, although most economic indicators point towards this, are remittances, money sent home by Nepali working abroad.

“Independent research [about informal remittances] revealed that as much as Rs 35 billion was sent from abroad excluding India by migrant workers. This is not far short of the official figure for total foreign exchange earnings of Rs 38.3 billion in 1996–97. If independent figure were adjusted to take into account the estimation, remittances would constitute about 50 percent of foreign exchange earnings and 13 percent of GDP.”²¹

Therefore, Nepal can be specified as a remittance economy. This also explains why His Majesty’s Government is interested in improving the status of non-resident Nepalis.

Problems in attracting foreign investment

Nepal attracted US\$ 310 million in 2001, a sum rather small in comparison to its South Asian neighbours. Even worse, the sum slumped to 183 million in 2002. Although this development can be mostly blamed on the Maoists, there are other factors hindering foreign investment.

The UNCTAD²² gives a short list of Nepal’s weaknesses concerning foreign investment: “

- landlocked country
- poor infrastructure and mostly unskilled workforce
- rigid and intrusive labour legislation
- political instability, weak implementation and persistent corruption
- ongoing Maoist insurgency”²³

20 Nepal (2002)

21 NepalNet (2003)

22 United Nations Conference on Trade and Development

23 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:35)

All five points are correct, but for somebody willing to invest in a developing country, the last two points are the main problems. Even before the Maoist insurgency, which comprehensibly deters most investors, administration, especially corruption, business policy and property rights, are a huge obstacle as many investment initiatives simply peter out in the obscure mazes of Nepali bureaucracy.

Another point the UNCTAD forgot is India and other competing countries. Apart from specific tourist attractions, India has everything Nepal has, plus access to a larger market and sea trade. It is very hard to give an investor well-founded reasons to prefer Nepal to India.

Maoist insurgency

The Maoist rebels not only control districts in the remote areas and established their own administration there, they also cause severe damage to Nepali economy in other ways. The areas they control do not pay taxes to His Majesty’s Government anymore, other areas are double taxed.

The civil war deters tourists and thus tourism, once the driving force behind economic growth, decreases alarmingly. Further, blown up factories and bridges, bank raids and government expenses on defense sets economy back years. As long as the Maoist problem is not solved, investment in Nepal does not make any sense at all.



British Gurkha soldier on duty in Kabul. Gurkha mercenaries are responsible for a large share of the remittances.

Basic facts on NRNs and PNOs

Definitions

“A Non-Resident Nepali (NRN) is a Nepali citizen or a person of Nepali origin who has been staying outside Nepal for at least 183 days in a year for employment, business or self employment and indicating an intention for an uncertain duration of stay abroad. Non-resident foreign citizens of Nepali origin also covered under this definition. But Nepali citizens working for His Majesty’s Government of Nepal or for Nepali resident organizations abroad are not covered under NRN”²⁴

This is the proposed definition agreed upon at the first NRN conference in 2003. The definition for PNO, “people of Nepali origin”, whom this definition mentions, is given as well.

“A foreign citizen is termed as person of Nepali origin if:

- S/he is citizen of any country other than India and Bhutan
 - S/he at any time held Nepali citizenship
- or
- S/he or either of his/her parents or any of his/her grand-parents was a citizen of Nepal by virtue of the Constitution of Nepal or the Citizenship Act.”²⁵

Emigration from Nepal

History of emigration

Nepal has a long history of emigration and remittance. The wages and pension of Gurkha mercenaries support the kingdom since the 19th century. Emigration to India, Sikkim and Bhutan has a long history as well.²⁶

“A huge number of Nepalese used to reside in India for agricultural labour until 1971. The pattern now has changed. For example, personal service, business, institutional service and other reasons accounted for 95 percent of all reasons, while agriculture merely accounted for less than one per cent.”²⁷

Nonetheless, more than 70% of the absentee population lives in India and other SAARC countries. Not only is emigration to India cheapest and establishing connections to find a job easiest, there is also a large number of especially women who marry off to India.²⁸

Since the 1950 Free Border Treaty between Nepal and India there are hardly any restriction on migration between the two countries and in particular in the Terai there is a strong exchange of population. Nonetheless, new countries are mostly opened for Nepali immigration by Gurkha soldiers who were stationed there as happened in Japan or Malaysia.

Figures on emigration

Numbers about emigration are very unreliable as censuses do either not care at all about absentee population or use different definitions of emigrants, as Banister & Thapa explain.²⁹

Unfortunately, the final results on emigration from the 2001 census are not published yet. The Central Bureau of Statistics determines the total number of absentee population at 800,000 individuals, the Non-Resident Nepali Association claims that there are around 6 million NRNs overall and another researcher, Mishra, says that there are between 1.8 to 3 million Nepali in India, but still contradicts the two other figures. This paper will accept the CBS statistics, but these numbers are not certain. According to the CBS the absolute number of non-resident Ne-

^{24,25} Non-Resident Nepali Organisation (2003:Proposed Definition)

²⁶ Banister & Thapa (1981:68)

²⁷ KC (2003:12)

²⁸ Gurung (2003), Banister & Thapa (1981:79)

²⁹ Banister & Thapa (1981:78)

palis in India remained at 590,000 from 1991 to 2001 but emigration to other destinations grew.

Emigration to Europe, North America and Asia increased visibly, but the most extreme development took place in Arabia where only 6,000 Nepalis lived in 1991 but 110,000 in 2001. This change in emigration structure can partially be explained by a shift in motivations for emigration.

NRNA		CBS
85 000	North America	9 000
1 000	Latin America	-
43 000	Europe	11 000
1 000	Russia/CIS	-
390 000	Arabia	110 000
640 000	Non-SAARC Asia	37 000
1 500	Africa	-
24 000	Oceania	-
5 000 000	SAARC	590 000
6 185 500	total	757 000

Figures on NRNs by the NRNA and the CBS
- NRNA (2003)/CBS (2002)

Reasons for emigration

Agriculture, before 1970 next to marriage the main reason for emigration mostly to India, has experienced a sharp fall and in 2001 only 1% of absentees claim agriculture as the reason for their emigration. Marriage also lost extremely in importance.

In 1991, 18% of the emigrants stated marriage as the reason of their departure, in 2001 it were only 2%. Gurung argues that the decline of marriage as a reason can be mostly blamed on a change in definition, so this does not tell too much.³⁰

The trend to study abroad is on the rise, doubling from 1991 to 2001. The main reason is "service/employment", accounting for 80% of the emigrations.

This reason might apply to most Nepali emigrants in Arabia where Nepali workers have become quite valued since the late 1980s. There are many in low skill jobs but also "those who were educated but lacked job experience and personal connections with Nepalese employers".³¹ So the lack of jobs in Nepal drives these people out to countries where they can earn more. Overall, the major reason for emigration is of economic nature.

Remittances

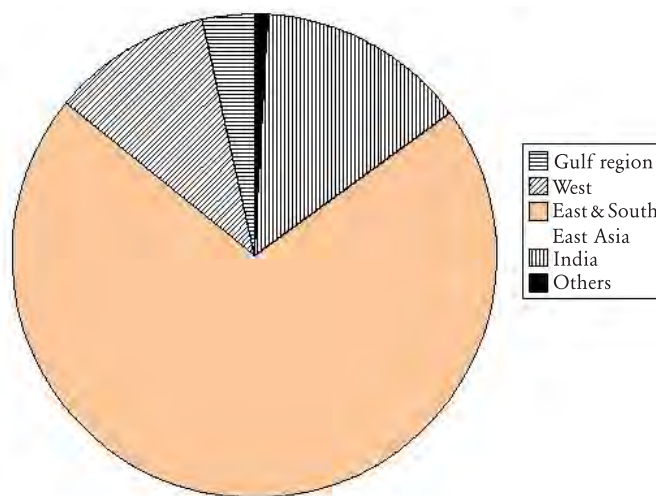
There are three prevailing ways of sending money back to Nepal. Among emigrants in the Gulf states and India who can return easily and cheaply, hand carriage is predominant. "Migrants may either carry their remittances themselves, or give them to family members or friends, who travel to Nepal."³² Nonetheless, there are many Nepali in Arabia, East and South East Asia who can not return regularly and instead make use of the Hundi system.

"Hundi or Hawala is an indigenous, informal banking and money transfer system. Funds are transferred without an actual movement of money. This system predates conventional western banking. A Hundi is an unconditional order made by a person directing another person to pay a certain sum of money to a person named in the order."³³

Conventional western banking, slower than Hundi and less accessible in rural Nepal, is "only used by very few migrants, mainly staying in Western Europe."³⁴

The amounts of money sent home differ very strongly:

"[A case study in the village Sainik Basti near Pokhara by Wyss showed that] the amount varied from a few dollars (sent by migrants in Hong Kong and India, who hardly cover their living expenses from their salaries) to US\$ 960 per year (sent by one migrant in Japan). The amounts of remittances varied along with migrants' wages. Yet a high salary did not automatically imply that remittances would be high, since migrants who earned high wages, also often had high living expenses."³⁵



Share in overall remittances by region
- Gurung (2003)

30 Gurung (2003)

31 International Organization for Migration (2003:20)

32-35 Thieme (2003:37-39)

Situation in the host country

Legal situation

The largest proportion of Nepali emigrants lives in India with which Nepal has bilateral agreement on free movement of people. While most countries in Asia and the Gulf region either have a “front door” policy for foreign workers or do not bother about immigration at all, there are special cases like Japan where the majority of Nepali live as illegal immigrants.³⁶ It is estimated that there are also large numbers of illegal immigrants in Europe and North America.

Financial situation

The vast majority of non-resident Nepalis works as unskilled labourers, so their income is low. Thieme points out that countries where salaries are higher usually also have a higher cost of living.³⁷ However, Nepali are used to a low standard of living from their home country and thus they often have relatively low costs of living in their host country. So they are in many cases able to make a lot of money even in unskilled jobs. There are no official surveys on the financial situation of NRN, but a newspaper article claims that

“Among those working abroad, 49.4 percent earn about Rs 10,000 per month, 20.6 percent earn Rs 10,000–25,000, 12.8 percent earn Rs 25,000–50,000, 8.1 percent earn between Rs 50,000–75,000 and another 8.1 percent earn over Rs 75,000 each month.”³⁸

At the time this article was written, one US dollar equalled around 73 Nepali Rupees. The Nepali minimum wage is around US\$ 27 per month. It is obvious that emigration leads to an huge economic improvement for the single person.

Social integration

Integration in the host country depends largely on the single migrant. If the migrant sees his stay only as temporary, he might not integrate at all. However, if a migrant plans to stay for a longer time in his host country or works in higher positions, he naturally has to integrate, mostly without any problems.

If there are clusters of Nepali who live together, integration is more problematic, like other immigrant communities show. An interesting phenomenon is that Nepali emigrants often make use of the already existing Indian structures and integrate into Indian communities.



entrance to the Indian quarter “Little India” in Singapore

36 International Organization for Migration (2003:19)

37 Thieme (2003:38)

38 Nepal (2002)

NRNs as investors

Existing investment behaviour before the NRN initiative

There are no statistics about the amount of NRN investment which already indicates that it is rather limited in extent and effect. Still there have been many attempts of NRN investment, but most of these were given up as the investors were frustrated by myriads of problems, in particular the inconvenient and corrupt bureaucracy.³⁹

However, just during the NRN conference in October 2003, some larger investments were promised by NRNs. Among these is a private university and a home for elderly. Some Nepali journalists suspect these projects are part of a horse trade between His Majesty's Government and NRNs to "buy" a change in legal status.⁴⁰

Nonetheless, these projects might be just as well first signs of a wave of NRN investment. Time will have to show whether these projects are carried out at all and whether there will be following projects.

There has also already been knowledge transfer of experienced NRNs by projects like the UNDP programme "Transfer Of Knowledge Through Expatriate Nationals" (TOKTEN).

Motives for investment

The main motive the NRN initiative aims at is patriotism and the desire of many NRNs to help their country. Another motive is the wish to employ family members in Nepal, a practice common among remittance senders who invest indirectly by giving money to their family which then founds a business.

None of these motives is suited to bring sustainable and economically successful investment. Or, as a Nepali journalist puts it: "Any investment that might come because of this [NRN] conference will remain a mere charity or a band-aid solution to the ailing economy with no major significance at all."⁴¹

For successful investment, the motive should be to make a profit. The dilemma is that a business rather chooses a different location than Nepal if it really wants to be profitable. This can only happen when investment climate has changed so that rational investment is possible. Otherwise, NRN investment will become just another flow of money trickling into charity projects without much effect like foreign development aid already does today.

39 Thapa (Interview)

40 Pokhrel (2003)

41 Steele (2003)

Opportunities for investment

Advantage of NRNs as investors

A common argument for NRN investment is that NRNs know people and customs and because of this it is easier for them to run a business in Nepal. They are also supposed to have contacts, something vital for economic success. Even if they do not have the financial abilities to invest, they can serve as advisors for foreign companies and persuade these to invest in Nepal, at least that is what HMG and the NRN Association hope for.

Fields for investment

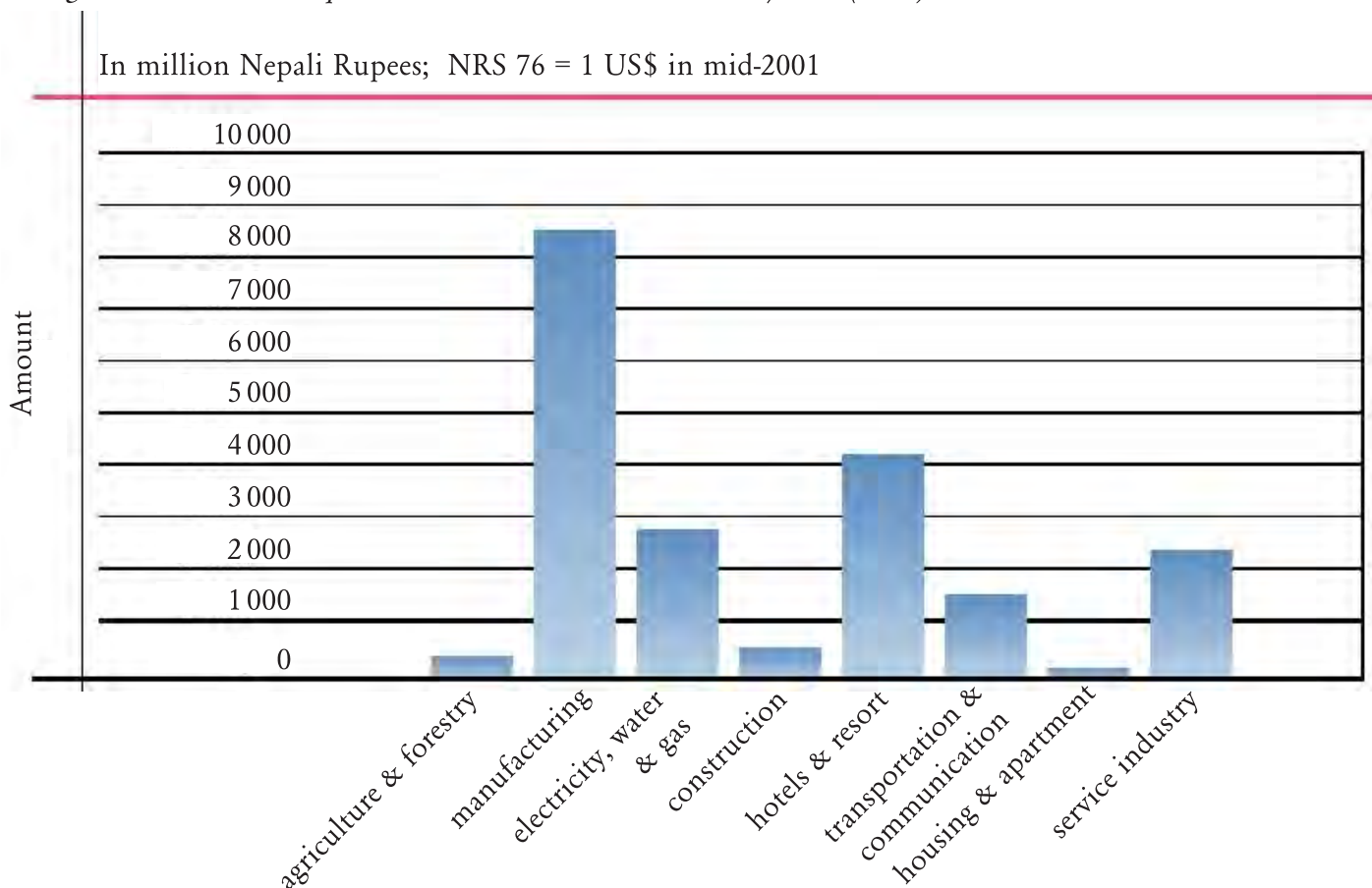
Nepal offers many areas to invest in, as the market is hardly developed. Thanks to preferential trade agreements, export to China and India is well possible at favourable tariffs. In Nepal are plenty of projects proposed for foreign investment by the Federation of Nepalese Chambers of Commerce & Industry.

One of Nepal's great potentials is hydropower with a techno-economically feasible capacity of 44,000 MW. Today hydropower stations already generate around 528 MW of electricity. The now about 10,000 MW large electricity deficit of Northern India is supposed to double within the next 10 years, so energy export seems a profitable perspective.⁴² There are already many examples for foreign investments in hydropower projects.

Manufacturing is a field that is hardly developed in Nepal, although demand for consumer goods is there and, at least in the cities, stable. Today these demands are satisfied by imports from the region, a quality that can be reached in Nepal as well. Production for export is also underdeveloped. Nepal is especially renowned on the world market for handicraft products like carpets, pashmina shawls and jewellery.

Agriculture is a field that could need a lot of investment as it is to a high degree still subsistence farming. HMG hopes in particular for investment in the areas of mechanised agriculture and specialised

Foreign investment in Nepal in November 2001 - UNCTAD/ICC (2003)



crops.⁴³ Just recently, floriculture businesses experienced an unexpected boom when an Israeli owned joint venture company entered the market with huge investments.⁴⁴

The largest market for investment will most probably be tourism and services.⁴⁵ There are still plenty of areas to be exploited and existing tourism offers are capable of a lot of extension and intensification.⁴⁶ Service is to a large proportion still connected to tourism, but the market for Nepalis offers a lot of opportunities. Especially NRNs, who know needs and culture could provide services perfectly geared for the demands of Nepali customers.

The quaternary sector will grow as the other sectors develop. Nonetheless, Arabian banks are already present, probably to profit of remittances from Arabia.⁴⁷ Imitators or specialised credit institutions might have similar success. Insurances are also attractive as this field still lacks major players and HMG will probably soon lift the restriction for foreign investors in this area.

Inspired by the world-famous Indian IT specialists, Nepal also tries to attract software companies.⁴⁸ Many Nepalis now have themselves trained as IT specialists, so the capacity in this field grows.⁴⁹

The country's weak transportation infrastructure offers opportunities to investors as well.⁵⁰ Many profitable routes are to be built. There are already examples of private roads where tolls are levied, numerous private airlines and even a cable car carrying pilgrims up to the summit of a holy mountain.

NRNs as technical experts

A special aspect pointed out by newspapers and NRN officials alike is the opportunity of NRNs as technical advisers.⁵¹ Many NRNs have studied abroad or at least worked as skilled workers. As these return to Nepal, they could pass on their knowledge. Domestic investors might also use some business ideas the NRNs brought along from their host countries.

Lobbying for Nepal

Often enough, Nepali newspapers write that the Nepali community, especially in the USA, grows stronger and will soon be, similar to the Indians, able to lobby for Nepal and influence American government and companies. This view might be too optimistic. Although it is true that the Nepali community grows, their influence is still weak. They can establish a growing conscience in the American people for Nepal, but they can not talk the American administration into sending money.



handicraft manufacturing and hydropower are both promising fields for investment



43 Federation of Nepalese Chambers of Commerce and Industry (2003)

44 Kobek (2004:57-58)

45 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:17)

46 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:46)

47 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:23)

48 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:52)

49 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:53)

50 United Nations Conference on Trade and Development/International Chamber of Commerce (2003:20)

51 Khadka (2002), Thapa (Interview)

Obstacles for investment

Legal obstacles

The legal situation of PNOs before the NRN initiative was no hindrance to PNO investment, as Gandhi Pandit, a NRN official, explains:

“[...]due to the amendment made in the Immigration laws in 2059, every foreign citizen of Nepalese origin do have an opportunity to make investment, reside here or carry on business or trade. They are excluded from purchasing land and casting vote in election. They can live here for 10 years by obtaining non residential visa under immigration law which can be extended upon expiration of such visa, do business, make investment, repatriate their return or profit or investment. [...] [This has] given them ample opportunity to come to Nepal and invest here.”⁵²

So obstacles for PNO investment are the same as for any foreign investor.

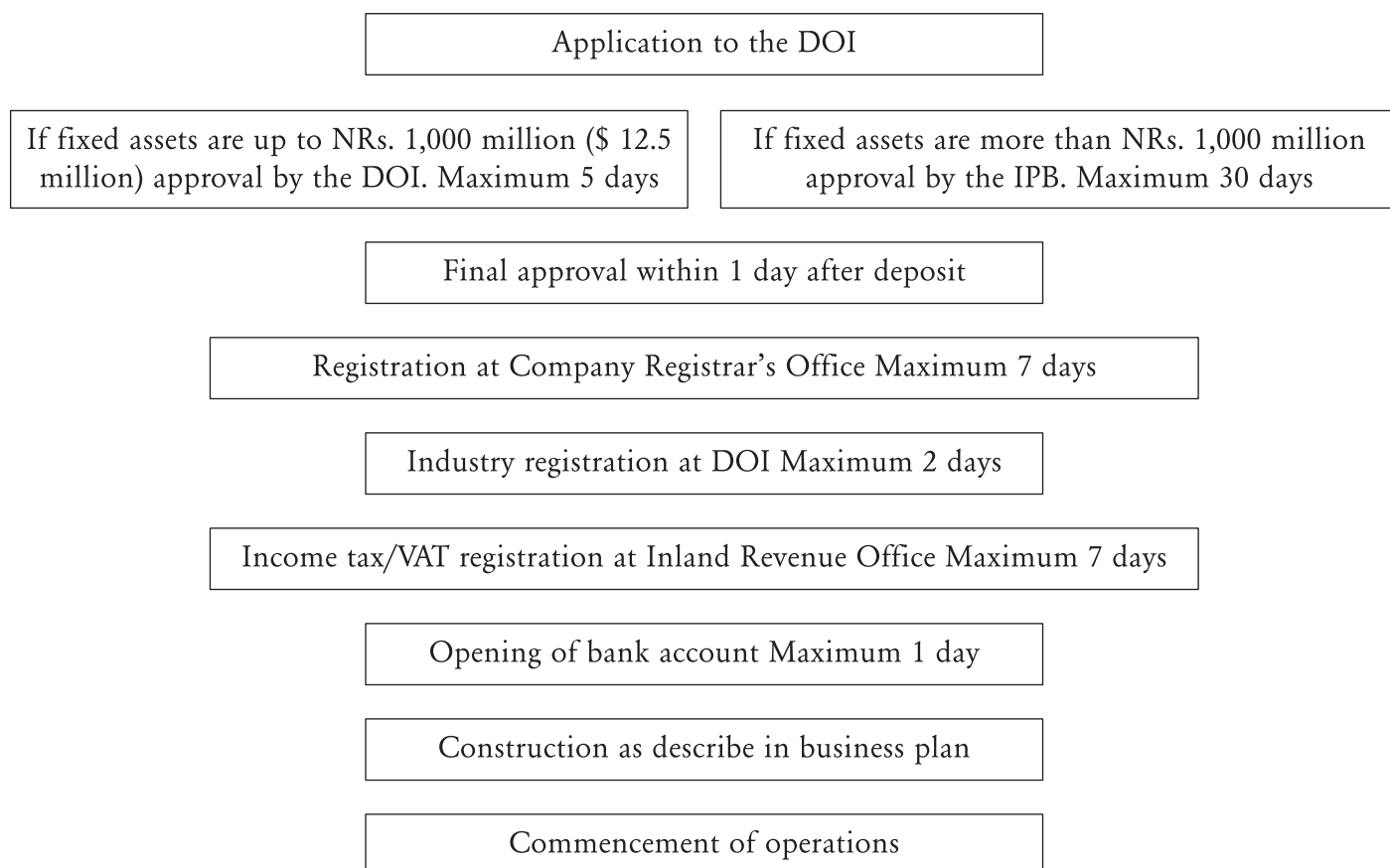
However NRNs had the special problem that they were Nepali nationals and could not use the special

arrangements for foreign investors. The major problem was that they were not allowed to transfer their profits to their country of residence. Apart from this, they had the same possibilities as any resident Nepali citizen has.

Missing financial possibilities with most NRNs

No matter whether you use the NRN statistics or the CBS numbers on NRNs and PNOs, one fundamental problem for NRN investment remains. The vast majority earns far too little money to become investors. Of all NRNs and PNOs, maybe 10 % work as mid-level professionals, small entrepreneurs and above.⁵³ So the number of those who can directly invest is extremely small. As NRN official Ram Thapa puts it: “If out of the 1.2 million NRNs, twelve invest in Nepal, it is already a success.”⁵⁴

stages of implementing a foreign investment project with a one window solution - UNCTAD/ICC (2003)



52 Dhakal (2003)

53 Pudasaini (2003)

54 Thapa (Interview)

Ideas, initiatives and demands to make NRN investment easier

One Window Policy

The magic word in Nepali investment policy. Before, an investor had to pay many visits to different departments to get hold of all the allowances and certificates needed to found a business. To remove this common annoyance, “Single Windows” are to be installed, one office where all formalities can be completed. Although this is a promising plan, the question remains whether this will solve the basic problem of a slow and corrupt bureaucracy.

Taxation and customs

HMG adjusted the income tax system in 2002 to international standards and introduced a 10% value added tax that replaced several other forms of taxation. Taxes on foreign companies are low for the region and export/import tariffs are the lowest in the region. Furthermore, non-resident companies do get special concessions depending on their line of business. Additionally, Nepal has signed treaties to avoid double taxation with several countries. The UNCTAD evaluates the Nepali investment framework as “investment-friendly”. Some NRN officials demanded special tax rates for NRN investors, but these were denied by HMG.⁵⁵

Dual citizenship

Although the demand of dual citizenship was rather made under the consideration of psychological effects on PNO to avoid the feeling that their motherland rejects them for adapting a foreign citizenship, it also brings the advantage for PNO to make use of the more benevolent tax rates for Nepali citizens. Even though HMG promised that it will try to legalise dual citizenship, the date is uncertain. The Nepali Constitution of the Kingdom of Nepal 2047 (1990) states as precondition for naturalisation “that [the applicant] has renounced his citizenship of another country”. To change the constitution, a two-third majority in parliament is needed. Except of the problem to get this majority, a more prominent problem is that there is no parliament at the moment.

Conclusion

Nepal is a poor country struggling to develop its economy. Its natural preconditions are both opportunity and obstacle for economic development. There are no larger traditional industries in the country as it used to live on trade between Tibet and India and cottage industries. So most industries and businesses have to be built from scratch. In a market as poorly developed as Nepal's, this is an opportunity for daring investors.

However, Nepal is not able to compete successfully with other less developed countries to attract foreign investment, so it has to rely on investors who have personal reasons to choose Nepal. This points towards the Nepali diaspora which already supports the kingdom with its remittances. The neighbours India and China showed with well-functioning non-resident networks how a nation's diaspora can contribute to economic development.

It is a good idea to follow this example and to create a legal framework for NRN investment. However the economic impact should not be overestimated. Only a tiny number of NRNs are financially able to invest directly and the number of those who can actively bring foreign investors to Nepal is only slightly higher. Knowledge transfer seems more promising, although this was not restricted by existing laws, but still the recent discussion about NRNs in the media might cause more people to use this possibility.

The most important effect of the NRN initiative is most probably to create a basis for an international network of the NRN/PNO, so that especially second generation PNO do not forget their roots, and to open the eyes of the Nepali public for the NRN and the opportunities they bring. The results of this will only be noticeable in years, when the Nepali diaspora has grown and the large number of Nepalis studying abroad have graduated.

Although NRN investment will be very limited in extent, Nepal has no choice but to pin its hopes on the NRNs as the prospect of other foreign investors is very discouraging against the background of the Maoist insurgency.

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