



WWJMRD2023; 9(07):115-118

www.wwjmr.com

International Journal

Peer Reviewed Journal

Refereed Journal

Indexed Journal

Impact Factor SJIF 2017:

5.182 2018: 5.51, (ISI) 2020-

2021: 1.361

E-ISSN: 2454-6615

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WORLD WIDE JOURNAL OF MULTIDISCIPLINARY RESEARCH AND DEVELOPMENT

Trend of Foreign Direct investment in Nepal

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Abstract

Foreign Direct Investment is most important factor for economic development of any nation. FDI facilitates transfer of technology, financial resources, managerial and organizational skills and other intangible assets including technological know-how. Nepal being a developing nation and very rich in natural resources realized the importance of foreign direct investment. The government of Nepal initiated institutional and legal reforms in few years of time to promote FDI to complement the resource gap in capital formation.

This study tends to study the trend of Foreign direct investment in Nepal and the countries which Contribute more to the total FDI of Nepal.

Keywords: Foreign Direct Investment, Trend, Global FDI, FDI in Nepal.

Introduction

The important source of finance for many countries is Foreign direct investment including Nepal. The developing nation due to high need from several sectors requires to input of FDI for overall growth of Nation. In recent decades Nepal realized the importance of foreign capital and the government of Nepal directed Nepal Rastra Bank to make some reforms. As a result, the following Act were introduced.

- Foreign investment and transfer of technology Act, 2019. (FITTA)
- Foreign Investment Policy, 2015.
- Public private partnership and investment Act, 2019.
- Nepal Rastra Bank foreign investment and foreign loan management by law, 2021.
- Industrial enterprise Act, 2020.
- Institutional reforms such as establishment of one stop service Centre.

Foreign Direct Investment is defined as cross border investment associated with a resident in one country having significant degree of influence and control on management of an enterprise that is resident in another economy than that of direct investment. (OECD, 2008). For regular analysis of Foreign direct investment trends in Nepal, the reliable FDI statistics is crucial and is integral for cross border financial analysis. The identification of those countries which invest in Nepal and the industry which attracts those FDI are of primary interest for policy makers to formulate policies and to address the important issue of attracting and utilizing foreign investment.

Review of Literature

Bhattarai (2009) the potential and major markets of FDI in Nepal are because of utilization of natural resources, cheap labor and favorable climate necessary for the development.

Phuyal and Sunuraw (2018) in compare to other countries Nepal has low foreign direct investment.

Ranjit (2016) emphasizes the need of FDI as one quarter of the total population are under poverty line.

Antras and Yeaple (2014) explains that internalization is often due to market imperfections and in particular contract incompleteness around intellectual property. Due to hold up in inefficiencies there is possibility of too little investment. Contracting incompleteness means that equilibrium outcomes are determined by bargaining and participation constraints.

Objective of the study

1. To study the Trends of FDI inflows in Nepal.
2. To study the Countries contributing to Cumulative FDI Inflow in Nepal.

Research Methodology

The Relevant information are collected from various Authentic secondary sources like Journals, Books, Government Websites of Nepal Rastra Bank, Finance Ministry of Nepal etc.

Technique used for Data Analysis:

In this study simple statistical technique like Bar Graph is used.

Global FDI

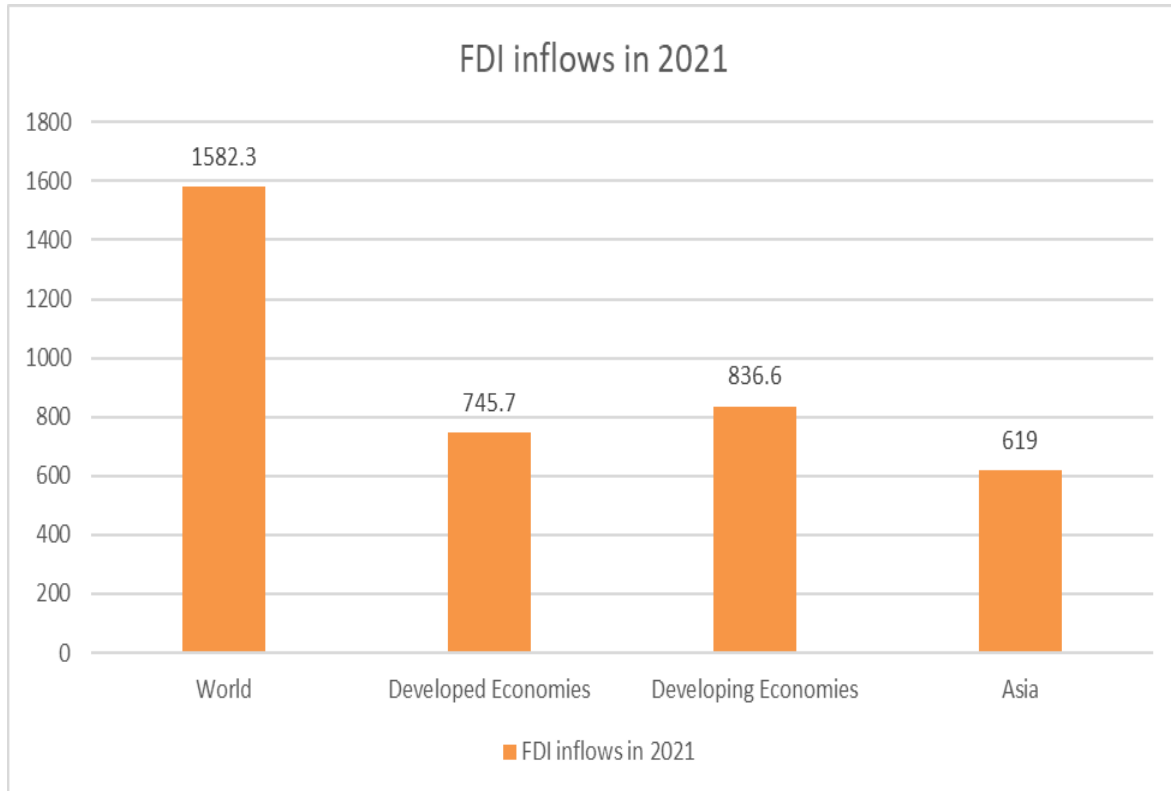
The UNCTAD published world Investment report 2022 which shows Foreign Direct Investment increased by 64.3% from USD 963.1 billion to USD 1582.3 billion in

year 2021. The rapid growth in international project finance and booming merger and acquisition markets resulted significant recovery of FDI inflows around the world. The FDI result in developed economies shows increment of 133.6% from USD 319.2 billion to USD 745.7 billion. The developing economies FDI inflows also increased by 29.9% from 643.9 billion to USD 836.6 billion in 2020 (UNCTAD, 2022).

As per UNCTAD Asia is one of largest attraction of Foreign Direct Investment. It accounts for 40% of Global FDI. In the year 2021 FDI in this region increased by 19.3% from USD 518.9 billion in 2020 to USD 619.0 billion in 2021. In Asia China received the highest FDI of USD 181.0 billion and Hong Kong received USD 140.7 billion which is second highest among Asian inflows of USD 99.1 billion. Nepal receives one of lowest Foreign Direct Investment among the Asian countries though Nepal has huge potential to attract FDI.

Year	2016	2017	2018	2019	2020	2021	Percent Change
							2021
World	2,045.4	1,632.6	1,448.3	1,480.6	963.1	1,582.3	64.3
Developed economies	1,384.8	937.7	753.3	764.5	319.2	745.7	133.6
Developing economies	660.6	695.0	695.0	716.2	643.9	836.6	29.9
Asia	478.1	501.4	496.9	511.6	518.9	619.0	19.3
China	133.7	136.3	138.3	141.2	149.3	181.0	21.2
Hong Kong-China	117.4	110.7	104.2	73.7	134.7	140.7	4.4
Singapore	67.5	82.5	73.9	106.3	75.4	99.1	31.4
South Asia	50.9	46.6	49.9	57.6	69.6	51.0	-26.8

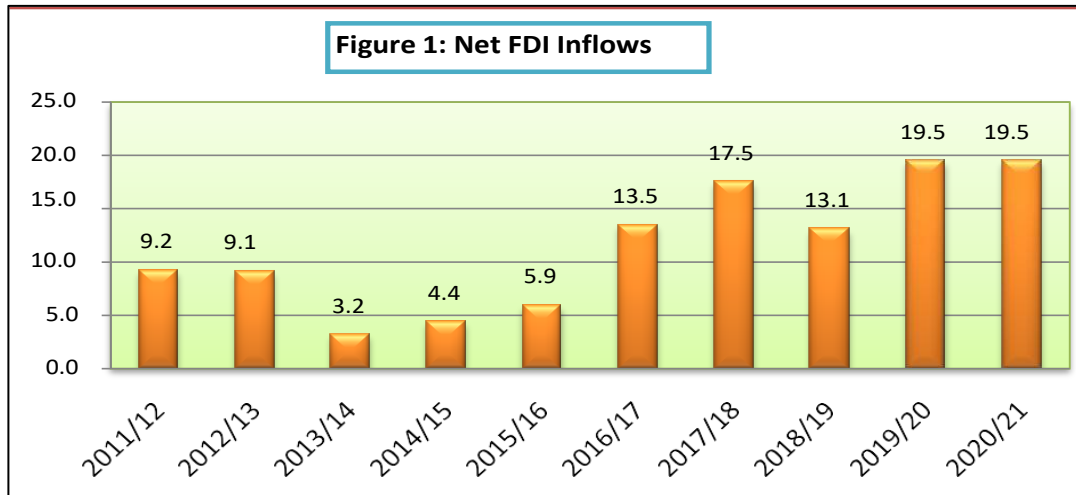
Source: UNCTAD, 2022.



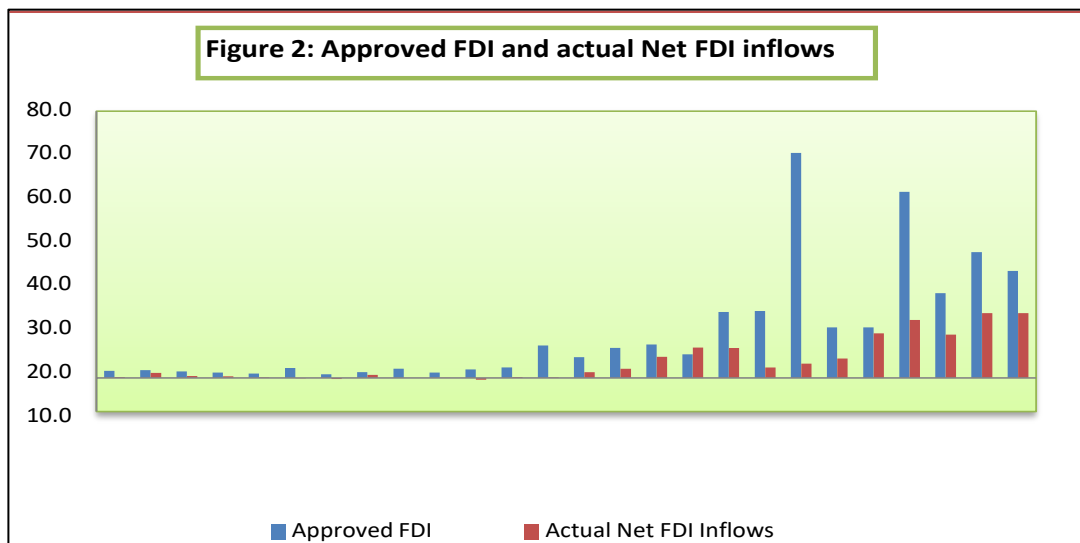
Foreign Direct Investment inflows in Nepal

The gross Foreign Direct Investment inflows is increased by 1.2% in the year 2020/21 which resulted to Rs. 19.9 billion. As per Nepal Rastra Bank the repatriation of

investment during 2021 remained at Rs. 396.7 billion which is 2.0 percent of gross FDI inflows. In the year 2020/21 the Net FDI inflows to Nepal was Rs. 19.5 billion which shows a growth of 0.2%.



Source: Nepal Rastra bank Report.



Source: Nepal Rastra bank Report

There is huge gap between the approved FDI and the realized FDI. The realized FDI means the inflows which is actually received by the individual country but the approved FDI means those investment which received permission to invest in the concerned country but it was not realized. There can be several reasons for gap between approved FDI and realized FDI. In some cases, with longer

gestation period which can be seen in projects where the realization of the approved investment may take place over several years. Out of total approved Foreign Direct Investment the actual net FDI inflow stood around 36.5 % from 1995/96 to 2020/21.

Country Wise investment to Nepal

S. N.	Country	As of Mid-July 2021,				Share in Total FDI Stock (%)
		Paid-up Capital	Reserves	Loan	FDI Stock	
1.	India	42,856.0	25,899.3	7,058.8	75,814.2	33.3
2.	China	23,208.5	-4,482.1	14,274.5	33,001.0	14.5
3.	Ireland	6,739.5	9,665.4	77.3	16,482.1	7.2
4.	Singapore	5,988.4	9,191.6	301.7	15,481.7	6.8
5.	Saint Kitts and Nevis	80.0	14,432.0	1.1	14,513.1	6.4
6.	Australia	6,072.7	3,682.8	2,407.9	12,163.4	5.3
7.	South Korea	10,297.4	-1,125.9	178.1	9,349.5	4.1
8.	United Arab Emirates	424.9	7,925.7	-0.1	8,350.5	3.7
9.	United States of America	2,246.8	2,983.7	1,479.1	6,709.7	2.9
10.	Bangladesh	3,713.6	2,669.8	-	6,383.5	2.8
11.	Others	21,257.7	1,139.8	7,300.8	29,698.4	13.0
	Total	122,885.5	71,982.1	33,079.3	227,946.9	100.0

Source: Nepal Rastra Bank Report

Nepal as a country has two big economies one is India and second is China. It has open border with India due to

dependency and also because of cultural relationship from the past. Out of total FDI in Nepal, India stood at number

one in the list of investors by having share or 33.3% of investment. China remained at second position by investing Rs. 33.0 billion, Ireland Rs.16.5 billion, Singapore Rs. 15.5 billion and saint Kitts and Navis Rs 14.5 billion. India also ranks in top position in terms of paid-up capital with rs.42.9 billion. Second, third and fourth position are followed by China Rs. 23.2 billion, South Korea Rs. 10.3 billion and

Ireland Rs. 6.7 billion respectively. India majority investments are in electricity, gas, steam and air conditioning (41.6%), Manufacturing (35.9%) and Financial and insurance services (19.6%). The highest paid-up capital by India is in electricity, gas, steam and air conditioning. China total investment in Nepal is concentrated in electricity, gas, steam and air conditioning.

Major Sectors attracting FDI from INDIA

Component	Paid-up Capital	Reserves	Loan	FDI Stock	Share in India's FDI Stock (%)
Electricity, gas, steam and air conditioning	26,727.5	394.1	4,422.2	31,543.8	41.6
Manufacturing	4,001.9	21,006.1	2,244.6	27,252.5	35.9
Financial and Insurance Services	8,295.1	6,491.7	56.7	14,843.4	19.6
Accommodation and food services	782.4	2,932.3	111.4	3,826.1	5.0
Others	3,049.1	-4,924.9	224.0	-1,651.7	-2.2
Total	42,856.0	25,899.3	7,058.8	75,814.2	100.0

Source: Nepal Rastra Bank report.

Major Sectors attracting FDI from China

Component	Paid-up Capital	Reserves	Loan	FDI Stock	Share in China's FDI stock (%)
Electricity, gas, steam and air conditioning	7,944.6	-676.3	13,824.2	21,092.6	63.9
Manufacturing	11,876.4	2,816.1	53.0	14,745.5	44.7
Information and Communication	1,062.3	851.6	361.6	2,275.6	6.9
Accommodation and food services	955.5	-3.3	-	952.2	2.9
Others	1,369.7	-7,470.2	35.6	-6,064.8	-18.4
Total	23,208.5	-4,482.1	14,274.5	33,001.0	100.0

Source: Nepal Rastra Bank report.

The majority part of Investment of India and China are in electricity, gas, steam and air conditioning which is 41.6% and 63.9 respectively. China is concentrated towards investing in Hydro power projects. India shows interest in Financial and insurance sector as well but China has Nil investment in this sector. In Manufacturing China has 44.7% of its total investment while India has invested 35.9% of its total investment in Nepal.

Conclusion

Nepal is rich in Natural resources and stand in top list among countries richest in water resources. It has huge potential to generate electricity and sell it to two big neighbouring countries. In order to generate electricity a huge investment is needed which can come from foreign direct investment. It seems to have not utilized its potential as it received only Rs. 19.5 billion FDI in the year 2020/21 which is one of lowest among Asian countries. Nepal has geographical benefits to have two super power of Asia which also falls in the category of top 5 super power of the world as a neighbour yet it's not seen with relevant evident that Nepal has taken full benefit of it. Though India and China are top two Investors in Nepal which is also because of political influence. China is seen investing more in hydro power projects and India in Electricity, gas, manufacturing and financial services. There is huge gap between approved Foreign Direct Investment and realized FDI. The reasons of huge gap need to be identified by government of Nepal which will allow for improving the further policies and fill the loop holes.

The growth percentage of FDI is also found non satisfactory as it has grown by 0.2 % only hence, a new

policy has to be initiated by Government of Nepal to not only get FDI from India and Nepal but also attract Foreign Direct Investment from European countries. The sector which has huge potential to attract FDI needs to be on priority list to provide all the requirements which can bring investment to this particular sector. The Hydro power sector is example of it as it can be seen that India and China both are investing huge amount.

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