

The Situation Analysis of Foreign Direct Investment in Nepal

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ABSTRACT: In this paper, I have attempted to identify the present scenario of Foreign Direct Investment (FDI) in Nepal. It is an important source of capital formation for the economic development of less developed countries like Nepal. It provides new technology, new management techniques, and adequate capital and also expands market accessibility for the products and services. However, it has a great challenge for developing countries to attract FDI and it is necessary to identify the key factors that can directly affect it. In general, FDI is affected by the factors such as production cost, availability of market and raw materials, energy supply, legal provision, condition of peace and security, honest and efficient labour force, political stability, and socio-cultural situation. In this context, to attract the FDI in Nepal, the government should pay proper attention to create investment friendly environment through revision of acts, rules and policies and minimization of its other unfavorable factors. If the challenges of FDI could be improved, it can be a milestone to attain goals of economic prosperity and happiness of Nepalese people. FDI in Nepal In Fiscal Year 2075/76, FDI in flow amounted to NPR 24999.25 million creating employment for 14544 persons through about 343 different projects in Nepal. Thus, the present study concludes that FDI is successful measure for economic prosperity of Nepal, but the challenges related to FDI ought to be addressed as soon as possible.

KEYWORDS: Foreign Direct Investment, Less Developed Countries, Economic Prosperity, Capital Inflow, Employment Generation.

I. INTRODUCTION

The investment done by foreign entrepreneurs and business organizations to any country is called Foreign Direct Investment (FDI). It is a crucial measure of development in developing countries where there is sufficient natural and human resources, but lacks in financial capital, modern technology, and competitive management. Due to such lack of resources, developing countries seem weak and backward in developing process. FDI provides new technology, knowledge, skills, and new management practices in developing countries. In recent days, there have been economical progress and development through multi-national companies providing sufficient employment, transfer of technology, modern skills, and competitive environment. Generally, the future return obtained by the present investment on productive resources is the motivating factor of Foreign Direct Investment inflow in the country.

We have to minimize obstacles of Foreign Direct Investment because it is beneficial to both the investors and the countries that receive and utilize the investment. There have been many multi-lateral and bi-lateral treaties for business and investment in the recent few decades. There have been many attempts to make FDI accessible and easy for all concerned nations. The World Trade Organization (WTO) has played vital role for easing Foreign Direct Investment (FDI) due to which there has been progress and expansion of FDI worldwide. Foreign Direct Investment (FDI) has broadened employment, raised wages, improved supply, and created competitive environment for business and contributed in rapid economic growth in developing countries. There is not sufficient practice of internal distribution or inflow of the FDI in Nepal; with this thing in mind, many multi-national companies are interested to invest in Nepal after settlement of long political conflict. So, there is more possibility of foreign direct investment in Nepal.

It is necessary to improve basic infrastructures such as transportation, energy supply, effective security management, and policies for investment to attract the foreign direct investment. For the improvement and management of these basic infrastructural facilities, there needs to be sufficient investment. However, there is lack of national economy to invest in these facilities in Nepal. So, the FDI can be the important base for rapid economic growth and development in Nepal. But, the government of Nepal has failed to convince foreign investor in spite of great effort to convince them. As a result, there is negative effect on infrastructure development, production, creation of employment and income. There are sufficient natural resources, human resources and market for the FDI in Nepal. Nowadays, there is political stability and the stable government of Nepal has given high priority in the agenda of FDI. So, if the FDI can be utilized wisely and effectively, it can be a great contributing factor in national development in near future.

The government of Nepal has given focus and importance on the FDI since 9th Five Year plan. When the government of Nepal adopted economic liberalization policy after political change in 2046 B.S., the FDI distribution was high during that period. During the ten years Maoist civil war, the inflow of FDI was badly affected and it was reduced. But after the peace process between the government and Maoist in 2062/63, construction of constitution and political stability, the foreign entrepreneurs are wishing to invest in Nepal and the environment has been being positive for them. The foreign entrepreneurs have positive vision towards the investment in Nepal.

The Foreign Direct Investment projects in Nepal include mainly tourist hotels and restaurants, service sectors, manufacturing, hydro-energy, mineral exploration, construction, agro-based industries, and food and beverage industries. By the fiscal year 2075/76, tourism (hotel and restaurants) undertook 42.15 percent, service sector and manufacturing industries followed by 28.42 percent and 25.16 percent respectively. In the context of approved FDI projects, around 83.45 percent investment comes from China and followed by 9.15 percent from India in FY 2075/76 and rest comes from USA, Norway, Japan and other countries. Nepal has been widely attaining most of its FDI in tourism, service and manufacturing industries. Some of globally renowned companies operating are Unilever and Coca-Cola.

The general objective of this study is to analyze the trend of inflow of FDI in Nepal and present situation of it, and provide information of source countries and the major inflow sectors of FDI. The **specific objectives** of the study are the following:

- a. To examine the trend of FDI in Nepal.
- b. To identify the amount of FDI according to countries and sector of investment in Nepal.
- c. To analyze the contribution of FDI in employment generation in Nepal.

II. METHODOLOGY

The main objective of this study is to analyze the volume of FDI, its situation, and its contribution on production and employment creation in Nepalese economy. The present study is mainly based on secondary source of data and depends upon the descriptive/explanatory research method. The required data and information are collected from the publication of Department of Industry, Ministry of Finance, Nepal Rastra Bank, National Planning Commission, Central Bureau of Statistics, etc. and unpublished articles and related websites. This analysis of volume and trend of FDI depends upon the 21 years periodic data between fiscal year 2055/56 to 2075/76 B.S. The collected data have been analyzed through the required statistical tools.

III. THE TREND OF FOREIGN DIRECT INVESTMENT IN NEPAL

Historical records show that there are very few FDI inflows in previous period in Nepal. The first recorded FDI inflow in Nepal was the Nepal Commercial Corporation in 1951/52 as joint venture participation from Indian investors. The Foreign investment trend is not in smooth pattern. The average FDI during 21 years of period since 2055/56 to 2075/76 was only 3361.6 million rupees in Nepal. The FDI decreased upto 2058/59 regularly except 2057/58. The main cause for such decrease in the FDI during this period seems to be the Maoist civil war and uncertainty of capital return from investment. From the data, we can find that the FDI is raising and falling (up and down) after the Maoist civil war as well. From such up and down of the FDI, foreign investors are hesitating to invest in industrial and business sectors in Nepal. In conclusion, there is improvement in the FDI since the FY 2062/63 due to peace process, stable political situation, BIPPA treaty, the provision of return custom tariff, easy currency exchange process, and simplicity in industrial policies. But, there is no use of the FDI as much as it should be and it is expected to be. The picture of number of projects, FDI inflows, growth of FDI, and employment generation are presented in the following Table-1.

Table-1 NPR in Million

Fiscal Year (Nepalese Year)	Number of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment	Growth of FDI	Employment *
Up to 2054/55	471	59335.55	51871.37	13407.89	-	71398
2055/56	50	5324.42	4380.17	1666.42	-16.69	2146
2056/57	71	2669.09	1910.24	1417.61	-14.93	4703
2057/58	96	7917.62	6122.49	3102.56	118.86	6880
2058/59	77	3318.53	1559.59	1209.65	-61.01	3731
2059/60	74	4921.82	3608.25	1793.77	48.29	3572
2060/61	78	4323.74	3775.86	2764.80	54.13	2144
2061/62	64	1801.10	1150.89	1639.52	-40.70	5576
2062/63	116	4121.08	3296.95	2606.31	58.97	7358
2063/64	188	3425.57	2650.56	3226.79	23.81	7389
2064/65	212	20403.88	16896.27	9811.00	204.05	10677
2065/66	231	9417.89	7530.02	6255.09	-36.24	11108
2066/67	171	15853.78	14987.98	9100.00	45.48	7848
2067/68	209	11250.19	9375.46	10050.71	10.45	10887
2068/69	227	11912.32	10738.13	7140.81	-28.95	9050
2069/70	317	51990.78	41046.35	19936.26	179.19	16569
2070/71	305	40712.27	35026.93	5685.35	-71.48	20107
2071/72	370	81395.50	77443.19	3952.31	-30.48	67471
2072/73	341	20396.69	14045.54	6351.15	60.70	15140
2073/74	401	17048.50	12368.40	15153.00	138.59	12240
2074/75	397	61309.11	57109.11	55730.38	267.78	13899
2075/76	343	29462.11	23133.74	24999.25	-55.14	14544
Total**	4338	408975.99	348156.12	193592.74	-	253039
Average		-	-	3361.6	40.7	-

Source: Industrial Statistics, 2068/69, 2074/75, 2075/76, Department of Industry. *Employment in number, ** Sum of values from FY 2055/56 to 275/76

The above table clearly shows that total 4338 projects have been registered in Nepal worth of NPR 193592.74million between the period FY 2055/56 to 2075/76. The total fixed cost is estimated to be NPR 348156.12million and the registered projects provided employment to 253039 people in the same period. The foreign direct investment trend is falling from starting period to fiscal year 2058/59 except than FY 2057/58 due to peak of Maoist movement and insurgency which has affected the economic activities of Nepal. But, after the initiation of the peace process and political stability oriented condition, the FDI inflow has not appeared to follow an increasing pattern or remain stable. The average growth rate of FDI inflow in Nepal from the period FY 2055/56 to 2075/76 is around 40 percent. By seeing the trends of FDI the conclusion can be taken that the foreign investors are not interested by Nepal's economic opportunities, political and legal conditions.

IV. INDUSTRIES APPROVED FOR FDI BY SCALE

An industry is a group of firms that perform business activities with the goal of earning profit. Basically, on the basis of the investment, Industries can be classified into three groups: Small, Medium, and Large. The history of industrial development in Nepal does not date back to a long date being Biratnagar Jute Mill the first industry of Nepal established in 1936. There are number of industries operating in the field of production and selling of products in around eleven industrial states and other areas of Nepal. The number of industries, amount of investment, and employment generated by these industries are clearly shown in the following table:



Table -2Up to 2075/76 (NPR in Million)

Scale	No. of Projects	Proposed Total Project Cost	Proposed Total Fixed Cost	Amount of Foreign Direct Investment	Share in FDI	Proposed Employment	Share in employment*
Large	301	345134.60	319079.10	198383.88	67.54	58652	22.72
Medium	458	53510.58	35867.61	38022.36	12.95	45326	17.56
Small	4063	68062.35	45325.10	57300.45	19.51	154147	59.72
Total	4822	466707.53	400271.82	293706.68	100.00	258125	100.00

Source: Industrial Statistics, 2075/76, Department of Industry, Government of Nepal *Employment in Number.

The above table clearly shows that the industry of foreign direct investment has mostly been concentrated in large scale industries in which there are a total of 301 industries, which is equal to 67.54 percent of FDI amount up to 2075/76. The small scale and medium scale industries occupy second (19.51 percent) and third (12.95 percent) position respectively. Similarly, in terms of employment, small scale industry contributes 59.72 percent of total employment followed by large industries (22.72 percent) and medium industries (17.56 percent).

V. INDUSTRIES APPROVED FOR FDI BY CATEGORY

Categorically, there are eight sectors of the industries which include energy based, service, manufacturing, agriculture and forest based tourism, and so on. The foreign direct investment has come in different sectors, but the priorities and the centralizations are different. Some sectors have high priority and other sectors have less priority. The amount of FDI in each of these industrial sectors is shown in the following Table -3.

Table -3 UP to 2075/76(NPR in Million)

Type of Industries	No. of Industries	Total Project Cost	Total Fixed Cost	Foreign Investment	Share in FDI	Employment *	Share in Employment
Agriculture and Forest Based	284	8314.82	6897.14	6611.82	2.25	10199	3.95
Construction	46	3842.34	2866.30	2983.01	1.02	3226	1.25
Energy Based	81	191467.22	187746.93	123822.97	42.19	11595	4.49
Information Technology	59	1561.02	1078.68	1281.02	0.44	2257	0.87
Manufacturing	1167	113568.03	89207.31	54628.47	18.60	101795	39.44
Mineral	72	10366.92	8235.80	7981.01	2.72	8786	3.40
Service	1610	78055.93	49960.72	54585.00	18.72	67376	26.10
Tourism	1503	59531.25	54278.94	41413.38	14.10	52891	20.49
Total	4822	466707.53	400271.82	293706.68	100.04	258125	100.02

Source: Industrial Statistics, 2075/76, Department of Industry * Employment in Number.

The above table clearly shows that there are 81 units of energy based industries which received top priority to attract FDI to the level of NPR123822.97 which is 42.19 percent of total FDI during the period 2055/56 to 2075/76. The second and third position is followed by service sector and the manufacturing sector respectively. The FDI in energy based sectors amounted to NPR 123822.97 million and this sector has dominant share of 42.19percentages in total amount of FDI. There are 18.72 percent and 18.60 percent of FDI receiving by service and manufacturing sectors respectively. Information technology attracted 0.44 percentages of FDI which is lowest share of 8 categories of industrial classification of FDI.

VI. INFLOWS OF FDI ACCORDING TO COUNTRY

The Foreign Direct Investment has come from almost all developed countries, especially, it is from neighboring countries China and India who have own large economy. Similarly, Nepal has received FDI from America, South Korea, Germany, Japan, Norway, and other countries. Mainly, the Chinese investors have investment in Hydro,

Airlines, and Manufacturing sectors, and the Indian investors have invested in Cement, Paints, Steels, and Hydro power. The FDI inflow in Nepal is mainly from following countries which is illustrated in the following Table -4.

Table -4 UP to 2075/76(NPR in Million)

Top Countries	No. of Projects	FDI	Share in FDI	Employment*	Share in Employment
China	1556	123363	42.00	73394	28.43
India	781	94111.04	32.04	72673	28.15
UK	196	13549.11	4.61	13212	5.12
South Korea	354	12323.75	4.19	11819	4.58
USA	413	9063.07	3.09	18550	7.18
Singapore	51	4517.39	1.54	3528	1.37
Mauritius	11	3434.70	1.17	1055	0.41
Japan	272	3076.21	1.05	10258	3.97
UAE	20	2984.51	1.02	1877	0.73
Switzerland	60	2920.01	0.99	1575	0.62
Others	1108	24363.54	8.30	50184	19.44
Total	4822	293706.33	100.00	258125	100.00

Source: Industrial Statistics 2075/76, Department of Industries. *Employment in Number

Nepal has FDI from 94 Countries and in terms of FDI inflows in Nepal, China (including Taiwan) has the highest position. Up to the end of FY 2075/76 the Chinese investors invested NPR. 125363 million which is 42 percent of FDI inflows in Nepal. Indian investors were recorded in second position in the FDI inflows in Nepal investing NPR. 94111.04 million (32.04 percent) in the same period. Again, this was followed by UK (13549.11 million), South Korea (12323.75 million), USA (9063.07 million), Singapore (4517.39 million), Mauritius (3434.70 million), Japan (3076.21 million), UAE (2984.51 million), Switzerland (2920.01 million), and others (24363.54 million) respectively.

VII. DISTRIBUTION OF FDI ACCORDING TO DISTRICT

The Foreign Direct Investment seems to be scattered to the 67 districts of the country, but most of the FDI amount is centralized in the Kathmandu valley and the districts of Terai region where the better infrastructure facilities are available. The scenario of district wise distribution of FDI inflows in Nepal is clearly shown in the following Table -5.

Table -5 UP to 2074/75 (NPR in Million)

S.N.	District	No. of Projects	FDI	Percentage of FDI
1	Kathmandu	2658	76626.32	26.28
2	Rasuwa	13	40020.28	13.72
3	Kalikot	1	33685.28	11.55
4	Lalitpur	754	28068.17	9.63
5	Kaski	337	12790.61	4.39
6	Myagdi	4	24340.00	8.35
7	Makwanpur	78	5896.34	2.02
8	Nawalparasi	43	5877.76	2.02
9	Bhaktapur	94	5532.07	1.90
10	Rupendehi	58	5399.05	1.85
11	Others	782	53307.60	18.29
Total		3833	179258	100.00

Source: Industrial Statistics, 2075/76, Department of Industry, Government of Nepal.

The table demonstrates top 10 districts of foreign investment. Among the total investment, more than one fourth of FDI based industries are established in Kathmandu Valley. Similarly, other industrial state like Pokhara, Butwal, and Hetauda are the second choice destinations for foreign investors. In the Kathmandu district, 2658 industries have been registered and it records to NPR76626.32 million (26.28 percent) amount of FDI in this district. In the record of FDI inflow in Nepal, Rasuwa and Kalikot districts are in second and third position, where the FDI amount recorded was NPR 40020.28 million(13.72 percent) and 33685.28 million (11.55 percent) respectively. The record of district wise

FDI inflow in Nepal goes on to Lalitpur (28068.17 million), Kaski (12790.61 million), Myagdi (24340.00 million), Makwanpur (5896.34 million), Nawalparasi (5877.76 million), Bhaktapur (5532.07 million), Rupandehi (5399.05 million), and others (53307.60 million).

VIII. CONCLUDING REMARKS

Foreign Direct Investment has not been a big contributor of economic growth in Nepalese economy, though it has the potential to be. In comparison to previous year, the FDI inflow in Nepal has been increasing. Statistically, in the FY 2075/76, foreign investors from 94 countries made investment in 343 firms showing top priority in tourism sectors which have received 42.15 percent of FDI in Nepal. The average growth rate of FDI inflow in Nepal is 40.7 percent and average annual inflow of FDI amount is NPR 3361.6 Million. Service sector is the second preferred sector for FDI and the Agriculture sector is less preferred sector having only 1.61 percent of FDI. On the basis of this study, there is positive relation between major sectors of FDI with Production and Employment in context of Nepal.

Foreign investors have become reluctant to invest the capital in Nepal because of political instability, unstable industrial and trade policy, legal uncertainty, inadequate supply of electricity, inadequate transportation facility, and limited market. Nepal is a low income country, which is badly affected by interrelated different problems such as poor infrastructures, long transactional political situation, under employment. Therefore, FDI could be successful measure in erasing the backwardness of Nepalese economy and driving the economy towards economic prosperity. But, the investors of neighboring and other countries are still not so willing to invest in Nepal. The fluctuating trend of FDI inflows during the review period from FY 2055/56 to 2075/76 justifies this statement.

By solving these problems, the government should ensure conducive environment for the investors to maintain stability of FDI inflow in Nepal. Further, political leaders, business leaders, and bureaucrats should create a business climate or business-friendly environment that makes foreign investors feel that their capital is safe and the market is worth investing. Low tax rates or other tax incentives, protection of private property, access to loan and funding, and infrastructure that allows the fruits of capital investment to reach market are few of the incentives that countries should offer. So, Nepal should work on enhancing its image as the investment friendly and worthy country by implementing the existing legislations effectively and reform if necessary. As a result, rate of FDI can increase and be helpful to fulfill dream of economic prosperity and happiness of people of Nepal.

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