

IMPACT OF COVID -19 PANDEMIC ON FOREIGN DIRECT INVESTMENT IN NEPAL FROM SOUTH ASIAN PERSPECTIVES

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ABSTRACT

Foreign Direct Investment (FDI) is an essential source of economic development. It has a broad relationship with different dimensions of the mixed economies. Like other development assistance, FDI also needs the best economic environment. This investigation aims to find the impact of Covid -19 on FDI inflow and other barriers to receiving FDI commitment in Nepal. This study is descriptive and analytical. Secondary data are used in the study. Foreign direct investment can be obtained as the government prioritized agriculture, tourism, energy, IT, infrastructure, etc., considering rapid economic Development. The government of Nepal is accepting and implementing foreign investment proposals of donor commitments. However, the Covid -19 pandemic has reduced FDI commitments funds as envisioned. Pandemic is not the only barrier of investment commitment. Still, there are also investment barriers are like, Business environment, poor infrastructure, lack of human resource skills, political transitions, weak governance, natural calamities, diverse and complex geography, tax slab, red tape, and climate change are critical in Nepal. Though the FDI in Nepal till 2019 was an upward trajectory, the 2020 pandemic has reduced it as Nepal's primary economic development source. South Asian environment can create FDI friendly environment in Nepal. Finally, this paper is a new one and full authority for future researchers.

Keywords: Covid-19 pandemic, Foreign Direct Investment, Commitment, Business Environment, Nepal

JEL Classification: F23, I1, M0

ARTICLE INFO

Received: August 16th, 2020

Revised: November 16th, 2020

Accepted: December 1st, 2020

Online: December 3rd, 2020

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To cite this document: Chaudhary, M.K., Ghimire, R.P., & Ghimire, D.M., (2020). Impact of Covid -19 Pandemic on Foreign Direct Investment in Nepal from South Asian Perspectives. JDE (Journal of Developing Economies), Vol. 5 (2), 132-141

Introduction

FDI has become a vital role in capital formation and technology transfer in Nepal and developing countries. Nepal is receiving, approving, and implementing various investment proposals of investments. It has been a vital growth enhancer providing external resources, modern management practice, new technology, capacity building, and employment opportunities. Nepal can utilize the level of finance received from different countries'

governments. The receiving amount of capital can be mobilized to reduce the trade deficit and many other projects. Productive use of such resources may boost up the sustained start-up and industrial competition. Foreign Direct Investment (FDI) is considered a very significant economic growth facilitator (Srinivasan et al., 2011). The literature in this area suggests that FDI boosts economic development by providing capital, foreign exchange, technology, and easing access to foreign markets (Crespo & Fontoura, 2007). They also believed that FDI injecting has been injecting domestic investment and innovation to derive economic growth. Countries with low-level equilibrium, meaning low investment and low per capita growth due to low savings rates, can escape this trap by importing more capital from abroad in the form of FDI (Hayami, 2001). In the indigenous growth model, FDI has a significant impact on improving human capital, e.g., managerial skills, research, and Development, enhancing economic growth (Mankiw et al., 1992). Developing economies should adopt policies to provide incentives to foreign firms to close the idea gap, bring resources from developed economies and use them with the local resources to gain or to keep pace with developed economies (Romer, 1993). This, in effect, creates distortion and hampers growth; thus, income inequality rises in developing countries (Stoneman, 1975).

Furthermore, in the neoclassical growth models, the impact of FDI in the long-term is negligible; however, it might positively impact the short-run (Solow, 1956). FDI does not benefit the host country; instead, it's the home country that transfers all the benefits through a multinational company (Griffin, 1970). FDI is negatively correlated with economic growth in developing countries (Saltz, 1992). There is no positive effect of FDI on developing countries' economic development (Haddad & Harrison, 1993). Whether FDI can be deemed to be a catalyst for output growth, capital accumulation, and technological progress seems to be a less controversial hypothesis in theory than in practice (De Mello, 1997).

In contrast, some researchers found a positive impact of FDI. FDI has a positive effect on economic growth (Blomstrom & Kokko, 1998). There is a positive relationship considering technological diffusion through FDI in 69 developing countries (Borensztein et al., 1998). The positive effect of FDI is more massive in open economies and bidirectional towards economic growth.

In contrast, it is unidirectional in a close economy, meaning GDP growth influences FDI flow (Chakraborty & Basu, 2002). Various other factors of the host economy, such as political environment, institutional environment, tax, literacy rate, and macro-economic strength, also play an essential role in how FDI might affect the economy's growth (Mallampally & Sauvart, 1999). There is a strong positive relation between skilled human capital and FDI impact on the host country's economic development (Wu & Hsu, 2008). FDI impact economic growth in two distinct ways, such as (1) it has a significant positive effect on the trade and commerce of the host country, which elicits economic growth, and (2) it increases the host country capital market (Bashir & Shakir, 2012). FDI positively affects economic productivity by transferring new skills, technology, and knowledge that the host country may be lacking (De Gregorio, 2005). FDI inflow positively impacts the host country's economic growth (Taylor & Sarno, 1997). Hence, FDI has both effects on economic growth.

The first official FDI inflow in Nepal was in 1951/52, when the Nepal Commercial Corporation was set up as a joint venture with 67 percent equity participation of Indian investors (Aryal, 2009). There are three everyday purposes of foreign direct investment, i.e., resource-seeking, market seeking, and efficiency-seeking (Verbeke et al., 2008). Efficiency also occurs when there are open and developed cross-border markets (Kudina & Jakubiak,

2008). Within ASEAN, foreign investments were already moderated even before the outbreak, caused by heightened risks from trade tensions (ASEAN Policy Brief, 2020). There was evidence that it would facilitate technology transfer and bring Development in the required sectors if the government adopts a more active and open policy to attract FDI inflows (Choi & Baek, 2017). Export-oriented FDI should be given more priority than domestic demand-oriented to decrease its trade deficit (Phuyal & Sunuwar, 2019). The FDI inflow decreased in the fiscal year 2018-19 to \$115.5 million after an upward trajectory in the previous few years. So this is that the real FDI is less than the higher FDI commitment (Nepal Rastra Bank, 2020). Countries whose extractive sectors depend on FDI inflows, many of which are in Africa, will first and foremost experience a loss in export revenues (which many already have due to the plunge in primary commodities prices, especially oil (Hauge, 2019). As discussed widely in the literature, progress toward political stability and continuing effort to bridge infrastructure deficiency in the country are two pre-requisites (Alesina et al., 1996). Building a dynamic market-based economy to propel growth also requires a competitive private sector, which in turn calls for an improved business and investment climate (Hunt, 2007). The investment climate is composed of many dimensions that help create investment opportunities, growth of firms, employment in the product market, and infrastructure services (Afram & Pero, 2012). Coordination between ministries and useful institutional framework is a critical sound investment (Gwartney et al., 2006). Implementation of laws/policies can only support the private sector and give a sense of security and confidence to do businesses (Basnett et al., 2014). Nepalese SMEs feel that the private sector people do not share the knowledge, ideas, and technical know-how among each other due to the fear of competition and the chance of their business being hampered (Shrestha, 2011).

The change is so frequent that the investment decision for new or additional investment is affected because investors get distracted by the unstable government (Malesky, 2007). This is in a declining trend due to various factors such as weak infrastructure, power shortage, and lack of facilitation from the government (Canning & Bennathan, 2000). The central bank's involvement is unnecessary here, creating additional barriers for foreign investors; foreign associated with MNCs complained (Francois et al., 2015). Global FDI flows are expected to contract between 30 percent to 40 percent during 2020/21. Investors had removed 83 billion US\$ from developing countries since the beginning of the COVID-19 crisis, the most massive capital outflow ever recorded (IMF, 2020). FDI inflows to developing countries are expected to drop even more than the global average, considering that those sectors that have been severely impacted by the pandemic account for a larger share of FDI inflows in developing countries (OECD, 2020). Pandemic will influence the composition of global FDI flows in the future (WEF, 2020).

Observing the literature, FDI has a negative and positive role in economic growth. FDI has a more significant impact on the economies from both aspects. But conversely, a decrease in FDI may affect commitment to the project proposal at the time of the pandemic. If there are a humanitarian catastrophe and economic crisis in the economy, it may affect the FDI inflow in the countries. The purposes of FDI are varied. As per the resources, the recipient country's market size, market growth, labor cost, and supply chain have been affected by shrink in FDI. As critical sources, it has to be injected into the recipient countries' economic growth. Likewise, Government relations can secure the FDI in the country Nepal. The business environment, Health crisis, conflict, political instability, pandemic, natural disasters, etc., have affected Nepal's recipient country's FDI inflow. Due to the Covid-19 pandemic, growing poverty, unemployment has hindered Nepal's targeted Development.

Moreover, Covid-19 has been affecting the economy of the country, which has discouraged foreign direct investments. Due to the absence of a previous study on Covid -19 on FDI commitments in Nepal with south Asian perspectives. Therefore, this paper put an inquiry into how Covid -19 has reduced the FDI inflow in Nepal.

Research Methodology

Caused by the covid-19 pandemic spread globally, there is a question regarding the role of FDI flows that are expected by nations like Nepal. Therefore, the debate about the impact of covid-19 on commitments of FDI in Nepal with South Asian perspectives has been increased in the Nepalese context. This investigation's main objective is to find the impact of covid-19 and other related barriers to receive the commitment of FDI in Nepal. To attain the mentioned issue, i.e., FDI commitment in and after covid-19. Hence, this study is quantitative based on secondary data and information. And the research has followed the scientific review of published periodic reports like World Bank 2020, UNCTAD 2020, Depart of industry Government of Nepal, 2020, and Nepal Rastra Bank 2018 and relevant literature that appeared in reliable and recognized sources.

Analysis and Discussions

Governments worldwide have been considered inflexible public health and financial measures to edge the covid-19 pandemic outbreak. The pandemic and its related actions have caused severe economic interference that ultimately, to some extent, influence the decision related to FDI flows. The subsequent impact on the FDI decision of business firms will directly or indirectly depend on the particular government's degree of policy response. FDI could be only necessary for emerging and developing economies, given another international financing (OECD, 2020). FDI plays a crucial role in supporting the national economy during economic recovery (Alfaro & Chen, 2012; Desai et al., 2008). OECD report shows that even under the most favorable environment, FDI may decline at least 30 percent in 2020 compared to 2019.

Nepal's government hosted the investment summit in 2019, and 15 MOU's was signing with investors from various countries globally. However, the actual report was very much less than the Investors' commitments. Nepal investment summit becomes a real platform to create a framework investment climate for doing business in Nepal. For this, the office of the Investment Board of Nepal (OBIN) was established in 2011 aimed to educate and promote investment in Nepal. Similarly, private business and investment bodies like FNCCI, MCCI, and CNI are represented in OIBN. But over the years, they have not been playing a satisfactory role in positioning themselves as a strong catalyst for FDI promotion in Nepal.

Table 1: Doing Business Score of Nepal and South Asian Countries, 2020

Rank	Economies	DB Score
63	India	71.2
89	Bhutan	66
94	Nepal	63.2
99	Sri -Lanka	61.8
108	Pakistan	61
147	Maldives	53.3
168	Bangladesh	45
173	Afghanistan	44.1

Source: World Bank, 2020

Table 1 presents the doing business score of Nepal and South Asian countries in 2020.

Nepal's doing business score has been reached at 63.2 in 2020, ranked with 94th position among the 190 countries. According to the World Bank, Nepal has improved cross border indicators, time and cost of export and imports, improved construction services, electricity, enforcement of the contract, and free use of online platforms. Even though Nepal is facing starting a business, registering property and paying taxes are still business hazards. India has a top score of 71.2, which was ranked 63rd position. In the region, Afghanistan has ranked 173rd place with a 44.1 doing business score.

Table 2: Fall in Foreign Direct Investment after Covid-19 in Nepal

Fall in Foreign Direct Investment After Covid-19 in Nepal	
2019 March -July	2020 March -July
Rs. 10.94 billion	Rs. 8.22 billion

Source: Department of Industry Government of Nepal, 2020

Table 2 presents that according to DoI Nepal 2020, as of July 12, Nepal received Rs 8.22 billion, whereas it was Rs. 10.94 billion in 2019 in the same last period. Rs. 8.22 billion amount is predicted that this will create 2,068 employment opportunities. Nepal is accepting the proposals of investment this year, even though the pandemic ongoing. The investment opportunities are uncertain globally, so it is essential to revise the Foreign Investment and Technology Transfer Act to open investors with effective regulation. The threshold for foreign investors is up to Rs. 50 million. Because of Covid -19 pandemic, the FDI has fallen. China has committed Rs. 6.77 billion till July 12, 2020, whereas in 2019, at the same time as last year 8.38 billion with the perspective of Belt and Road Initiative. One of the successful examples of impactful Chinese FDI in Nepal has to be Hongshi Shivam Cement, a joint partnership between Hong Kong Red Lion No 3 Cement Co Ltd (70 percent), a wholly-owned subsidiary of Hongshi – China and Shivam Cement Pvt. Ltd. Nepal (30 percent) (Government of Nepal, 2018). China's proposals are based on mining, construction, hydropower, forest, and the tourism and service sectors. Nepal is receiving FDI as an improvement in process, law, and policy. Till March 2020, the investment worth of Rs. 100.55 billion commitments for FDI in 2019 are being disrupted due to pandemic, approved by the Investment Board of Nepal. The total FDI has funded 83 percent of small scale industries, 11 medium scale industries, and 6 percent of large-scale industries.

Table 3: Shrink in Foreign Direct Investment after Covid-19 in Nepal March to mid-August, 2020

Shrink in Foreign Direct Investment After Covid-19 in Nepal March to mid-August. 2020	
2019 Mid August	2020 Mid August
Rs. 1.44 billion	Rs. 1.39 billion

Source: Central Bank of Nepal, 2020

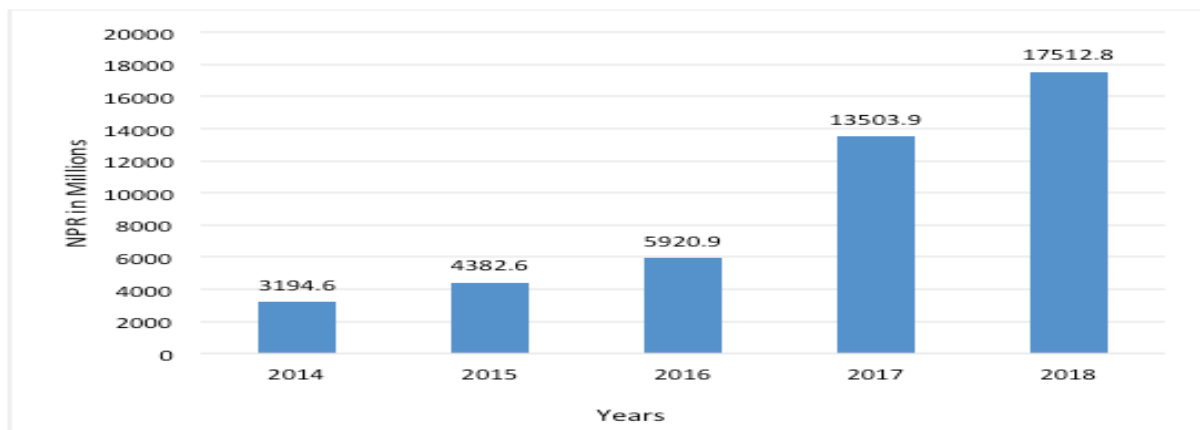
Table 3 presents a shrink in foreign direct Investment after Covid-19 in Nepal from March to mid-August 2020. Net FDI decreased 3.3 percent as a worth of Rs. 1.39 billion, whereas at the same time as the previous year, it was Rs. 1.44 billion, according to Nepal Rastra Bank of Nepal. This has shown that till the Mid August FDI aspect has been shrunk in Nepal, it will lead to less economic development as Nepal is a dependent country for economic assistance.

Table 4: Foreign Direct Investment Inflow and Greenfield Investments in Millions USD

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow (<i>million USD</i>)	198	67	185
FDI Stock (<i>million USD</i>)	1,587.5	1,921.4	1,892.4
Number of Greenfield Investments	6.0	9.0	9.0
Value of Greenfield Investments (<i>million USD</i>)	168	260	425

Source: UNCTAD, 2020

Table 4 shows foreign direct investment inflow and Greenfield investments in millions. According to UNCTAD's 2020, FDI inflows increased from USD 198 million in 2017, whereas in 2018, it was reached 67 million USD and FDI total amount earned at USD 185 million in 2019. Besides, FDI stock was 1,587.5 million in 2017. In the three fiscal years, Nepal had a maximum of 1,921.4 USD million in 2018. In 2019, the supply of FDI remained 1,892.4 USD million. From the figure, it has been found that FDI is increasing in Nepal as Nepal has high investment potentials. On the other hand, 9.0 percent of Greenfield investments stood in 2018 and 2019, whereas it was 6.0 numbers in 2017. The value of Greenfield investment (venture of the parent company in a foreign country) in 2017 was 168 USD million, which was increased in 2018 totaled 260 USD million. In 2019, it was reached 425 USD million.

**Figure 1: FDI in Nepal (NPR in Millions)**

Source: Nepal Rastra Bank, 2018

Figure one shows that the FDI increment every year from 2014 to 2018. In 2014, it was 3194.6 million, whereas, in 2018, the FDI reached 17512.8 million as Nepal has ease of doing business and investment prospects. It tells that the country's Development has been injecting by FDI. It can be the engine of economic growth. Since it has great importance in the massive infrastructure development of the host country. Higher the FDI flow in the recipient country. Besides, FDI may hurt the economy like dependency and less resource endowment. This could also result in structural unemployment and weaken local producers' competitive position (Melnyk et al., 2014). Despite the considerable potential, particularly in the agriculture, tourism, energy, IT, and infrastructure sectors, widespread corruption, cumbersome bureaucracy, and weak implementation of laws and regulations have generally kept investors at bay (US Department of State, 2019).

Conclusions

To grab the FDI commitment, Based on this investigation, it seems that the country's image and the favorable situation can observe the FDI. Similarly, it can be noticed that Nepal's present status in response to watching FDI is less effective. Therefore, the paper concluded that Nepal could prepare a think tank to devise appropriate policy conditions in this changing context in Nepal's and after the Coviemic to attract FDI and create a business and investment climate in Nepal. Talking about the business environment among the south Asian nations, India is top-ranked, followed by Bhutan and then Nepal. Therefore, Nepal has an opportunity to upgrade its rank by maintaining cooperative and convincing relationships h different Asianry's government and international agencies for FDI projects. Many public companies can have a capital injection to revive in the short run and long run timeframe. Nepal should search for global funds. For example, Middle East countries are searching for capital investment opportunities beyond gas and oil. Nepal should find the potential fund to ufor utilize in the country from the very beginning. After the covid-19 pandemic, to take faster resilience, global fund inflow has to be required.

In this pandemic situation, Nepal's government can receive FDI commitments to fulfill sustainable development goals (SDGs). Thus, it can be concluded that investment barriers like business environment, poor infrastructure, lack of human resource skills, political transitions, weak government, natural calamities, diverse and complex geography, tax slab, red tape, and climate change are critical Nepal. Though, the FDI in Nepal till 2019 was upward trajectory and political instability, transparency, corruption, natural calamities, remote geography, individual tax, corporate tax, procedures, red tape, and climate change. Also, lack of investors' motivations, lack of promotion in management of FDI, lack of intuitional capabilities, lack of promotion of business opportunities, fewer development strategies, etc., are critical in Nepal. At present, Nepal has to open the secured areas where foreign investors can be motivated. Policy and business improvement may accelerate the trend of FDI growth. Nepal needs FDI for infrastructure development. Investment Board of Nepal has recognized some potential sectors like hydropower, transport, agriculture, tourism, information communication technology, mines and minerals, health, and education; manufacturing and financial institutions are the key areas to receive FDI. At this time, knowing the environment of falling turns in the commitment, there should be updating of investment policy as per the changing environment caused by a pandemic is a must. FDI considers doing business to spread in productive sectors.

This research is useful for policymakers and researchers because it has a good discussion about FDI and its commitments before and after Covid-19. This paper has also analyzed and discussed the current FDI data in Nepal and South Asian countries, a new one, and a full source for future researchers. The study's additional contribution could be that the evidence figures out how Covid -19 has reduced the FDI inflow in Nepal.

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