

A Brief Overview of Chinese FDI in Nepal

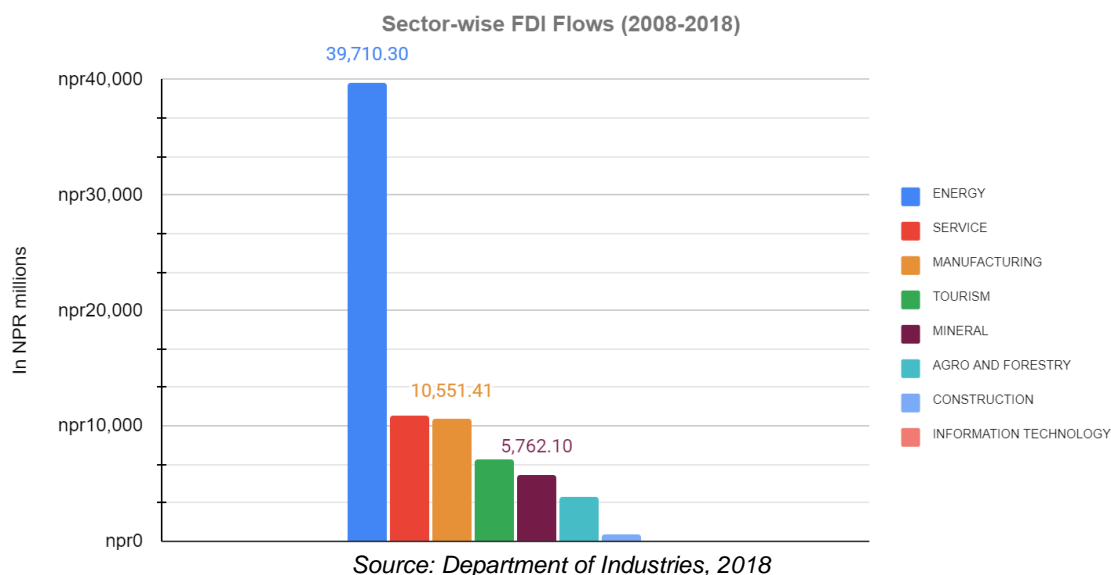
FDI in Nepal

As of 2020, there over 5,000 foreign investment projects registered in Nepal with a total proposed foreign capital of around \$ 2.9 billion. Close to 85 percent of these projects are categorized as small-scale and are primarily concentrated in the service and tourism sectors.¹ FDI in Nepal has been steadily increasing from 2008 and has significantly picked up since 2012. FDI inflows from between 2016-2020 collectively account for 48 percent of the total net FDI inflows from 1995 to 2019; 2018 marking an all-time high net FDI inflow of \$152 million. This surge in FDI inflow is primarily attested to growing FDI from China.

Chinese FDI in Nepal

There has been a significant increase in Chinese FDI in Nepal in the past 15 years. From 2005 to 2020 Chinese FDI has increased a massive 17,876 percent. The biggest surge in Chinese FDI investment came in 2018 with the GoN approving an estimated \$404 million. As of 2020, China (including Taiwan) has the highest FDI commitments in Nepal, followed by India, UK, and the US. Amidst the COVID-19 pandemic, in the first two months of FY 2020/21 alone China pledged NRs 5.50 billion FDI in the tourism sector of the country.

The rise in FDI in Nepal from China aligns with China’s ‘go-global’ policy, as well as is partially supported by the reforms introduced by the government to facilitate FDI. For example, the government’s decision to allow 100 percent FDI in the hydropower sector has supported the inflow of Chinese investments in the sector. From 2008 to 2018, Chinese FDI in Nepal was \$ 673 million, of this, around 50 percent was in the energy (hydropower) sector through 13 projects.



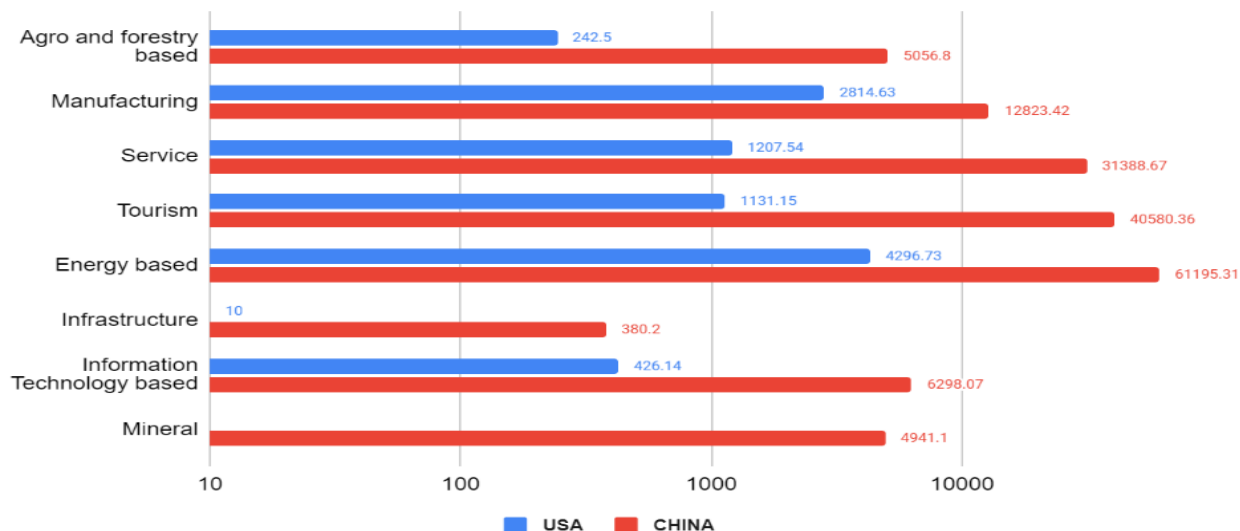
Besides the energy sector, a (relatively) considerable amount of Chinese FDI is in the service, manufacturing, tourism, mineral, and agro and forestry sectors. At the end of FY 2019/20, China (including Taiwan) had FDI in 1,711 establishments. Interestingly, the majority of investments in these other sectors are classified as small and medium.

From the 918 Chinese FDI establishments mapped internally by PEI, from 2009 to 2018, major sector investments among others include; Service: cargo handling, Chinese language training,

¹ Department of Industries, 2019/2020; [Industrial Statistics](#)

software development, and business outsourcing; Manufacturing: wide array of consumables including cement, F&B, garments, electric appliances, and placer gold to name a few; Tourism: primarily Kathmandu Valley concentrated hotels and restaurants of varying capacity; Mining: copper and placer gold; Agro and Forestry: mostly vegetables, flower, and animal husbandry. Around 90 percent of these mapped establishments/projects have been initiated with 100 percent foreign equity.

Comparison of FDI from China and the US 2008-Present (NPR million)



Source: Department of Industries, Industrial Information System 2018

Corresponding to growing Chinese FDI inflow, there is an increasing trend of Chinese non-tourist immigration to Nepal. Of the total business visas issued from 2017 to 2019, 50 percent were to Chinese individuals. Similarly, for the same period, China accounted for close to 68 percent of the total working visas issued.²

Parting Thoughts

It is quite evident that there is a growing influx of Chinese investment across sectors and at various scales in Nepal. Yet, beyond the aggregated number and trends, the details of Chinese FDI in Nepal is largely unknown. To begin with, despite the relatively large flow of investments into the Nepali economy, its micro- and macroeconomic impacts are not well estimated and understood. Besides the investments in energy and manufacturing,³ it is not clear what the real impact is of these investments on national productivity.

With most of the Chinese investment being small and spread across a range of sectors, tracking and monitoring the commitment and compliance, such as that related to employment creation and labor is both difficult and tedious, and is well beyond the capacity of the government. For example, it only came to the government’s attention in 2019 that a large part of the financial exchanges in the Chinese eco-system in Nepal was circumventing local taxes by using unauthorized Chinese digital wallets.⁴ More importantly, with Chinese investment, investors, and workers well embedded in Nepal, in light of insufficient evidence, it can only be hypothesized that their engagement and interactions with the Nepali society and people will bear significance not only for the economy but equally engage new solidarities in the social, cultural, and political spheres.

² Department of Immigration, 2020; [Immigration](#)

³ Such as the Hongshi-Shivam cement

⁴ Kathmandu Post, 2019; [Use of Chinese Digital Wallets banned in Nepal](#)