

**A COMPARATIVE ANALYSIS OF INDIAN AND CHINESE
INVESTMENT IN NEPAL: 2010/11 – 2019/20**

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DECLARATION

This is to certify that the dissertation entitled “**A COMPARATIVE ANALYSIS OF INDIAN AND CHINESE INVESTMENT IN NEPAL: 2010/11 – 2019/20**”, submitted by me in partial fulfilment of the requirements for award of the degree of **MASTER OF PHILOSOPHY** of Jawaharlal Nehru University, New Delhi, is my own work. The dissertation has not been submitted for any other degree of this University or any other University.

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CERTIFICATE

We recommend that this dissertation be placed before the examiners for the evaluation.

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Dedicated to

My Papa

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Abbreviations

ASSOCHAM: Associated Chambers of Commerce and Industry of India

BRI: Belt and Road Initiative

CII: The Confederation of Indian Industry

CPC: Chinese Communist Party

DNPL: Dabur Nepal Private Limited

FICCI: Federation of Indian Chambers of Commerce and Industry

FITTA: Foreign Investment and Technology Transfer Act

GDP: Gross Domestic Product

IBN: Investment Board Nepal.

IEA: Industrial Enterprises Act

IL&FS: Infrastructure Leasing & Financial Services Limited

ITC: India Tobacco Company Limited

MoU: Memorandum of Understanding

MTNL: Mahanagar Telephone Nigam Limited

NCELL: NcellAxiata

NCP: Nepal Communist Party

SBI: State Bank of India

TCIL: Telecommunications Consultants India Limited

TTA: Transit Transport Agreement

VSNL: Videsh Sanchar Nigam Limited

Chapter 1: Introduction

1.1 Background

Nepal is a land-locked country wedged between two emerging and fast-growing giants- India and China. It shares 1,415 Km border with China in the north and around 1,700 Km with India in east, west and south. Nepal has been one of the least developed countries as well as the slowest growing economies of South Asia. When looking at its growth rate, it was just over 4 percent a year, over the last decade.

Nepal aims at achieving the middle-income status by 2030 and in tandem to achieve the SDGs as it has integrated the Sustainable Development Goals (SDGs)¹ into its national plan. For attaining the objective of achieving middle- income status by 2030, the country needs to raise its economic growth. The foreign investment plays a vital role in raising the economic growth of a country. FDI brings innovative technology, creates competitive business atmosphere, contribute in human capital formation, boosts enterprise development and plays roles in promoting trade. All of these help in raising economic growth.

FDI inflows as a share of GDP are very low in Nepal, relative to other countries in South Asia, such as Bangladesh and Sri Lanka. As of 2019, foreign direct investment in Nepal was 0.61% of the GDP while that of Bangladesh and Sri Lanka were 0.66% and 0.90% of their respective GDP. The FDI levels in 2019 are however much higher than at the beginning of the decade. In fiscal year 2010-11, Nepal received proposed investments worth of Rs 10,050.71 million, which increased significantly in the fiscal year 2019-20 to Rs 37,853.27 million. Nepal's foreign direct investment (FDI) inflows are not only low but there exists huge disparity across sectors such as in services, manufacturing and agriculture sector. As of mid-July 2018, out of total FDI received, service sector accounted for Rs 126.89 billion (63.27 percent of total FDI stock) whereas the industrial sector accounted for Rs 73.54 billion (36.67 percent of total

¹The United Nations in 2015 adopted Sustainable Development Goals (SDGs), also known as Global Goals as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

FDI stock). Transport, storage and communication are the major sub-categories within the service sector that has the highest FDI stock of Rs. 64.77 billion. Agriculture sector received only Rs 118.2 million, which is only 0.02% of GDP.

In the fiscal year 2010-11, Nepal showed evidence of proposed foreign investments from 36 countries. India held the first rank in term of proposed investment with Rs 7,007.26 million, followed by China and Singapore with Rs 1,187.40 million and Rs 544.00 million respectively. After a decade, in the fiscal year 2019-20, the Himalayan nation received the proposed foreign investments from 17 countries. China topped the table in this term with Rs 25,582.65 million and the second and third spot was held by USA and India with Rs 4,228.94 million and Rs 3,897.09 million respectively.

India has been a major and special economic partner of Nepal. It is the oldest investor partner of the Himalayan nation. In terms of total proposed foreign investments received by Nepal up to 2010-11, India was the largest investor, followed by China. But in the same term up to 2019-20, Chinese share was highest, followed by Indian share. India's investments are mainly concentrated in manufacturing, hydropower sector and banks and financial institutions. There exists "Treaty of Peace and Friendship 1950", a unique Treaty arrangement between the two neighbours, India and Nepal, which ensures national treatment for both Indian and Nepalese businesses. Nepali citizens are treated at par with Indian citizen and vice-versa, not only in residence and business but also in property and movement of human capital. Indian projects in Nepal, like the Gandaki Irrigation project, Devighat Hydropower project, and B.P. Koirala Institute of Health Sciences are milestone in relations between the two countries.

In recent years, China's share has been rising in total FDI inflows in Nepal. It emerged as the major player in making investment in Nepal. In 2014, Chinese foreign direct investment (FDI) to Nepal surpassed Indian FDI, and China has remained Nepal's largest investor since then. With proposed investment of Rs. 25,582.65 million in 176 projects, it once again becomes the top investor in fiscal year 2019-20. Investment flow from it is centered in mainly manufacturing, more specifically to cement industry) and hydropower projects.

Under the Belt and Road Initiative, the Chinese investments are expected to rise further in Nepal in the years to come. Nepal signed MOU for BRI on May 12, 2017.

Initially, it presented 35 projects, mainly related with development of various infrastructures, integrated check posts construction, energy, irrigation etc, to China to be considered in BRI. But in Second BRI 2019, Nepal selected altogether 9 projects i.e., 3 roads, 2 hydroelectricity plants, 1 cross border railways, 1 cross border transmission line and 1 technical institution in the name of late Madan Bhandari. Chinese investment also poses large geopolitical and geo-economic concerns in Nepal. There is concern regarding Nepal's overdependence on Chinese loans. The implementation of BRI projects in Nepal will require huge Chinese loan and if the projects prove non-profitable like the Hambantota port of Sri Lanka, Nepal will not be able to repay the loans along with the interest amount. It may lead Nepal to fall into debt-trap of Chinese loans, which may lead to some sort of compromise with its sovereignty as the Sri Lankan government compelled to hand over the Hambantota port to China on 99-year lease when found itself unable to repay the Chinese loans.

Nepal has taken various initiatives to enhance the inflow of foreign investment in recent years such as the introduction of new Foreign Investment Policy 2015 and Foreign Investment and Technology Transfer Act (FITTA) 2019. Organization of Investment Summits in 2017 and again in 2019 shows its will of attracting FDI. In the Investment Summit 2017, which was organized in Kathmandu from 2nd to 3rd March, China made the largest investment commitment with 8.3 billion US dollar whereas India made investment commitment of only 317 million US dollar. Also, Nepal Investment Summit 2019 has witnessed signing of several deals and MoUs for new projects from different countries in area of Transport, hydropower, hospital, airport, convention centre and agriculture infrastructure etc.

Against this background, this study analyzes trends of FDI investment from India and China in Nepal over the period of ten years from fiscal year 2010-11 to 2019-20. The analysis is undertaken with respect to category wise investment by both India and China and comparative analysis and factors contributing to increased Chinese investment vis-a-vis Indian investment have been analyzed in the study.

1.2 Review of Literature

1.2.1 Scenario and Role of Foreign Investment in Nepal

From the point of view of attracting foreign investment in recent years, the performance of Nepal can be seen in four major periods. In the first period from 2004 to 2008, the political instability adversely impacted the inflow of foreign investment. One large investment in the hydropower sector was seen but Greenfield investments were low and mergers and acquisitions were negligible. During the second period from 2009 to 2011, due to peaceful environment, the economy performed well in terms of investments. The legal and institutional framework to mobilize large investments was set up by the government. Some investment in green-field projects in hydropower and transport set a good image of the country, which further helped in attracting more investment. From 2012 to 2014, downfall in the investment was recorded. One of the reasons for the same was the challenges of the Indian economy, which was one of the main sources of FDI inflow. The Indian firms had made significant divestment in this period. The fourth period starts after 2015 earthquake, when reconstruction works lead to increased expenditure on public infrastructures. A mega-project with foreign investment of around 21 billion US dollar in cement industry, that is, Hongshi-Shivam Cement began its operation in 2018. Along with banking and pharmaceuticals, investment inflow has also been witnessed in some other service industries in 2016 (UNCTAD 2019). As far as sector-wise receiving of FDI by Nepal is concerned, the outstanding FDI was highest in the service sector which was followed by the industry and agricultural sector. When looking at the major sub-category within the service sector, storage, communication and transport sector is that has the highest FDI stock (Nepal Rastra Bank 2019).

FDI is an important factor in the economic growth of a country. Nepalese economy has been positively impacted from contribution of several FDI projects running in the country. NCELL is, for example, a leading telecommunication company with millions of customer, has created employment opportunities for hundreds of employees (Krishna 2011). FDI is positively correlated with the economic development of a country, which can be maintained through its favourable economic policy. Apart from increasing investment, it also helps in maintaining external stability. In Nepal, due to low level of FDI, its contribution in capital formation and employment is not significant, and hence contributing less in GDP. Nepal should adopt and execute such

policies which can attract more FDI as it brings new technologies, managerial skills, finance and opportunities of market access for the production and movement of commodities (Neupane 2020). FDI was not proved to be directly beneficial to Nepal's nominal GDP, when study was undertaken for 1991-2000. The reason may be the low foreign direct investment in that span of time which was unable to bring noticeable impact on Nepal's economy (Elliott 2006).

Different factors affecting foreign investment in a country are political stability and security, presence of skilled labour, administrative procedures and various incentives for incoming investment. In case of Nepal, stability has been achieved to certain extent, and it need to focus on creating a secured investment climate, developing skilled labour, Simplification of administrative process, provision for more incentives such as lower tax rates and lower tariffs on import of raw materials and export of final goods and ensuring an easy repatriation (Samriddhi Foundation 2018)

The government of Nepal has been taking some steps to attract more FDI inflows. Two investment summits were organized in 2017 and 2019 for the same. The Nepal Investment Summit observed the USD 13.74 billion investment commitment from 26 companies of eight countries to ten different sectors (Nepal Rastra Bank 2018).

1.2.2 India's Investment in Nepal

In the decades of 1970s and 1980s, India was the only investor in Nepal, investing at an average rate of \$0.5 million per annum. But the spike in Indian investment has been witnessed in 1990s, when its rate was more than \$8 million annually between 1990 and 2000. During 2000-2009, decline has been recorded in India's investment. But, after 2010, India's investment flow to Nepal has increased impressively and what the rate of US \$ 19.1 annually during 2001-10 becomes nearly around US \$ 92 annually during 2011-17 (UNCTAD 2018).

Nepal is getting benefits from the 150 Indian ventures that have been operating in Nepal. These Indian firms have significant contributions in Nepal's manufacturing, banking, insurance, education, telecom, power and tourism sectors. Some of the major Indian investment firms in Nepal include IL&S, VSNL, Dabur India, Hindustan Unilever, State Bank of India etc (Bansh 2020). India, with US\$1 billion, is investing in the first export-oriented hydropower project, Arun-3 hydropower project with

capacity of generating 900 MW electricity. Also, a state-of-the-art hydroelectricity project with 950 MW, Upper Karnali project is being developed with India's GMR Group (World Bank 2018).

1.2.3 China's Investments in Nepal

China has become a major player in term of making investment in Nepal. It has also become the largest investor multiple times in this decade. India, which until recently happened to be the largest source of FDI in Nepal has been surpassed by China not only in terms of total amount of investment but also in the number of projects. The China's investment in Nepal has become three times more than the India's investment (Jha 2020). China outranked India for the first time in 2014 in terms of total investment. In 2015-16, China's contribution was 42% of total FDI in flowed to Nepal (Bhatia et al. 2016).

China invests in Nepal through state-owned or private entities. State-owned enterprises mainly invest in critical infrastructures such as hydropower projects and construction of road, to project its image as a good economic partner. Whereas private Chinese companies invests mainly in micro-enterprises—small shops in major tourist destinations etc (Pandey 2020). Although, the Chinese investment is increasing by the day but it is still lower if compared with need and potential. More inflow of Chinese investments, mainly in the area of infrastructure development and water resources, will be beneficial for both the parties (Prashad 2015)

1.2.4 BRI and Nepal

BRI is a global development strategy of the Chinese government involving infrastructure development and investment. It is a Chinese ambition to connect Asia with Africa and Europe through networks of railways and ports with the aim of improving regional integration, increasing trade and stimulating economic growth (Thakur 2020).

As far as Nepal is concerned, it had signed for 35 projects initially, but reduced to 9 in second summit of BRI in 2019, under which Trans-Himalayan multi-dimensional

connectivity network and Nepal-China cross border railways are two projects taken care off.

It is expected that BRI will enhance its connectivity with China and in so doing generate socio-economic development and foster tourism. Also, it is expected to generate huge opportunities for bilateral trade and commerce along north-south economic corridors and in special economic zones (Murton 2020). The projects building under BRI not just seem to bring favourable atmosphere to the development of Nepal but can also benefit a lot in the trade and connectivity of Nepal with China. The BRI will connect Nepal with the international market and attract investment in productions. The potential of Nepal in agriculture and hydropower must be realized and should be priority domains of investment under the BRI. Nepal will face many challenges such as environmental, security and employment during pre or post BRI implementation. So, the Government of Nepal must be very careful while implementation of projects under BRI on account of environmental, security and employment issues (Pandit 2019).

As far as Public opinions over BRI development in Nepal are concerned, many are optimistic regarding huge opportunities for economic growth through Chinese investment. The projects under the BRI are seen as an effective option to reduce dependency on India. Others, however, also expressed concerns about the potential overdependence on Chinese loans and associated threats like Land grab and sovereign debt traps (Murton 2020). Building of large infrastructures involves billion of dollars, and if it is not sustainable and profitable, would lead Nepal to fall into a debt trap in future. Example of Sri Lanka can be seen wherein it was forced to transfer its deeper water port harbour of Hambantota to the hand of China for 99 years as the huge loan and its interests were impossible to pay back by this non-profitable projects. Chinese projects pose serious concerns in a Form of Geo-colonialism (Thakur 2020).

1.2.5 Barriers in investment

The inflow of investments in Nepal has increased in the recent years, but there are different challenges and barriers for their smooth inflow. The major barriers are political uncertainty and slow growing economy. The Indian FDI also faces various procedural and policy related impediments and hindrances like lack of harmony

between different FDI governing authorities, rampant corruption, problems with respect to land acquisition, insufficient infrastructure disruptive activities of labour unions, tax concerns such as no tax rebates on profits that get reinvested and infringements of copyright, trademark and patent of international brands (Taneja et al. 2019).

There is need of flexible business visa system for employing foreigners for better investment. But business visa system, in Nepal was overly restrictive. There prevails inefficient commercial justice and there is lack of international accounting standards. The administration of taxation is also not very efficient. The harmonization of procedures for getting a residence visa and work permit has not yet done (UNCTAD 2019). Factors like unclear policies, inadequate infrastructures for investment and complex procedures have been negatively affecting the Nepalese economy in terms of inflow of FDI. Offshore funds and onshore vehicles with foreign shareholders are considered foreign investors and so they have to face complicated procedure for FDI approval for every new investment in a Nepalese company, which may take several months (World Bank 2018).

Although, government of Nepal has, taken steps to ease the environment for doing business, but still, out of 190 countries, Nepal's rank in ease of doing business is 94, which is not impressive for the foreign investors (World Bank 2020).

1.2.6 Policy Initiative for FDI in Nepal

The Government of Nepal has adopted multiple open and liberal policies to attract foreign investors in the last few years. The initial ways for inflow of foreign investments were cleared by the Foreign Investment and Technology Transfer Act (FITTA) of 1992. But, Foreign Investment and Technology Transfer Act (FITTA) of 1992 had several limitations and so prevented investment inflows to reach their potential values. So, in 2019, the Nepalese government came out with FITTA 2019 by replacing Fitta 1992, through which a one-window policy and a one-stop shop were implemented, in order to simplify and minimize resistance in investment process. It will ease the company registration and facilitate visa access, land administration, foreign currency exchange, environmental compliance, customs and tax administration and access to infrastructure (UNCTAD 2019).

The government of Nepal has adopted new Foreign Investment Policy 2015 in March 2015 in order to make the economy more dynamic and competitive and in changing investment scenario. The term “foreign investment” and “technology transfer” has been clearly defined in the new policy of 2015. There are various provisions like access to credit, access to foreign exchange, facilities and exemptions, acquisitions of land, hiring foreign workers and industrial security and business promotion in order to facilitate FDI. Apart from these, equal treatment to foreign investors, withdrawal of their principal investment and its earnings and no nationalization of the investment has been assured in the new policy. The focus has also been given on mediator and dispute settlement in case of any outbreak of dispute. In order to expand the country’s exports, the government is willing to facilitate foreign investment Special Economic Zone (Taneja et al 2019).

Currently, Nepal is allowing foreign investment in a wide range of sectors with open market. Proper policy has been made by the government to protect foreign investment. For the protection of the rights of investors and defining of the facilities that will be provided, proper provisions are made in the new policy. Being a member of the World Trade Organization, Nepal can take the advantages of concessions facilitated. Some of the rights given to investors like right to whole repatriation of their investment profits, rights against nationalization of their investment and property etc, make the country attractive for foreign investment (India Nepal Chamber of Commerce and Industry 2019).

There are various attractive factors which makes Nepal a prospective destination for Indian investors. Factors that lure Indian investments are liberal trade and economic policy, which results in lower tariffs, and lower labour costs. When looking at the scope in Nepal, both the geographical and climatic conditions suits well for growing all sorts of agricultural products such as medicinal herbs, fruits and high quality tea, coffee and saffron in the country. Also, huge potential for the commercial production of hydropower in Nepal is well known (PHD Chamber of Commerce and Industry 2018).

Nepal is gifted with diverse landscape from almost sea level in the Terai region up to Mount Everest. So, within a short distance of 193 kilometres from the south to the

north, almost all variety of climate are available which provides enough investment opportunities in several fields such as herbal and organic farming (Jha 2020).

The available literature does not make comprehensive comparative analysis in term of India's and China's investment in Nepal. Although, data related to country-wise investment to Nepal are available in publications by Department of Industry of Nepal, and some analysis were found in some journal articles, but comprehensive comparative analysis has not been done. The reviewed literature does not focus on trend in foreign investment by the two countries. It also does not provide detailed study about category-wise analysis. This study has made an attempt to fill these gaps.

1.3 Definition, Rationale and Scope

1.3.1 Definition

According to World Bank², “Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital”.

According to “Foreign Investment and Technology Transfer Act 1992” of Nepal, the following investments made by a foreign investor are considered as “foreign investment”:

- Investment in shares,
- Reinvestment of the earning derived from shares, or
- Loan or loan facilities.

Nepalese FDI policy permits foreign investment in a wide range of activities. Most of the sectors of business are open for investment. However, foreign investment is allowed only in industrial activities and not in trading activities. Nevertheless, Industrial Enterprises Act (IEA) 2016 permits manufacturing companies to carry out the import activity within prescribed terms and conditions to examine the viability of the product in the Nepalese market.

Section 3 of the Industrial Enterprises Act 2016 classifies industry into eight categories and lists the nature of activities in each of these categories: (1) Agriculture and Forestry-Based Industry, (2) Energy-Based Industry, (3) Manufacturing industry, (4) Mineral Industry, (5) Construction Industry, (6) Tourism Industry, (7) Industry based on Information, Broadcasting and Communication and (8) Service Industry.

²(Online: web) Accessed 07 Feb. 2022, URL: <https://databank.worldbank.org/metadataglossary/jobs/series/BX.KLT.DINV.WD.GD.ZS>.

1.3.2 Rationale

Both India and China are economic giants, but Nepal, between these two economic giants, is still an LDC with low growth rate. Foreign investment is very important for economic growth of Nepal and for fulfilling the aim of the government in assisting the country graduate to a middle-income country by 2030. Both its neighbours, India and China, have been the major investors in Nepal. India is the oldest and one of the largest investor in the Himalayan nation. China has become the largest investor in the fiscal year 2014-15 for the first time by replacing India and since this fiscal year, it has been the largest investor in Nepal for the five years in a row. The Chinese investments are expected to rise further under the BRI. Nepal participated in both the BRI summits in 2017 and 2019, and ultimately finalised 9 projects, for rapid economic development and also to end up its over-dependency on India. Due to its participation in BRI, the Chinese FDI inflow is expected to increase further. Since, massive loan is involved in materializing projects under BRI, it would be difficult for Nepal, a LDC, to repay the loans and related interest within stipulated period of time, if these projects will prove unsustainable and non-profitable. In such case, there are risks of falling into debt-trap or loss of sovereignty as seen in the case of Sri Lanka when it was made to lease its Hambantota port to a state-owned Chinese company for 99 years in 2017.

Both these investors have also faced negative sentiments of Nepalese from time to time regarding investment. Certain stakeholders in Nepal have shown apprehension about huge investments from China. Also, negative sentiments toward India have been observed in recent years for not timely completion of projects even when India has been the major investor and first responder in any crisis in Nepal.

1.3.3 Scope

This study has analyzed the investments by both the countries, India and China, along various parameters which include trends and growth in total investment and share in total investment in Nepal from all sources. It has also analyzed trends and share of category-wise investment by the two players.

The study has also examined how the “Nepal Investment Summit 2017” has impacted FDI inflow from both the players. The impact on Chinese investment in Nepal after signing of BRI by latter has been analyzed. Also, the trend in FDI received after

introduction of new Foreign Investment Policy 2015, which has made provisions like access to credit, access to foreign exchange, facilities and exemptions, acquisitions of land, hiring foreign workers and industrial security and business promotion in order to facilitate FDI, has been analysed.

1.4 Research Problem/Question and Hypotheses

1.4.1 Research Questions

The following research questions have been addressed in this study:

1. What are the trends of India's foreign investment in Nepal?
2. What are the trends of China's foreign investment in Nepal?
3. What are factors determining India's investments in Nepal?
4. What are reasons for China's huge investment in Nepal?
5. How BRI will impact the geo-economics of Nepal?
6. Which category/ sector is getting more and which is getting less investment by both India and China?

1.4.2 Hypotheses

The study has examined the following hypotheses:

1. BRI investments have been a major factor leading to China emerging as the largest investor in Nepal in recent years.
2. Replacement of India by China as the largest investor in Nepal, over the last 5 years, is attributed more to political than economic factors.

1.5 Research Methods

The study has used the primary sources related to the topic which includes reports from United Nation Conference on Trade and Development, World Bank, Nepal Rastra Bank, PHD Chamber of Commerce and Industry, Nepal India Chamber of Commerce and Industry and department of Industry of Government of Nepal. Secondary literature is drawn from different journals and research articles.

The data which has been used regarding amount of foreign investments are proposed investment data because only proposed investment data are available in “Industrial Statistics”, issued by Department of Industry, Government of Nepal.

For the study, the total investment data has been taken for the period of 10 years from 2010-11 to 2019-20. The comparative analysis between the investments from both the countries has been undertaken after the latest amendment in Indo-Nepal Trade Treaty, which took place on 28 October 2009. Since, the data related to category-wise investment is available only from 2013-14 to 2018-19, so category-wise analysis of only these 6 year has been undertaken. Only those categories, in which Nepal is regularly receiving foreign investment in the reference time of six years, are taken for analysis. These categories are agro and forestry-based, manufacturing, service and tourism.

The primary focus of the data analysis has been a comparative analysis of the India’s and China’s investment in Nepal. It has also analysed that which categories in Nepal are being preferred by each investors. The analysis has been undertaken in respect of various parameters. These are trends and growth in total investment, share in total investment received from all countries, trends in category-wise investment and share in category-wise investment.

1.6 Chapter Scheme

This study is organized into five chapters. The first chapter is “Introduction”, in which the subject of research undertaken in this dissertation, as discussed above, has been introduced. This chapter gives a brief idea about the proposed study and its scope, research questions, hypothesis and chapter plan. A brief discussion on the scenario and role of foreign investment in Nepal, India’s investment in Nepal, China’s investments in Nepal, BRI in Nepalese context, barriers in investment in the country and policy initiative for FDI in Nepal is made.

The second chapter is “India’s Investment in Nepal”, which discusses about different factors determining India's investments in the Himalayan nation, trends and share of India's total investment and its Category-wise Investment in Nepal.

The Third chapter is “China’s Investment in Nepal”, which discusses about different factors determining China's investments in the Himalayan nation, trends and share of China's total investment and its Category-wise Investment in Nepal. The chapter also discusses about the Belt and Road Initiative (BRI) in context of Nepal.

The fourth Chapter is “Comparison of India’s and China’s Investment in Nepal”, in which comparisons between the investments by both the players on quantity, factors, implications, sector-of investment including the hydropower potential and pendency and completion of projects are undertaken.

The fifth chapter is “Conclusion”, which summarises the findings of research and analysis in the preceding chapters.

Chapter 2: India's Investment in Nepal

2.1 Background

The official FDI inflow took place in Nepal, way back in 1951-52, with the establishment of Nepal Commercial Corporation. The Corporation was established as a joint venture with 67 percent part of Indian investors in its equity (Nepal Rastra Bank 2019A). The Tribhuvan Rajpath-Kathmandu-Pathlaiya Highways, one of the initial examples of Indian investment in Nepal, was maintained by The Indian Cooperation Mission till 1965 (Nayak 2020).

India was the only investor in Nepal during the 1970s and 1980s, investing an average of \$0.5 million each year. However, the 1990s saw a surge in Indian investment, with an annual rate of more than \$8 million between 1990 and 2000. During the period 2000-2009, it decreased. However, following 2010, India's investment in Nepal rose dramatically, and the rate of US \$ 19.1 per year from 2001 to 2010 has grown to approximately US \$ 92 per year from 2011 to 2017 (UNCTAD 2018).

India has been the major player in terms of making investment in Nepal. It accounts for around 30 percent of the total investment in Nepal. In the period from 2007-08 to 2017-18, it invested \$98 billion in the Himalayan nation (Taneja et al. 2019). In terms of stock of investment in Nepal, with Rs 41.74 billion, India was at the second place as of mid-July 2018. India was also at the second place in terms of paid-up capital³ with \$16.01 billion investment as of the mid-July 2018 (Nepal Rastra Bank 2019B). In Nepal, numerous Indian joint ventures are active. There are 150 Indian joint ventures, which are active in manufacturing, telecommunications, education, banking, and insurance, tourism, and the power industry (PHD Chamber of Commerce and Industry 2018).

Dabur Nepal, Surya Nepal, LIE Nepal, SBI Bank, Everest Bank, Asian Paints, GMR India, Nepal Lever, and United Telecom Nepal are among notable enterprises (PHD Chamber of Commerce and Industry 2018). IL&S, VSNL and Hindustan Unilever are also among the prominent Indian investment businesses in Nepal (Bansh 2020). India

³ Amount of money a company has received from shareholders in exchange for shares.

is investing \$1 billion in the first export-oriented hydropower project, the Arun-3 hydropower project, which has a capacity of 900 MW. The Upper Karnali project, a state-of-the-art hydroelectricity project of 950 MW, is also being constructed with India's GMR Group (World Bank 2018).

2.2 Factors determining India's investments in Nepal

There are various factors which determine the flow of Indian investments in Nepal. These are as under:

2.2.1 Regional Agreement

Since the signing of two very important treaties, Treaty of Peace and Friendship and treaty of Trade and Commerce in 1950, the economic arrangement between India and Nepal becomes like a de facto Customs Union. The increase in flow of Indian investment in Nepal was seen in 1990s with the formulation of liberal foreign investment policy in Nepal in 1992 and beginning of economic liberalisation in India in 1991 (Sharan 2010). The Indian investment in Nepal increased further with signing of quite liberal trade treaty in 1996, to take the benefit of accessing the Indian market without any tariff and rules of origin norms. Due to difference in tariffs, not only genuine investors but temporary investors, whose motive was only to take quick advantages of tariff difference, get increased (Adhikari 2013A). With certain exception to some commodities under negative list⁴, the latest renewal of the Indo-Nepal Trade Treaty in 2009, gives tariff free access to nearly all Nepalese products, will have a positive impact on inflow of Indian FDI to Nepal (Adhikari 2013b).

The closeness of the Indian market for Nepali commodities, supported by a trade treaty that grants Nepalese manufactured products preferential access with exemption of basic customs duty and double tax avoidance mechanism with India, make Indian investments in Nepal highly appealing. Furthermore, certain preferential arrangements of Nepal with European Union and United States are making Nepal an attractive destination for foreign investment. This includes the Everything But Arms (EBA) arrangements, under which LDCs get access to European market with zero-tariff on different products. The arrangement gives quota-free, duty-free, access to the market

⁴These commodities are alcohol, tobacco and perfumes.

of European Union. Also, the duty-free access of US market to more than 60 kinds of garment items until 2026 provide Nepalese products with trade-free access in countries of different development levels, contributes in making Nepal an attractive destination for foreign investment (Indo-Nepal Chamber of Commerce and Industry 2019: 10).

Although, signing of Double Tax Avoidance Agreement and Bilateral Investment Promotion and protection Agreement (BIPPA) by Nepalese government with India is not sufficient for attraction of foreign investments, even then, they are crucial as they provide Nepal with a good image in the eyes of foreign investors regarding protection of their investments and availability of legal mechanism in case of any problem in the host country (Adhikari 2013b).

2.2.2 Exchange Rate

One of the very crucial economic determinants of Indian investment in Nepal is the pegging of Nepali currency with the Indian rupee. The Indian currency is freely convertible to Nepali currency at any bank in Nepal (Adhikari 2013A). Until 1956, both the Nepali and Indian rupees were legal tender in Nepal. After the abolition of the dual currency system, a new single currency regime was established under Nepal Currency Circulation and Expansion Act of 1957. The Nepal Rastra Bank come out with a new single currency system in which the Nepali rupee was pegged to the Indian rupee and the exchange rate between the two was set at 160 Nepali rupees for 100 Indian rupees. After that, purchase and sale of any quantity of Indian money could be done by the Nepal Rastra Bank at the provided exchange rate. Although, Foreign Exchange Regulation Act of 1962 permits the Nepali rupee to be converted into any other currency, the exchange rate between the currencies of these two countries has been stable for a long period. The latest change in the exchange rate of these currencies was took place 28 years ago in 1990s. In that adjustment, the older exchange rate of 160 Nepali rupees for 100 Indian rupees was established again (Jha 2020b: 131).

Due to this pegging, there is a sense of certainty among Indian investors even when volatility is registered in exchange rate. Since, for more than last two decades, the exchange rate has been fixed at 1 Indian rupee to 1.60 Nepali rupees, generates confidence and sense of predictability among Indian investors regarding their

investments in Nepal. This arrangement is not available in the case of other South Asian countries like Sri Lanka and Bangladesh, and so there still exist some sort of uncertainty regarding the volatility of exchange rate. In the case of Sri Lanka and Bangladesh, the Indian currency is first needed to be changed in convertible currency, then, can be changed into local currency, which exposes some uncertainty due to volatile exchange rate (Adhikari 2013).

2.2.3 Socio-Cultural Factor

There are a lot of commonalities between India and Nepal in respect of language, culture and social beliefs and norms. There also exists blood and conjugal relation between the people of these two neighbours. Such unique relation also determines the inflow of Indian investment in Nepal. Since the taste and preferences of the citizens of both sides are more or less same, commodities produced in one country can be sold easily in other. Since, Indian media is freely available in Nepal, only dubbing of Indian content into Nepali language is required for advertisement of Indian commodities (Adhikari 2013A).

2.2.4 Law and Order

Several examples come to light showing Indian investors have been specifically targeted in Nepal. Maoists, for instance, assaulted the GMR headquarters in connection with the Upper Karnali Hydro power project, which was set to produce 900 MW by 2016. In 2011, the Maoists threatened a second power project that GMR was working on with a Nepali partner (Bista 2011). India's concern is not only about the existing Indian investment in the Himalayan nation but also about the deterioration of business atmosphere there. Political instability for long, poor law and order condition, labour conflicts, frequent strikes and shutdowns and forced contributions have negatively impacted the business atmosphere in Nepal. Despite the fact that construction on most of the projects has already begun, notably in the hydropower sector where India has made a significant investment, certain forces have mingled politics and business and obstructing the implementation of some ongoing activities. These law and order situation has generated sense of insecurity among average investor of India regarding making investment in Nepal (Jha 2020b). The herbal plant of Dabur Nepal, located in Banepa, east of the Kathmandu valley, was closed due to security issue. Udayan Ganguli, managing director of Dabur Nepal, said, "There are at least 50 female employees working in the green house. Due to the

law and order problems, we have to shut down the operation indefinitely," (Pradhan 2013).

On the background of deteriorating business and investment atmosphere in Nepal, particularly in the context of Indian investments, the Indian government wished for an agreement pertaining to the protection of Indian investments in Nepal. As a result, the Bilateral Investment Promotion and Protection Agreement (BIPPA), come in the picture, as a bilateral agreement between the two countries in order to protect and promote investments. Finally in 2011, this agreement was signed between the Indian government and the Nepalese government (Bista 2011). The BIPA between India and Nepal, however, was never ratified as was viewed as a barrier to foreign investment and so terminated by India unilaterally in March 2017 (Taneja et al. 2020). The government of India had come out with a new Model Bilateral Investment Treaty (BIT) in 2016 and which came into force from April 2017 onwards, replaced the previous BIT framework. During 2015-16, India was among the most sued countries by the foreign firms. By the end of 2015, foreign investors had filed 17 investor-state arbitrations against India. Out of these 17 arbitrations, nine arbitrations have been settled, six were still pending and the country had even lost in two cases. The frequent suing by the foreign entity against the country made the government to frame new Model BIT. This step will have role in making country's treaty more specific in international arbitrations (Jose 2017). India has signed only 4 BIT subsequent to the release of this new BIT framework in 2016. These BITs are signed with Belarus, Kyrgyz Republic, Brazil and Taiwan (Dwivedi 2020).

2.2.5 Geopolitical Factor

India tries to maintain its influence on the political leadership of Nepal. Geographically, Nepal is like a sandwich between two giant countries, shares its northern border with China. Both China and Nepal are strengthening their trade ties and Chinese investment is registering significant increment. So, it becomes important for India to have its influence on the political leadership of Nepal and making investment in Nepal is one of such way for the same. India encourages its local firms to invest in Nepal also for political reasons to maintain its influence (Sharan 2010). The increasing investment from China in the Himalayan nation has been seen in geo-political term. This made India to respond by government backed investment in Nepal to increase its influence over there (Thakur and Thapa 2020).

2.2.6 Miscellaneous Factors

In the technological aspect, Indian technology is not only improved but also which can be made compatible to cater the requirement of small-sized market and consumers of low-income group. Also, Nepal has endowment of several raw materials and large labour force, which attracts Indian investments. Potential resource like flowing water, gives ample opportunity to Indian investors to harness hydro-electricity. Similarly, abundant availability of herbs attracts those Indian investors, interested in production of Aayurvedic or herbal medicine (Sharan 2010). Also, the free movement of people of both these countries across borders without any visa requirement helps in creating business contacts and plays important role in inflow of foreign investments to Nepal from Indian side (Adhikari 2013).

2.3 India's Total Investment in Nepal

2.3.1 Trends and Growth

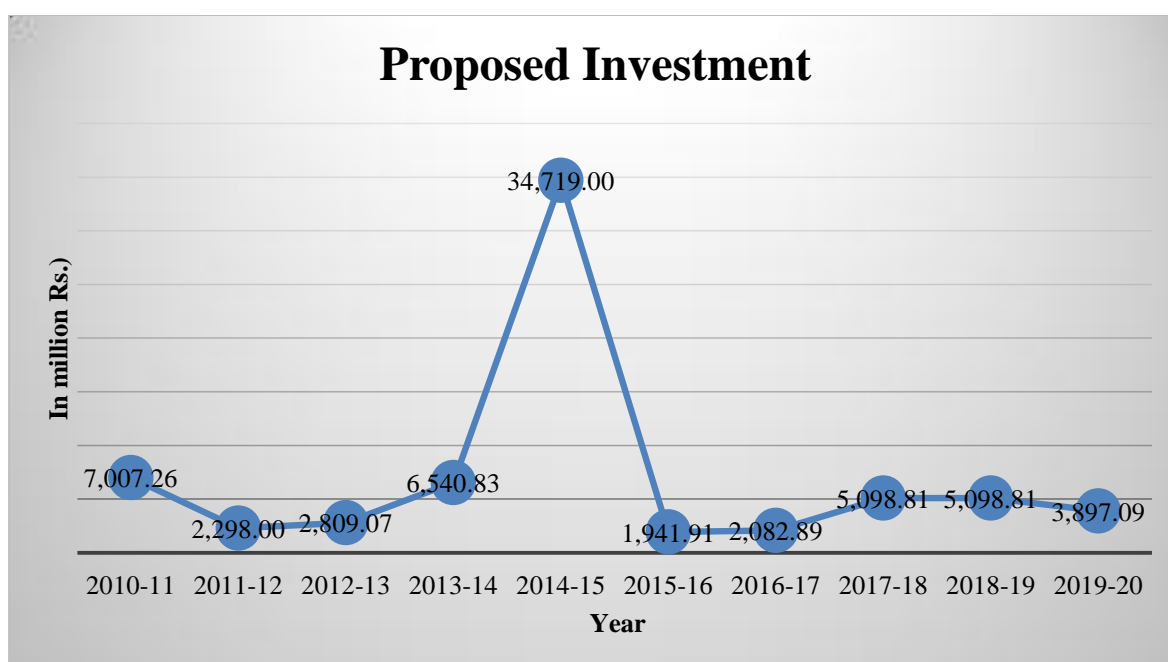
In this section, trend and growth of Indian total investment in Nepal is analysed. The analysis is done for ten year period, from fiscal year 2010-11 to 2019-20.

Table 2.1 Indian proposed investments and its growth (in Million rupees).

Year	Proposed Investment	Growth (%)
2010-11	7,007.26	-
2011-12	2,298.00	-67.21
2012-13	2,809.07	22.24
2013-14	6,540.83	132.85
2014-15	34,719.00	430.80
2015-16	1,941.91	-94.41
2016-17	2,082.89	7.26
2017-18	5,098.81	144.79
2018-19	5,098.81	0.00
2019-20	3,897.09	-23.57

Source: Industrial Statistics, Department of Industry, Nepal.

Graph 2.1 Trend of Indian total investment (2010/11 – 2019/20).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (2.1) and graph (2.1), it can be seen that the amount of investment in the reference time period has been fluctuating. The Indian investment which was around 7000 million rupees in 2010-11, witnessed fluctuation for the next three years but increased dramatically to 34,719 million rupees in fiscal year 2014-15. More than 430% annual growth was recorded in this year, attributed to significant approval of Indian investments by Nepalese authority, after the introduction of new Foreign Investment Policy 2015 in initial days of March 2015 in the Himalayan nation.

In the very next year 2015-16, an unprecedented fall in investment was seen as it fell by more than 94% showing deterioration of relation due to blockade at Nepal's border. But after the "Investment Summit 2017", it shows improvement. The Foreign Investment and Technology Transfer Act (FITTA) 2019 came into effect on 27 March 2019 to promote FDI inflow in Nepal but its positive impact cannot be analysed as only one fiscal year follows this act in our analysis.

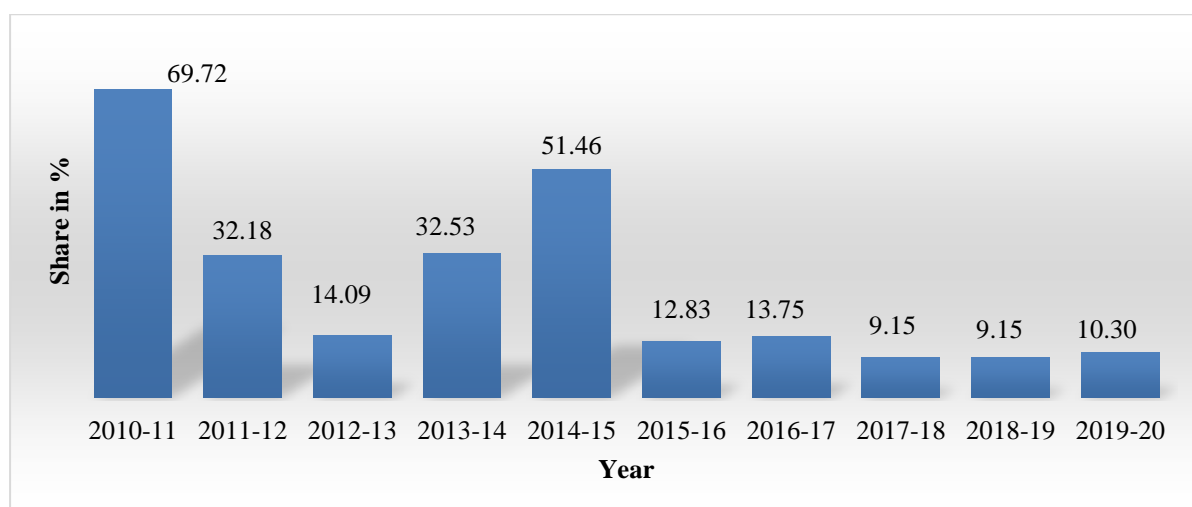
2.3.2 Indian Share in Total Investments Inflows in Nepal

Table 2.2 Indian share in total investments in Nepal (in %)

Year	Indian Proposed Investment	Total Proposed Investment	Indian Share (%)
2010-11	7,007.26	10,050.71	69.72
2011-12	2,298.00	7,140.81	32.18
2012-13	2,809.07	19,936.24	14.08
2013-14	6,540.83	20,107.42	32.53
2014-15	34,719.00	67,470.79	51.46
2015-16	1,941.91	15,139.63	12.83
2016-17	2,082.89	15,153.00	13.75
2017-18	5,098.81	55,730.38	9.15
2018-19	5,098.81	55,730.38	9.15
2019-20	3,897.09	37,853.27	10.30

Source: Industrial Statistics, Department of Industry, Nepal.

Graph 2.2 Share of Indian investment (2010/11 – 2019/20).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (2.2) and graph (2.2), India accounted for around 70% share of total investment in 2010-11, which was highest in the decade, fell drastically to even less than 10.5% in 2019-20. In the year 2014-15, Indian investment was highest till date, but due to significant inflow of the total investment to Nepal, the Indian share remained at around 51.5% pertaining to the higher base effect. The adverse impact of negative sentiments in Nepal towards India due to blockade can be seen from 2015-16 onwards, when Indian share never crossed even 13% of the total investment inflows to Nepal. Due to “Investment summit 2017”, Indian investment improves but at the

same time, significant improvement in total investment inflow also recorded, reduced the Indian share further.

2.4 India's Category-wise Investment in Nepal

Industrial Enterprises Act (2016) has classified Industries in Nepal under eight categories. In the reference time period of 6 years, India has invested in 7 out of the 8 categories of industries. It has not invested a single rupee in construction category. Manufacturing, service and tourism are the categories in which India has invested every year from 2013-14 to 2018-19.

Table 2.3 Category-wise Indian Investment (in million rupees)

Year	Agro & Forestry Based	Energy Based	Manufacturing	Mineral	Information Technology	Service	Tourism
2013-14	0.00	5,944.53	385.24	81.41	0.00	113.65	16.00
2014-15	0.00	33,732.78	285.00	0.00	0.00	476.35	21.00
2015-16	5.00	0.00	93.71	0.00	0.00	1,693.20	15.00
2016-17	0.00	0.00	1,509.06	8.50	3.74	453.09	108.50
2017-18	10.00	10.00	3,439.25	0.00	25.20	304.65	1,309.70
2018-19	5.00	0.00	4,539.90	13.16	10.00	532.98	1,088.00

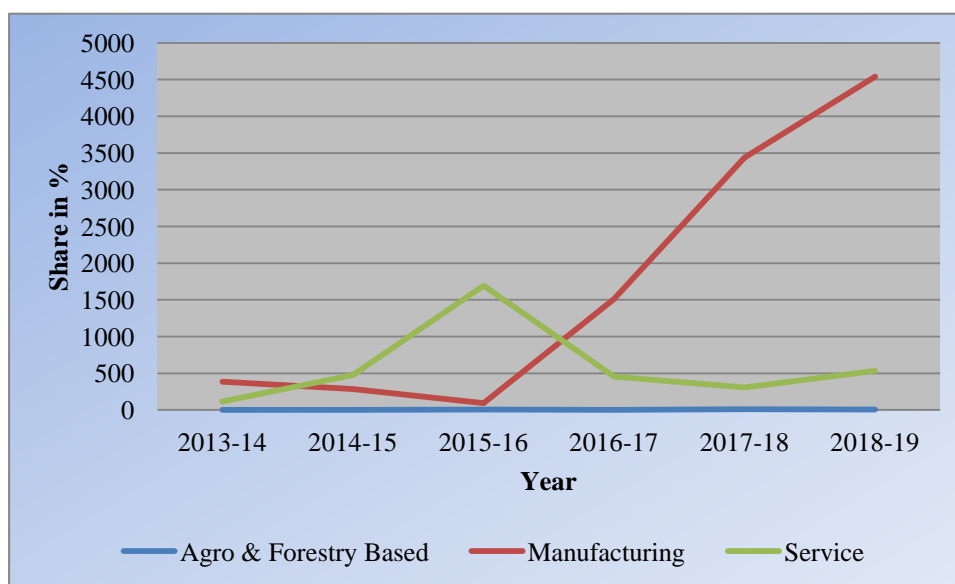
Source: Industrial Statistics, Department of Industry, Nepal.

Table 2.4 Category-wise Indian Share (in %)

Year	Agro & Forestry Based	Energy Based	Manufacturing	Mineral	Information Technology	Service	Tourism
2013-14	0.00	53.14	20.80	28.93	-	2.54	1.23
2014-15	0.00	62.14	13.24	0.00	-	8.40	0.48
2015-16	1.68	0.00	2.96	-	-	21.33	0.79
2016-17	0.00	-	40.43	22.08	4.21	9.03	1.81
2017-18	0.52	0.00	50.24	0.00	4.69	13.63	31.76
2018-19	1.24	-	72.18	100.00	1.54	7.50	10.32

Source: Industrial Statistics, Department of Industry, Nepal.

Graph 2.3 Indian investment in Agro and Forestry Based, Manufacturing and Service Industries (2013/14 – 2018/19).



Source: Industrial Statistics, Department of Industry, Nepal.

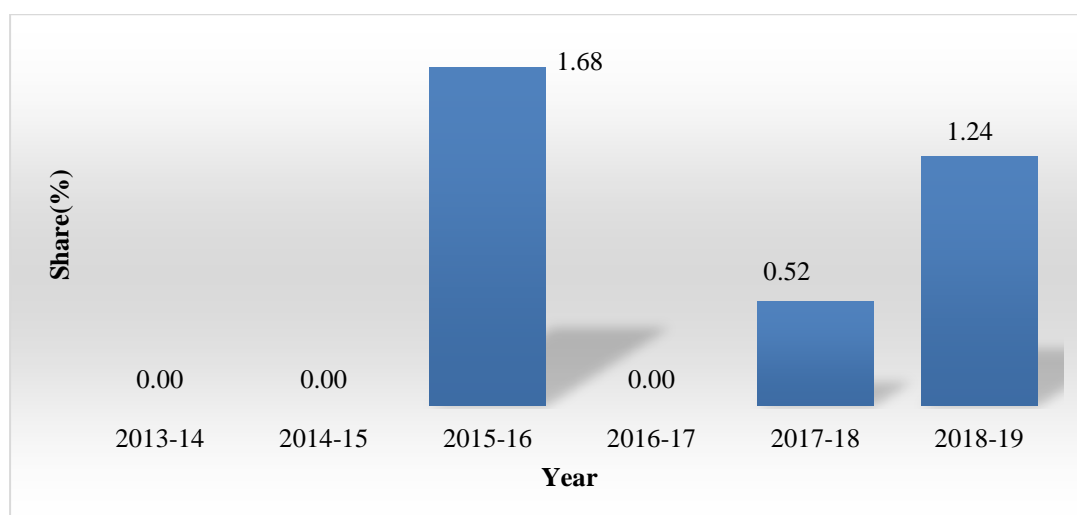
2.4.1 Agro and Forestry Based

There is little Indian investment in the field of agro-processing in Nepal and the DNPL is one of them. Apart from contribution in employment, earning of export revenue, help to local economy etc, the company has not produced a substantial contribution to the national treasury and has made a relatively modest contribution to technical development. On its part of contribution, the company created a fair number of jobs both directly and indirectly (around 2,000 and 20,000 directly and indirectly respectively), built tight ties with the local economy, earned about 5% of the country's total merchandise export earnings and in aspect of sustainable environment (Adhikari 2013). In New Delhi, in a joint organised Business Meeting by CII, FICCI and ASSOCHAM, the Prime Minister of Nepal stated that his country is dedicated to provide the best possible economic environment for Indian investors. He stated that agriculture, herbal medicine, and tourism are the field in which Nepal seeks investment from Indian firms. Nepal wishes to have Patanjali kind of investment from India, as per Nepalese Foreign Minister Prakash Sharan Mahat remarked (PTI 2016).

The decision of Nepal's government on 4 January 2021 to permits foreign investment in certain more fields of agriculture sector got controversial pertaining to Indian investment. As per the government's decision, the foreign investments are permitted for livestock farming, dairy industry, vegetables and fruits farming, fisheries, among

other fields of agriculture, with the condition that the investing companies have to export 75 percent of their total produce. According to the president of Dairy Industries Association, Rajkumar Daha, it is a government's conspiracy to disturb local industries and to serve the interests of multinational companies for the vested interest. He added that the government has been attempting to introduce Amul, one of India's largest dairy product businesses, to Nepal for a long time and this policy is a strong move for the same (Shrestha 2021). The invitation of AMUL (Anand Milk Union Ltd) of India by government of Nepal is for vested personal advantages (Onlinekhabar 2021). According to the different stake holders, because of pressure from the private sector, the government backed down from its plan to bring the Amul company to the country last year (Prasain and Prasain 2021).

Graph 2.4 Share of Indian investment in Agro and Forestry based industry (2013/14 – 2018/19).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (2.3 & 2.4) and graph (2.3 & 2.4), it is clear that India has not invested even a rupee in agriculture category in 3 out of reference time period of 6 fiscal years. Indian investment in this category is nil for consecutive two year in a row. In the view of Indian investors, the agriculture is the least desirable category of industry for investment. At the one hand, foreign investments in primary sector of agriculture were not allowed and lack of agro infrastructure at the other, are responsible for low Indian investment in this category in Nepal. The foreign investment in primary sector of agriculture like vegetables and fruits production, oil seeds, pulses, beekeeping, fisheries, animal husbandry etc, was allowed only from

2nd February 2021. Prior to this date, foreign investments are only in the secondary sector of agriculture or farm product processing like juice factory, tea production plants etc were allowed. Also, the lack of agro infrastructure may also discourage foreign investment in this category. Pawan Golyan, who is the chairman of Golyan Group, which is a leading private sector enterprise in Nepal, said that “We don’t even have basic infrastructure like agro processing plants and cold and dry storage” (Prasain and Prasain 2020). The category accounts for only 1.26 percent of overall FDI proposals and out of 501, only 7 FDIs registered with the Department of Industry. Although certain Indian FDI related to agriculture in sectors such as tea, dairy, ice cream and bakery are not considered as agricultural investment, the reality strongly indicates that Indian agricultural investment is quite low in Nepal (Adhikari 2013).

What the India invested in 2017-18 is maximum, which is only 10 million rupees. Coming to share of Indian investment in out of total investment in agriculture category, it has not crossed even 2%. The maximum share is 1.68% recorded in fiscal year 2015-16 with investment of 5 million rupees shows the positive impact of Foreign Investment Policy 2015.

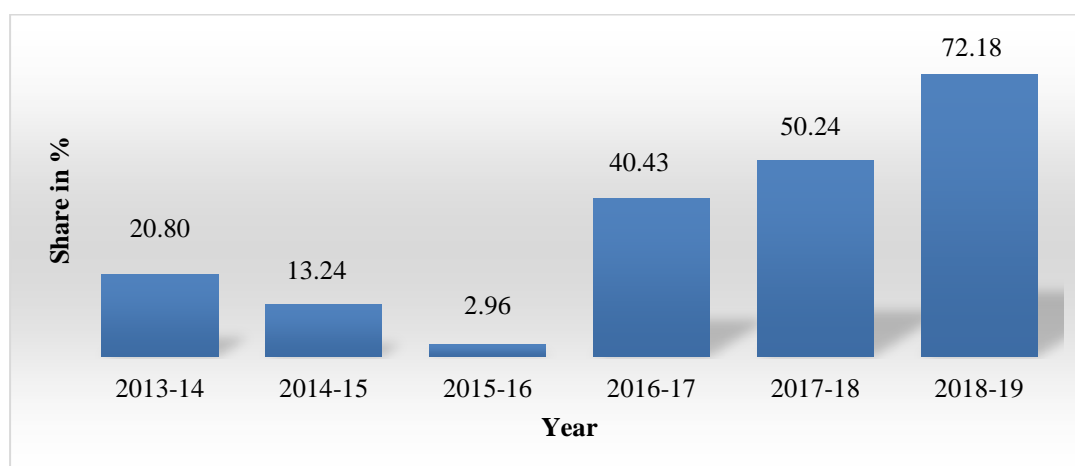
2.4.2 Manufacturing

Manufacturing sector of Nepal was the one which witnessed significant foreign investments from the different companies of India in the early 1990s. Different Indian multinational corporations (MNCs) such as Dabur, Unilever and Asian Paints made significant investments in Nepal. These companies operated by establishing joint ventures or fully owned subsidiaries. Since a long time, Nepal has not attracted significant Indian FDI in the manufacturing sector. Although the manufacturing sector continues to account for 20% of total Indian FDI in Nepal, the energy sector has seen the majority of Indian investments in the previous decade (Neupane 2018).

Within the manufacturing sector, FDI incidence was diverse, with the greatest proportion going to Textile and Ready-made garment, then number of Chemical and PI. Product comes, then Food Beverage and Tobacco, and Fabric Metal. Except textiles and garments, all of these industrial sectors are more domestic intensive than export-oriented. In the case of textiles and garment, FDI from India and China attracted in Nepal in order to obtain trade facilities concerned with textile quota with

the United States and Germany. This is considered as a strong reason of India's investment flow in textile and garment sector of Nepal (Bista 2011).

Graph 2.5 Share of Indian investment in manufacturing industry (2013/14 – 2018/19).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (2.3 & 2.4) and graph (2.3&2.5), it can be seen that investment in this category has been decreasing for the continuous three years from 2013-14 to 2015-16. In these three years, share declined from around 21% to around 3%. Sometimes a country misses out on attracting investment not because of its own shortcomings, but because of the success of states of other country. Due to the worsening business climate in bordering states such as Bihar and Uttar Pradesh, Nepal was able to attract investment in the manufacture of fast-moving consumer goods (FMCG) in the past.

Due to increased economic growth, development of infrastructures, betterment in law and order and industrial relations, Bihar is now becoming a popular investment location. In the same way, Uttaranchal, a new state established after its separation from Uttar Pradesh, is giving various incentives to lure investors, despite the fact that it is not as developed as Bihar. As a result, numerous Indian firms have relocated in these states, and Nepal is losing ground in the fight for luring investment (Adhikari 2013b).

The investment amount has increased by more than 10 times in just 6 years. Looking at the share for the last three years, it has increased from around 40% to 72%. In the time of 6 years, it has increased by more than 3.5-fold. The share of manufacturing in total investment of India witnessing improvement as it surged from 39 per cent in

period 2008-09 to 2012-13 to 49 per cent in period 2014-15 to 2018-19 (Taneja et al. 2020).

2.4.3 Service

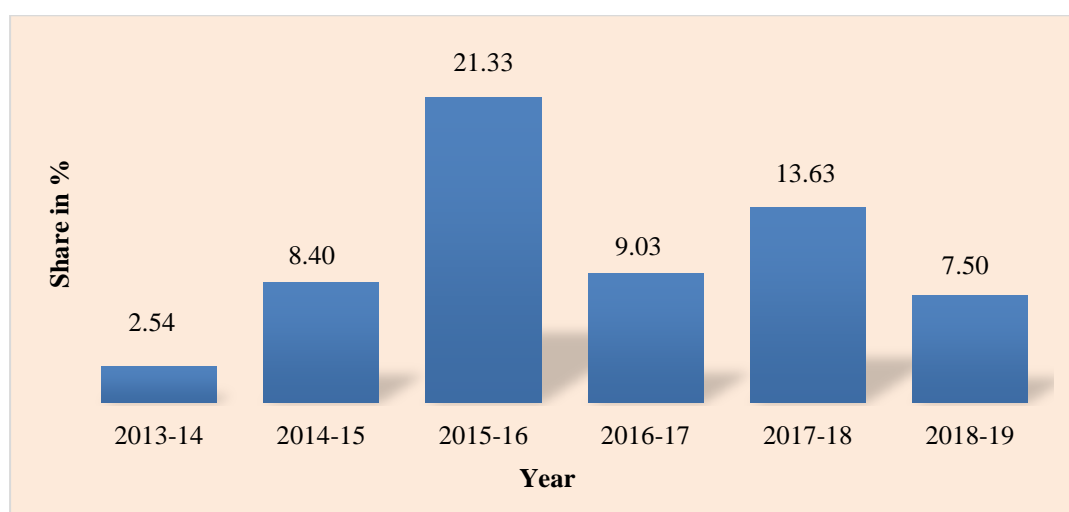
There are numbers of Indian ventures operating in service category ranging from telecom, education and dry port to banking and insurance in Nepal. TCIL, VSNL, MTNL, State Bank of India, Punjab National Bank, IL&FS, Life Insurance Corporation of India, Patel Engineering and Manipal Group are among the prominent investors in service category of Nepal (Chaudhury 2020).

There are five Indian joint venture finance companies out of total 14 such finance companies in Nepal. These are Nepal SBI Bank Ltd, Everest Bank Ltd, Life Insurance Capital Nepal Ltd, National Insurance Co. Ltd and Oriental Insurance Co. Ltd (Taneja 2011).

One area where India and Nepal have substantial collaboration is in the realm of health. The Indian government established a general hospital in Nepal in 1959, marking the start of Indian involvement in the country's health sector. The Indian government has lately begun to invest in the establishment of specialty hospitals in Nepal. The B.R. Koirala Institute of Health Sciences (BPKIHS) is the largest joint project between India and Nepal. The Indian government has also contributed funding for faculty development to cover the expense of specialised training for Nepali physicians in India and the deputation of chosen Indian professors to BPKIHS, in addition to constructing a hospital and medical college. The Nepal Bharat Maitra Emergency & Trauma Centre, an eye hospital in Krishnanagar in Kapilvastu and a gynaecological hospital in Bhadrapur in Jhapa are among the other specialist hospitals that India has established or is establishing. Several Indian private sector entities have also established facilities in health and medical area in Nepal, in addition to government support. A good example of collaboration between Nepali Government and Manipal Group of India is The Manipal College of Medical Sciences (MCOMS) and hospital. The medical councils of Nepal, Bangladesh, Sri Lanka, Mauritius, New York, California, Ontario and British Columbia have all recognised the college. Norvic Hospital, a famous private hospital in Nepal, has partnered with Indian Escorts Heart Institute and Research Centre. Indian doctors come to the hospital on a regular basis to do operations and check-ups (Taneja 2011).

Both private and government sector entities of India contributed in the field of elementary and secondary education in Nepal. Government sector entities, such as the Kendriya Vidyalaya Sangathan at one hand and The Delhi Public School, Manipal Group of educational institutions and Global Indian International School, at the other hand, are among the private sector companies that have opened schools in Nepal. There is a considerable influx of teaching experts from India to Nepal, in addition to Indian entities building schools in Nepal (Taneja 2011).

Graph 2.6 Share of Indian investment in Service industry (2013/14 – 2018/19)



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (2.3 & 2.4) and graph (2.3 & 2.6), it can be seen that Indian investment in service category, which was only around 114 million rupees in 2013-14 surged to more than 13 times in 2015-16. In this time of three fiscal years, Indian share increased from around 2.5% to more than 21%. This huge surge in investment flow in fiscal year 2015-16 is attributed to new Foreign Investment Policy 2015. After fiscal year 2015-16, the Indian investment declined for two consecutive years and after “Nepal investment Summit 2017”, it increased to around 533 million rupees in fiscal year 2018-19. The share remained lower than 15% during these three years.

2.4.4 Tourism

For many countries across the world, tourism is a significant source of money. Nepal boasts beautiful scenery and abundant natural resources, but it needs infrastructure (Jaiswal 2017). There are a rich collection of historical art and heritage monuments in Nepal that may attract a big number of tourists. However, many of them will be needed to be restored and for the same huge financial resources are needed. Greater

collaboration with India in this area might bring required resources for the same. Restoration initiatives like the preservation of paintings in Bhaktapur, Sri Krishna Mandir in Patan and other ancient monuments in Lalitpur have previously benefited from Indian government assistance (Taneja 2011).

Investments flow from India to Luxury hotels of Nepal has been come down sharply. It can be clearly seen in the case of the Oberoi Soaltee. It is currently owned entirely by Nepalese, which was a joint venture between the entities of two countries. In addition, the Taj has also ceased its operations at the Annapurna hotel (Taneja 2011). The Indian investment share of retail trade, wholesale, hotels and restaurants has fell from 28% during 2008-09 to 2012-13 to 8% during 2014-15 to 2018-19 (Taneja et al. 2020). Earthquake and Madhesi agitation in 2015 were the prominent factors that had negatively impacted investments in tourism industry of Nepal from India. The Madhesi agitation mostly impacted agriculture, tourism and commerce, but among them, tourism was the one which was most severely impacted (Shimizu et al. 2018).

West Bengal Nepal Chamber of Commerce and Industry (WBNCCI) intend to establish low-cost hotels in Nepal, and the Ministry of Industry (MoI) has requested the Chamber to manage a few hotels that are underperforming for different reasons in Pokhara. The facilities will start its functions under new management as the continuous discussion is going on with the management of the hotels. The HHI Group of Hotels operates four and five-star hotels in key Indian cities, is looking to expand its branches in Nepal. In the same way, Other Indian hotel brands are also attempting to establish franchises in the Himalayan nation (Jaiswal 2017).

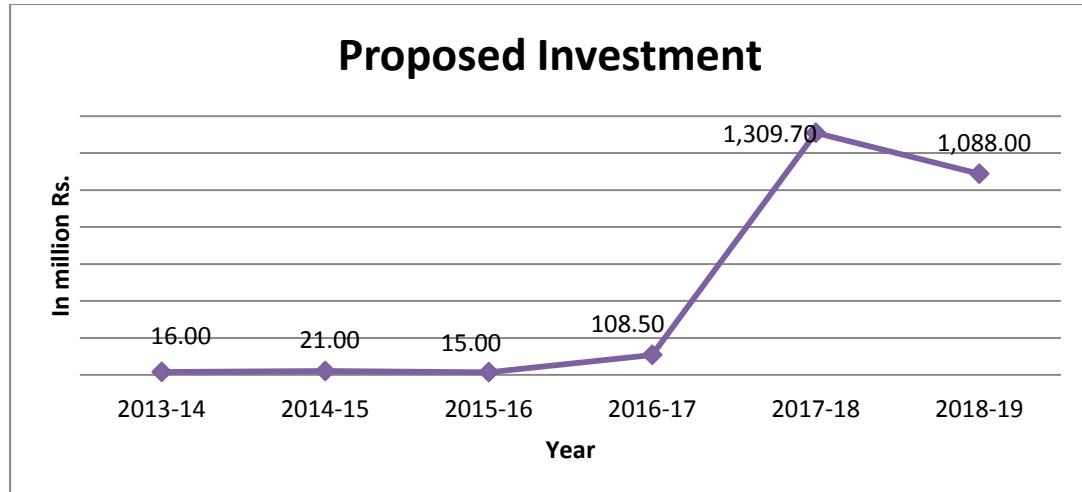
In Indo-Nepal Trade Fair and Tourism Festival in 2018, which was organised in Uttarakhand, Trivendra Singh Ravat, the chief minister of the state, said that India and Nepal share deep social, cultural economic and religious relation and it is needed to develop cross border infrastructures between the two. It is needed so that the engagement between the Nepal and Uttarakhand can be improved. According to the president of FNCCI, Bhawani Rana, trade fairs of this kind can play very important role in elevating the economic relation between India and Nepal. In both the countries, there exist enormous possibilities of religious tourism. Since both the countries have huge potential in tourism sector, they can get benefited by promoting

this sector particularly from trend of out bound tourists as their number is continuously increasing globally (Himalayan News Service 2018).

India and Nepal can work together to build a more sustainable tourist business that will contribute to the economy's long-term prosperity. By creating trained workforce required as per the demand for the hotel and hospitality industries in Nepal, India can make a significant contribution to Nepal's tourist sector. For the same, training institutions can be established by India in Nepal to give proper training to Nepalese workers in this field. This will improve the qualities of the services provided by Nepalese in tourism industry in the long run.

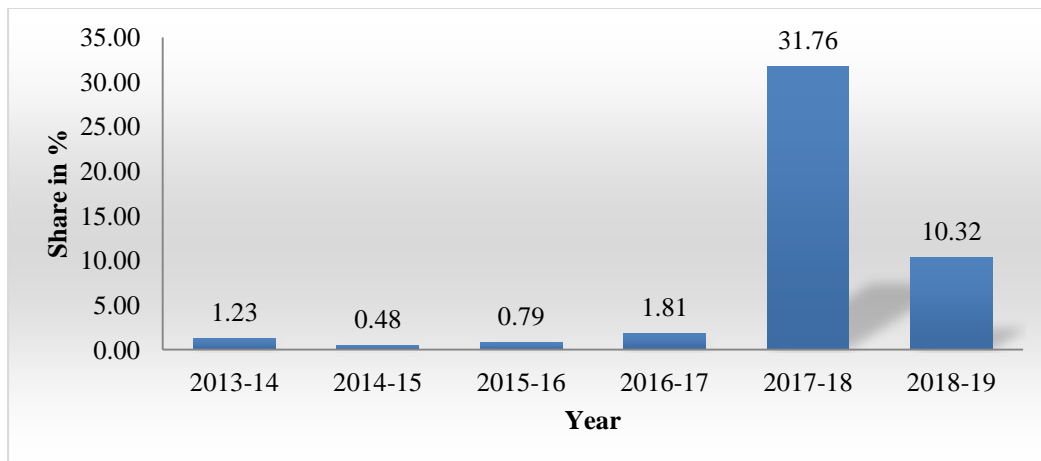
Within the scope of Indo-Nepal collaboration in tourism category, there are numerous steps that may be taken to revitalize and expand this category in Nepal apart from political stability and law and order condition. These include improving current tourism products and creating new products in order to establish Nepal's image as a tourist destination (Taneja 2011).

Graph 2.7 Indian investment in Tourism industry (2013/14 – 2018/19).



Source: *Industrial Statistics, Department of Industry, Nepal.*

Graph 2.8 Share of Indian investment in Tourism industry (2013/14 – 2018/19).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (2.3 & 2.4) and graph (2.7 & 2.8), it can be seen that Indian investment in 2013-14 was 16 million rupees which is accounted for only 1.23% of total investment in this category. There was not any drastic change in the amount of Indian investment for the next two years but the Indian share remained below 1%. It was lowest in the fiscal year 2015-16 due to security issue related to Madhesi agitation. Indian investment rose around 6 times in fiscal year 2016-17 compared to the previous year pertaining to improvement in security situation in Nepal. Huge increment in Indian investment in fiscal year 2017-18 was recorded, attributed to Nepal Investor Summit 2017, when it crossed 1,300 million rupees and registered its share around 32%.

According to Federation of Nepalese Chambers of Commerce and Industry (FNCCI), both India and Nepal can take good advantages out of tourism sector by working jointly. Both the countries can jointly work in religious tourism, particularly related to Buddhism and Hinduism for more benefit out of it (Himalayan News Service 2018). Nepal is a lovely nation with a lot of room for growth in the hospitality and tourist industries. The three "Cs" - culture, cuisine, and caring - are crucial in promoting tourism should be kept in the mind (Jaiswal 2017).

This chapter finds that India has been the most important investment partner of Nepal. It has been first investor to the largest investor till 2014. Its share in total investment inflow to Nepal had even come close to 70% in the fiscal year 2010-11. Indian investment is mainly seen in manufacturing, service and tourism categories. Agriculture category has witnessed very low Indian investment. Dabur India Private

Limited is a very important investor in this category, engaged in agro-processing. Among these categories, manufacturing is the one which has been most preferred in terms of Indian investment in the reference time period of six years. In this category, Indian investments can be seen in Nepalese companies like Surya Nepal Private Limited, Unilever Nepal, Asian Paints Nepal etc. These companies are engaged in manufacturing of textile, readymade garments, cigarettes, paints, cleaning compounds etc. In service category, investments from India are coming mainly in finance sector. Telecom, education, health etc are the other areas which receive investments in this category. Major hospitality companies have invested in tourism category of Nepal and negotiations with some big hotel companies are going on for investing in the Himalayan nation.

Regional agreements, exchange rate certainty, socio-cultural relation, geopolitics and law and order situation in Nepal are playing role in influencing Indian investment in the Himalayan nation. Nepal is continuously trying to attract more foreign investments from various sources including India. For the same, it is coming out with policies and reforms which can benefit more to foreign investors. But safety of investor's infrastructures is also a major concern in Nepal. Infrastructures and premises of Indian investor, that is, GMR Group, have been attacked many times in 2011 and also in 2016. So, Safety of the various infrastructures of Indian investors should be given utmost importance in government policies. The next chapter deals with China's investment in Nepal.

Chapter 3: China's Investment in Nepal

3.1 Background

In 1999, China launched the "Go Out" policy, which actively pushed its companies to invest abroad. It wanted to focus on diversification of its foreign investments to abroad in order to make its economy more resilient to market shocks, as the Asian financial crisis in 1997 had adversely affected its export led growth. So keeping in mind the stability of its export led growth rate, China encouraged its enterprises for overseas investments and expansion of their manufacturing bases outside the domestic country (Yelery 2015). Chinese The outward foreign direct investment flows have steadily increased since 2002, and increased significantly in between 2007 and 2008 (Roi 2018). In the initial years of the first decade of this century, there was a marginal inflow of investment in Nepal from China. There were only 25 operational, 6 under-constructed and 13 licensed industries with Chinese investment till mid 2003 in Nepal. During that time, the Chinese investors were interested in making investments in hotels, restaurants, nursing home, electronics, radio paging services, cell phone service, readymade garments, hydropower etc (Jaiswal 2014)

Keeping in mind this low investment flow, Nepal – China Executives Council (NCEC signed a Memorandum of Understanding with the Chinese People's Association for Friendship with Foreign Countries (CPAFFC to attract more investment (Jaiswal 2014). Since 2008, Chinese investment in Nepal started increasing dramatically. In 2014, China became the largest investor in the Himalayan nation for the first time by surpassing India and had share of 42% in total investment received by Nepal in 2015-16 (Bhatia et al. 2016). Since 2014-15, the northern neighbour has been on first rank for 6 years in a row in terms of investment commitment in Nepal. China has once again topped the chart with 22.5 billion Nepali rupees investment pledge for the fiscal year 2020-21, which ended in mid July 2021 (Huaxia 2021A).

In 2013, President Xi Jinping launched the Belt and Road Initiative (BRI), the world's largest infrastructure initiative aimed to improve connectivity and trade of China with various Asian, African and European countries. In May 2017, Nepal signed a

Memorandum of Understanding with China on Belt and Road Initiative to boost Sino-Nepal economic cooperation. Initially, it presented 35 projects for consideration under the BRI. However, Nepal finalized 9 projects in the Second BRI Summit 2019, including 3 highways, 2 hydroelectricity plants, 1 cross-border railway, 1 cross-border transmission line, and 1 technical institution (Giri 2019b).

The signing of Transit and Transport Agreement (TTA) took place between the two countries when Prime Minister K. P. Sharma Oli was on China visit in 2016. On September 7, 2018, the text for the Protocol related to Transit Transport Agreement with China was finalized. According to this text, China will be providing seven transit points to Nepal for trading activities with the rest of the world. These seven transit points include four sea ports and three land ports. Tianjin (Xingang), Shenzhen, Lianyungang, Zhanjiang) are the four land ports and Lanzhou, Lhasa, Xigatse are the three land ports included in the agreed seven transit points. According to the agreement, containers and trucks transporting Nepal-bound commodities will be permitted to and from Xigatse in Tibet. The Chinese sea ports and dry ports can be accessed through both roadway and railway by the Nepali traders. Accessing of Chinese territory through 6 checkpoints in Nepal is also agreed upon by both the countries. Apart from access to the rest of the world, these transport arrangements and dry ports can also be utilised for bilateral trade activities. The operation of Transit and Transport Agreement (TTA) will make the landlocked Nepal able to access rest of the world through sea and land ports of China, which will end dependence of Himalayan nation on only one country for its international trade (Nayak 2018).

China has implemented several projects like Upper Madi Hydropower Project, Upper Marshyangdi A Hydropower Project, Araniko Highway Restoration, etc in Nepal. The Asia Pacific Exchange and Cooperation Foundation (APECF), a China-backed organisation, is working on \$3 billion project to turn Lumbini, Lord Buddha's birthplace, into a “culture zone”. Different projects, including Kathmandu Ring Road Improvement Project, are still going on (Roi 2018). Hongshi-Shivam Cement, a joint venture between Hongshi Corporation Private Limited of China with 70 percent share and Shivam Cement Pvt Ltd of Nepal with 30% share, is one of the most successful examples of Chinese FDI in Nepal (Paudel 2020).

3.2 Factors Determining Chinese Investments in Nepal

There are various factors which determine the flow of Chinese investments in Nepal. These are as under:

3.2.1 Belt and road Initiative (BRI)

The Nepalese government signed a Memorandum of Understanding with China on the framework of the Belt and Road Initiative in Kathmandu even before the first Belt and Road Summit began on May 14, 2017 in Beijing. Regarding Chinese support to the Himalayan nation under BRI, President of China Xi Jinping said, “China stands ready to strengthen cooperation with Nepal in infrastructure connectivity, post-disaster reconstruction, trade and investment under the framework of the BRI” (Jha 2019).

Under BRI, Nepal has finalised 9 major projects. These are Kathmandu-Kyirong Railway, the Galchi-Rasuwadhi-Kerung 400 KV Transmission Line, the 426 MW Fukot-Karnali Picking run-of-the-river hydropower project, the 762 MW Tamor hydropower project, the Tokha-Chahare road, upgrading of the Rasuwadhi Highway, the Kimangthan-Hile road, a road connecting Dipayal with Tibet and the Madan Bhandari University (The Record 2019). Although the terms and conditions of the deal is not properly known, but the total investment in these projects is estimated to be over US\$10 billion (Jha 2020).

As per Govinda Nepal, a senior economist at Institute for Strategic and Socio-Economic Research (ISSR) in Nepal, the signing of MoU pertaining to the Belt and Road Initiative has opened the way for large-scale investments from China in significant infrastructure projects in Nepal (Xinhua 2019).

3.2.2 Geopolitical Reasons

China has been willing to reduce the dependency of Nepal on India as far as possible. Along with aid, investment is also being made by the former for the same. China has been pouring finance into Nepal, assisting the landlocked nation in constructing new highways and linking it to Chinese cities for the transit of petroleum and other important goods, ostensibly to help Kathmandu reduce its reliance on India (The Economic Times 2020).

Apart from reducing India's longstanding influence in Nepal, another geopolitical factor concerned with Free Tibet movement in Nepal is a major driver of FDI

outflows to the Himalayan nation. From a geopolitical standpoint, the Free Tibet movement poses a severe challenge to national sovereignty of China, making their presence in Nepal all the more vital. With a stronghold in Nepal, China seeks to contain Tibetan refugee's freedom movements and silence the voices of those who have sought asylum in India (Gautam 2018).

China is also investing in Nepal to improve its connectivity with the latter. China sees the open border of Nepal with India as a gateway to South Asia. Its ambition to have economic and political dominance over the poor South Asian nations can be eased by maintaining good relation with Nepal. That is why China is actively improving cross-border connectivity with the Himalayan nation. The huge investment agreement in Kyirong- Kathmandu railway is the part of its strategy to improve engagement with Nepal (Gautam 2018).

3.2.3 Energy and Natural Resources Potential in Nepal

China is also investing in Nepal keeping its energy and natural resources need in mind. It is experiencing acute minerals shortages and so Nepal as a source of untapped natural resources becomes very important for the former (Paddle 2020). There are plenty of natural resources present along the Himalayan border including the Nepalese Himalayan region. These include from energy resources like geothermal, oil and shale to metallic and non-metallic minerals. Nepal is the region of several rare and precious minerals which are not yet fully explored and exploited. Copper, iron, niobium, tantalum, molybdenum, and rare earth elements are abundant in Nepal. A fieldwork was conducted by China in 2016 in the Nepal Himalayas in order to do the mapping of the sites having rich deposits of these valuable minerals (Chandrashekhram 2020).

China wants to secure alternate destination of resources to cater its huge manufacturing base in the long run. As China emerges as a superpower at global level, demand for energy to drive the country's economic expansion is on rise. As a result, China's outbound FDI policies toward Nepal are consistent with the country's national energy security objectives. China is very tactfully negotiating deals with Nepal, promising infrastructural development in exchange for the right to explore raw material, For example, the two nations have agreed to invest \$2.25 million in Nepal to build petroleum and gas resource exploration facilities. Furthermore, China has

committed to conducting a feasibility study for cross-border power grid connectivity between the two nations (Gautam 2018). Chinese investment in Kyirong-Kathmandu railway project and a railway line through tunnel from Sagarmatha to Kathmandu may have implications related to mineral deposits of Nepal apart from debt burden and environmental degradation. Since the region is endowed with abundant quantity of minerals, China may extract minerals for its need in future (Kumar 2021).

3.3BRI for Nepal

The idea of Belt and Road Initiative (BRI) was coined by China in 2013, with an aim to improve connectivity from China to various Asian, African and European countries. It is also called as 21st-century Silk Road, is a network of "belt" of overland corridors and road of maritime shipping lanes. More than sixty countries so far from Asia, Africa and Europe have become the part of it. The entire estimated cost of projects under BRI is \$ 1 trillion and decades will be taken to get these projects completed. Till date, an estimated investment of more than \$ 210 billion in different projects of BRI has already done by several companies of China (Jha 2019).

Nepal is one of the countries which joined BRI without much hesitation. By signing a MoU with China on BRI cooperation, Nepal officially become the part of this Chinese initiative on 12 May 2017 (Sharma 2018). China is investing in hydropower, irrigation, industries, free trade area, economic corridors, road construction, integrated checkpoints, disaster management and climate change as part of the Belt and Road Initiative in Nepal. The overall investment in some of these areas is estimated to be around US\$10 billion (Jha 2020). There are currently 17 BRI infrastructure projects underway in Nepal with project value of USD 0.65 billion (Malik et al. 2021).

Then Foreign Minister of Nepal, Prakash Sharan Mahat believed that the signing of BRI will further give strength to the relation between Nepal and China. Nepal is in need of foreign investment and joining of BRI will beneficial for it. BRI will add new chapter in cooperation between China and Nepal in development of South Asian region as per the Chinese Ambassador Yu Hong (Sharma 2018). According to Ministry of Foreign Affairs of Nepal, with joining of Nepal to BRI, there is expectation of opening of cooperation between the two countries in different sectors like economy, technology, environment and culture (Pandit 2019). Chinese investments will also be helpful for Nepal in context of India. They will help former

in reducing its dependency on latter. China has granted Nepal access to its sea and land ports and to connect Kathmandu with these ports, construction of trans-Himalayan Tibet-Nepal rail link is in progress. Completion of this project will slash Nepal's reliance on Indian ports for overseas trade (Talukdar 2020).

There comes a significant surge in Chinese financial commitment to Nepal after joining of BRI by Nepal. Before joining the BRI, Average Chinese official financial commitments for Nepal was USD 92.74 million. But after joining the initiative, it becomes USD 191.52 million, which indicates a growth of 107 percent (Malik et al. 2021). Foreign investment brings influence with it. With huge investments, influence associated is also more, particularly if the investor is China (Mukhopadhyay 2020). At the one hand Chinese investment will benefit Nepal but at the other, Nepal has to pay for it in terms of taking the Chinese side on certain issues. Nepal has to remain stacked and has to support the Chinese line on several sensitive issues such as protest by Tibetans refugees against China in Nepal (Bhatia and et al. 2016). The Belt and Road Initiative is like an instrument for China to establish economic and political dominance over the other countries. The projects under BRI give China huge advantages over the poor and small countries. The initiative is seen as plan to expand the presence of Chinese military in the countries which become the part of BRI. This perception is evident from the making of military base in Djibouti. Director of the Reconnecting project at the Centre for Strategic and International Studies Jonathan Hillman revealed "BRI is "...more than roads, railways and other hard infrastructure... It is also a vehicle for China to write new rules, establish institutions that reflect Chinese interests, and reshape 'soft' infrastructure" (Jha 2019). BRI projects also involve threats like Land grab and sovereign debt traps if the project proved economically non-viable. Large infrastructure projects under BRI cost billions of dollars, and if they are not sustainable and economically viable, Nepal may fall into a debt trap in the future. Sri Lanka, for example, was compelled to surrender over its deeper water port harbour of Hambantota to China on lease for 99 years since the massive debt and associated interest became difficult to repay by this non-profitable project (Thakur 2020).

It seems that certain projects under BRI are in the interest of China in expanding its influence and accruing economic gain rather than the interest of the country where they are being built. China has proposed to invest in that railway project which seems

economically non-viable for Nepal but is in the strategic interest of former in terms of accessing area near to Indian border. The execution of proposed 287-kilometre-long Kyirong-Kathmandu-Pokhara-Lumbini Railway Project has been met with serious reservations in Nepal. This is mostly owing to the challenging topography of the areas through which the railway line will traverse. The project's severely sloping Syaphrubesi-Kerung segment would be the most challenging to cross. In addition, running the train in this length will be challenging, mainly during the winter season particularly during snowfall. The snow-resistant track for railway is quite expensive than that of normal , and so a poor nation like Nepal would struggle to buy it Furthermore, if there is any major damage to the structures, the project's repair and maintenance work may be difficult. If all of these variables are taken into account, this Chinese project will be probably incurring huge cost. Nepal's railway project under the BRI is anticipated to cost \$8 billion, equivalent to around one-third of the country's entire GDP. It would be quite problematic for an impoverished nation like Nepal to repay the debt at the current interest rate and so the railway link is of insufficient commercial significance for Nepal (Jha 2019). “Technically this will be one of the world’s toughest railways to construct,” said train engineer Paribesh Parajuli of Nepal’s Department of Railways (Nepali Times 2021). On the issue of BRI projects in Nepal, Joe Felter, US Deputy Assistant Secretary of Defence for South and Southeast Asia, said “We welcome a constructive relation with China, we welcome the investment by China, but as long as that investment is designed to serve the interest of Nepal and not just China.” He further added “Some activities associated with Belt and Road initiative that we see to be very much in China’s interest and not necessarily in the interest of country the activities are taking place,” (Giri 2020).

The government of Nepal is quite optimistic pertaining to the projects under BRI. It denies any consequence of debt-trap pertaining to huge Chinese investment in several projects. On the question of threat of debt-trap due to BRI projects, Pradeep Gyawali, the Foreign Minister of Nepal believed that some efforts are being made to spread the psychology of debt trap due to BRI but there is no doubt regarding any possible debt trap consequence. The foreign minister said, “How skillfully the country presents itself during negotiations and agreeing terms and conditions, and how it plans to boost its production capacity while developing big infrastructure are equally important,”. He further added, “These three factors determine a lot of things,

of which the Nepal government is well aware. That’s why I believe this debt trap rumour in Nepal is aimed at instilling psychological fear” (Giri 2020).

BRI projects can benefit Nepal in the area of road and rail connectivity, hydro power generation, cross border power transmission, academic infrastructures etc. It will also facilitate with an alternative way to Nepal to trade with third country. But Nepal should analyze the economic viability of the project under BRI thoroughly before its construction. Nepal should also keep in mind that the it has to pay the huge loan with interest for these projects within stipulated period of time to avoid any compromise of sovereignty like that of Sri Lanka⁵.

3.4China’s Total Investment in Nepal

3.4.1Trends and Growth

In this section, trends and growth of Chinese total investment in Nepal is analysed. The analysis is done for ten years, from fiscal year 2010-11 to 2019-20.

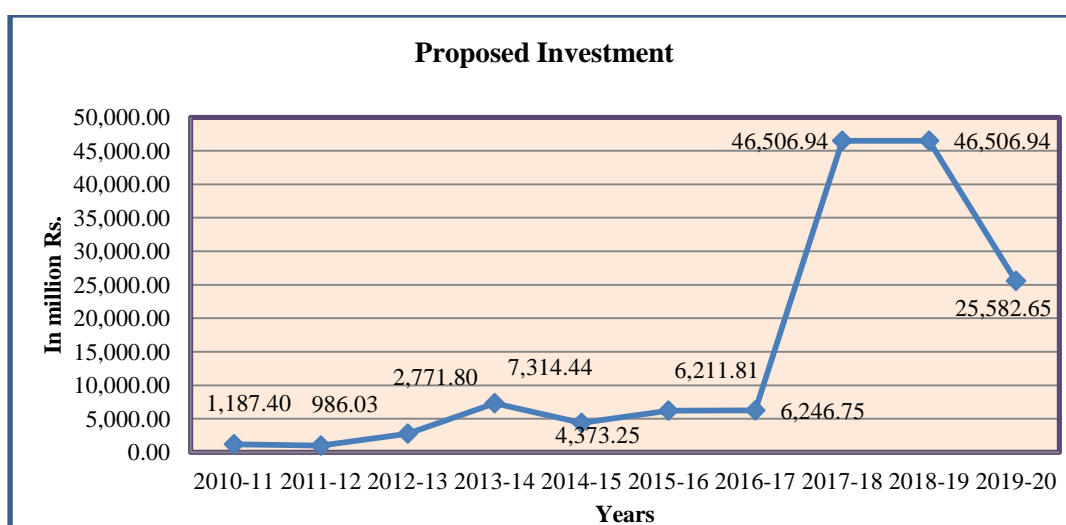
Table3.1 Chinese proposed investments and its growth (in Million rupees).

Year	Total Proposed Investment	Growth (%)
2010-11	1,187.40	-
2011-12	986.03	-16.96
2012-13	2,771.80	181.11
2013-14	7,314.44	163.89
2014-15	4,373.25	-40.21
2015-16	6,211.81	42.04
2016-17	6,246.75	0.56
2017-18	46,506.94	644.5
2018-19	46,506.94	0
2019-20	25,582.65	-44.99

Source: Industrial Statistics, Department of Industry, Nepal.

⁵The Hambantota port of Sri Lanka was built with 1.3 billion US dollar loan from a state-owned bank of China. But the Sri Lankan government failed to repay the loan as the project proved economically unviable. In 2017, the government handed over the port to a Chinese company for 99-year lease in order to raise 1.12 billion US dollar.

Graph 3.1 Trend of Chinese total investments (2010/11 – 2019/20).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (3.1) and graph (3.1), it can be seen that the Chinese investment in Nepal in the fiscal year 2010-11 was around 1,200 million rupees. After some fluctuations, it increased significantly to even more than 7,000 million rupees, along with the new regime came in power in China in 2013-14. In the very next year, a fall in it recorded when it became nearly 4,300 million rupees. But with positive impact of new Foreign Investment Policy 2015 in Nepal, the growth of around 42% in it was witnessed in the fiscal year 2015-16 and Chinese investments crossed 6,000 million rupees for the next two consecutive years. In the very next year, a massive surge in Chinese investment due to Nepal Investor Summit 2017 and signing of BRI framework, was registered when with growth of 644%, the total Chinese investment reached to nearly 46,500 million rupees.

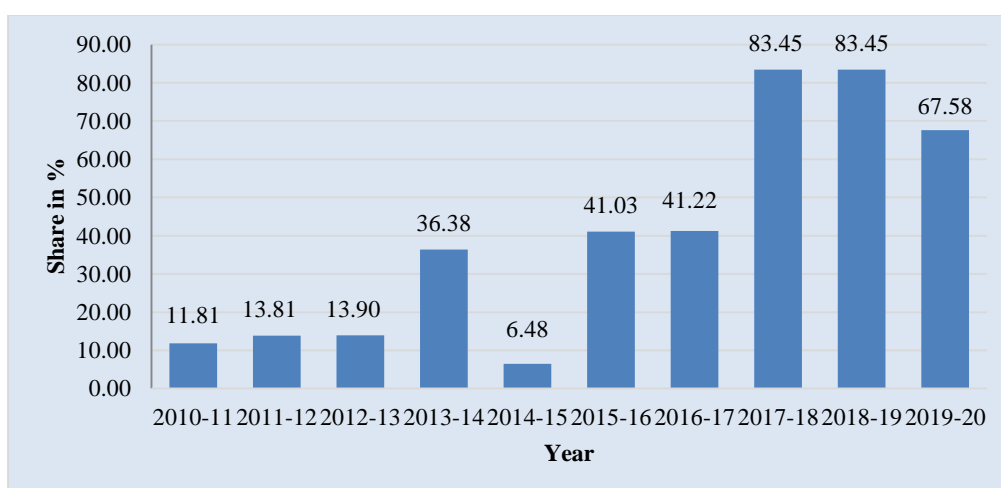
3.4.2 Chinese Share in Total Investment Inflows in Nepal

Table 3.2 Chinese share in total investments in Nepal (%)

Year	Chinese Proposed Investment	Total Proposed Investment	Share in Total (%)
2010-11	1,187.40	10,050.71	11.81
2011-12	986.03	7,140.81	13.81
2012-13	2,771.80	19,936.24	13.90
2013-14	7,314.44	20,107.42	36.38
2014-15	4,373.25	67,470.79	6.48
2015-16	6,211.81	15,139.63	41.03
2016-17	6,246.75	15,153.00	41.22
2017-18	46,506.94	55,730.38	83.45
2018-19	46,506.94	55,730.38	83.45
2019-20	25,582.65	37,853.27	67.58

Source: Industrial Statistics, Department of Industry, Nepal.

Graph 3.2 Share of Chinese investments (2010/11 – 2019/20).



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (3.2) and graph (3.2), share of China in total investments received by Nepal did not cross even 15% for the initial three consecutive years out of the reference time period of six years. It was between 11 to 14 percent during these three fiscal years. But when the Chinese investment increased to more than 7,000 million rupees in the year 2013-14, the share increased to around 36%, attributed to the new regime in power in China in 2013.

After the introduction of new Foreign Investment Policy in 2015, the share of China was around 41 % for the two consecutive years for the fiscal year 2015-16 and 2016-17. The Chinese share after Nepal Investor Summit 2017 and signing of BRI framework, increased considerably to around 83.5% of the total proposed investment in Nepal for the fiscal year 2017-18 and 2018-19. In the very next year, both Chinese and total investment falls and Chinese share comes to around 67%.

3.5 China's Category-wise Investment in Nepal

Industrial Enterprises Act (2016) has classified Industries under eight categories. Agro and Forestry Based, Manufacturing, Service and Tourism are the categories China has been investing certain amount every year. The Chinese investment is nil in Energy, Construction, Mineral and Information Technology categories several times within the reference time period of 6 years for analysis.

Table 3.3 Category-wise Chinese Investment (in million rupees)

Year	Agro& Forestry Based	Energy Based	Manufacturing	Construction	Mineral	Information Technology	Service	Tourism
2013-14	765.99	4,236.00	821.94	0.00	200.00	0.00	731.50	559.00
2014-15	414.00	0.00	1,350.05	100.00	0.00	0.00	1,155.01	1,354.20
2015-16	125.00	10.00	1,960.52	0.00	0.00	0.00	3,086.29	1,030.00
2016-17	42.50	0.00	994.77	10.20	30.00	35.00	2,200.28	2,934.00
2017-18	1,826.00	36,056.04	2,159.30	0.00	3,800.00	70.00	1,080.60	1,515.00
2018-19	320.00	0.00	1,301.33	0.00	0.00	397.92	5,090.72	6,042.00

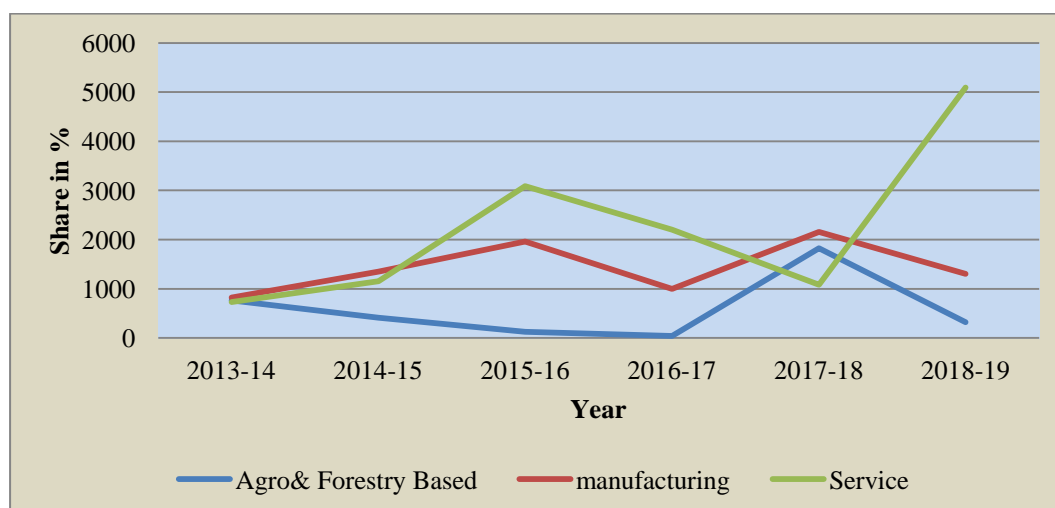
Source: Industrial Statistics, Department of Industry, Nepal.

Table 3.4 Category-wise Chinese Share (in %).

Year	Agro& Forestry Based	Energy Based	Manufacturing	Construction	Mineral	Information Technology	Service	Tourism
2013-14	75.56	37.87	44.38	-	71.07	-	16.36	42.95
2014-15	56.26	0	62.72	100	0	-	20.36	31.25
2015-16	42.05	0.55	61.89	0	-	-	38.88	54.46
2016-17	16.57	-	26.65	100	77.92	39.44	43.85	48.83
2017-18	94.32	99.46	31.54	-	100	13.02	48.33	36.74
2018-19	79.35	-	20.69	-	0	61.27	71.64	57.33

Source: Industrial Statistics, Department of Industry, Nepal.

Graph 3.3 Chinese Investment in Agro& Forestry-based, Manufacturing and Service Industries.



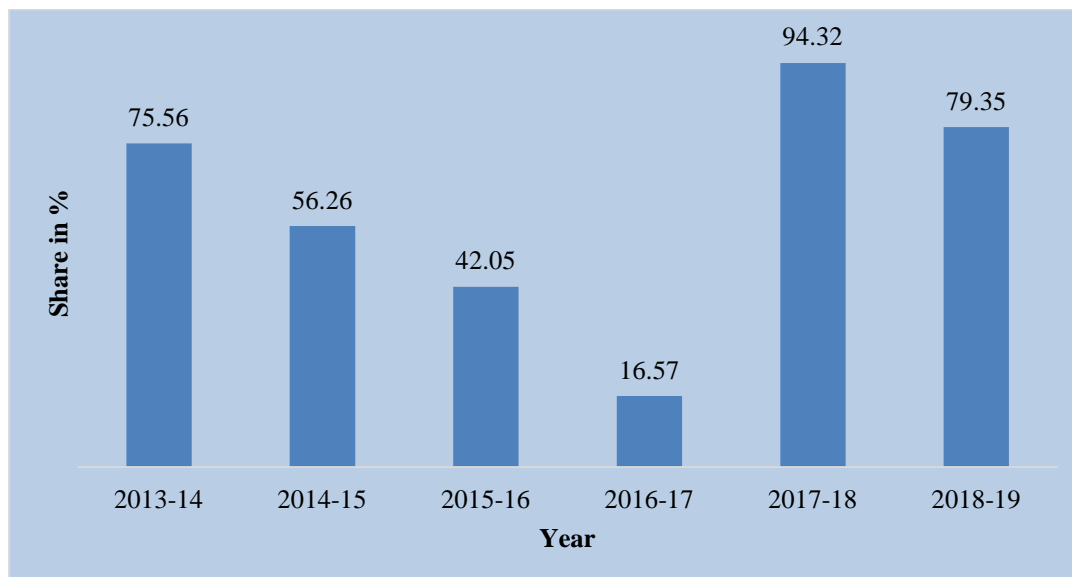
Source: Industrial Statistics, Department of Industry, Nepal.

3.5.1 Agro and Forestry Based

Agriculture is the major sector of Nepal, which has contributed around 30% in Nepal's total GDP and has employed around two-thirds of its workforce in 2016-17 (Government of Nepal 2018). In the last 29 years, Nepal has received Rs 7.43 billion foreign investments in agriculture category from various countries. China, with Rs 4.97 billion investment, is the largest among the 36 countries investing in Nepal's agricultural category (Neupane 2021).

From the above table (3.3 and 3.4) and graph (3.3 and 3.4), Chinese investment in agriculture category accounted for nearly 770 million rupees for the very first year in the reference time period and then fell for three years in a row till the fiscal year 2016-17. It was also reflected in Chinese share in this category as decreased from around 75.5% in 2013-14 to 16% in the year 2016-17. In this category, China has invested particularly in organic product like organic fruits and vegetables (Roka 2016).

Graph 3.4 Share of Chinese investment in Agro and Forestry based industry.



Source: Industrial Statistics, Department of Industry, Nepal.

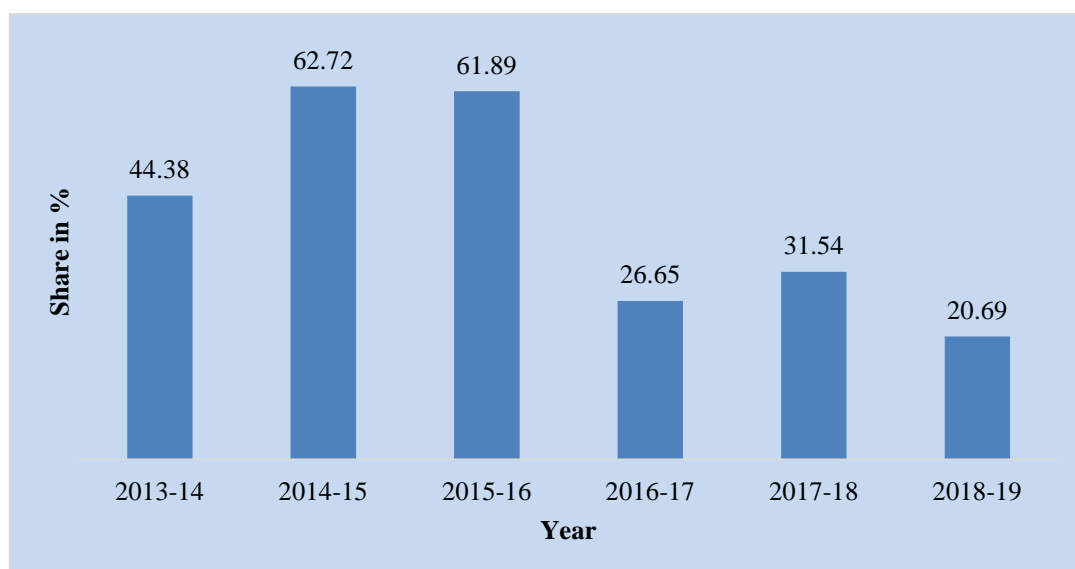
But due to the Nepal Investor Summit 2017, Chinese investment surged to more than 1,800 million rupees and share became more than 94%. In the next year both total investment and Chinese investment in this category fell but latter fell more than the former lead to fall in Chinese share which was at around 79%. Agricultural sector is a

very important one where Chinese investment is needed to achieve Sustainable Development Goals by Nepal through agricultural development (Karki 2019).

3.5.2 Manufacturing

In the recent years, China is accounting for the largest share of foreign direct investment in the manufacturing category of Nepal. Apart from it, both China and Nepal are making plans to set up an industrial park in Chitwan district. In order to develop the central area of Nepal as a centre of extensive manufacturing and processing hub. One such industrial park has already been developed by China in eastern Jhapa district. If this plan will get properly executed, then it will be the second such project developed with Chinese involvement (Xuequan 2019).

Graph 3.5 Share of Chinese investments in manufacturing industry.



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (3.3 and 3.4) and graph (3.3 and 3.5), Chinese investment in the manufacturing category has increased from around 820 million rupees to around 1,960 million rupees from the fiscal year 2013-14 to 2015-16. China is making one of the largest investments in manufacturing sector of Nepal as per an agreement signed in 2015 between government of Nepal and a Chinese company in a cement factory of Nepal. As per the agreement, China's Hongshi Holdings Group will make a joint venture with Shivam Holdings Nepal to establish Rs 30 billion cement factory. In this project, 70% investment will be made by the Chinese party and rest 30% investment will be made by the Nepalese party. In this way, The Chinese party is making investment of Rs 21 billion, which is the largest investment Nepal has received in its

manufacturing sector. The set up of Hongshi-Shivam Cement Private Limited is the result of this successful joint venture (Republica 2017). Increase in investment was also reflected in the share which was around 44% in the first year, remained above 60% in the two following years. In the next fiscal year 2016-17, the Chinese investment was half of what it was just a year ago. And share for the same year also came down to 26.6%.

Agreement on several projects was made between Xi and Oli during PM Oli visit to China in 2018. In continuation of this agreement, the Investment board of Nepali government in 2019 signed a MoU and gave approval of worth US \$ 586million investment by Chinese company with Damak Clean Industrial Park of Nepal. Jing Ping Joint Creation Construction Project Development Co. Ltd and Lhasa Economic and Technological Development Zone Investment Co. Ltd of China are going to form a joint venture with Damak Clean Industrial Park of Nepal to manufacture several kinds of goods ranging from apparel to white goods and mobiles to electric cars (Sigdel 2021). In the fiscal year 2017-18, more than 100% increment in investment from China, compared to that of the previous fiscal year, was recorded and for the first time in the reference time period of six years, it crossed 2,000 million rupees which was due to its attraction after Nepal Investment Summit 2017.

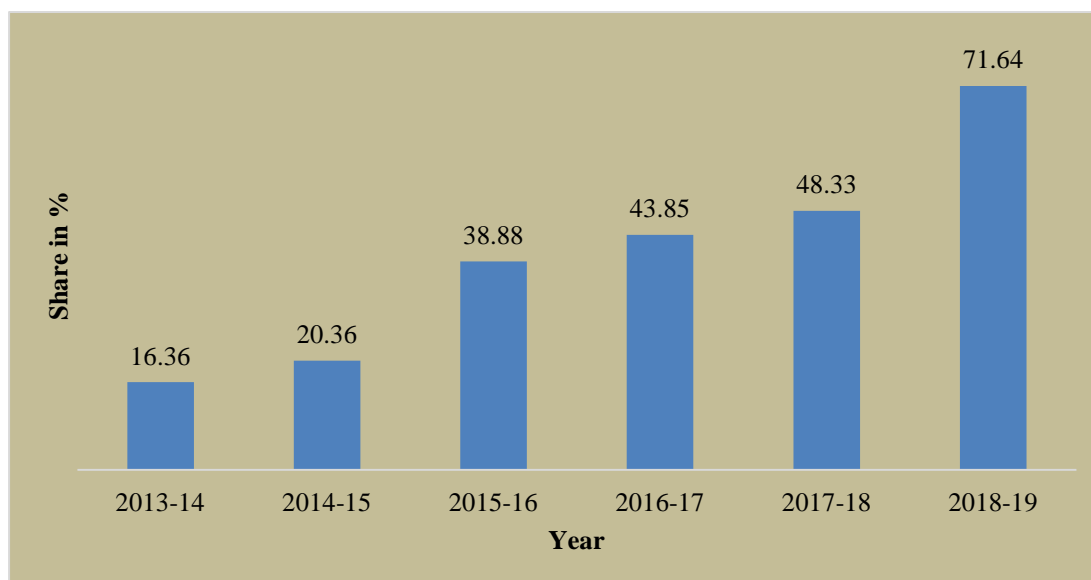
Although, Nepal got a huge investment flow in manufacturing category in the name of Hongshi-Shivam Cement Private Limited, but still Chinese investment is low in this category other than cement. former president of the Federation of Nepalese Chambers of Commerce and Industry, Pashupati Murarka said, "We have got a few big investments from China in the areas of hydropower project and cement projects, but, large Chinese investment is still low in manufacturing sector except in cement" (ZD 2019).

3.5.3Service

In service category, China mainly makes investments in the software part, international cargo, language and medical services in Nepal (Roka 2016). In health and medical sector under this category, China has significant role in the construction of B.P. Koirala Memorial Cancer Hospital, a 150-bed hospital with cost of \$11.7 million in 1999, Civil Service Hospital, a 120-bed hospital with cost of \$16 million in

2006 and the National Ayurveda Research and Training Centre costing 7.14 million in 2009 (Routray 2015).

Graph 3.6 Share of Chinese investments in Service industry.



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (3.3 and 3.4) and graph (3.3 and 3.6), from around 730 million rupees in beginning, the Chinese investment remained on rise for the two following years, surged significantly in the fiscal year 2015-16 when crossed 3,000 million rupees. In 2011, Nepal Telecom granted two Chinese telecom companies - ZTE Corporation and Hawaii, the contract to install the Next Generation Network (NGN) in the country. At a combined cost of \$19 million, ZTE installed equipment for Next Generation Network in Kathmandu Valley while Huawei did the installation work in the remaining part of Nepal. ZTE with cost of \$43.75 million played an important role in building four high-tech earthquake-resistant data centres in 2012 in Biratnagar, Kathmandu, Hetauda, and Pokhara for Ncell Pvt. Ltd., which is a Nepalese telecom company (Routray 2015).

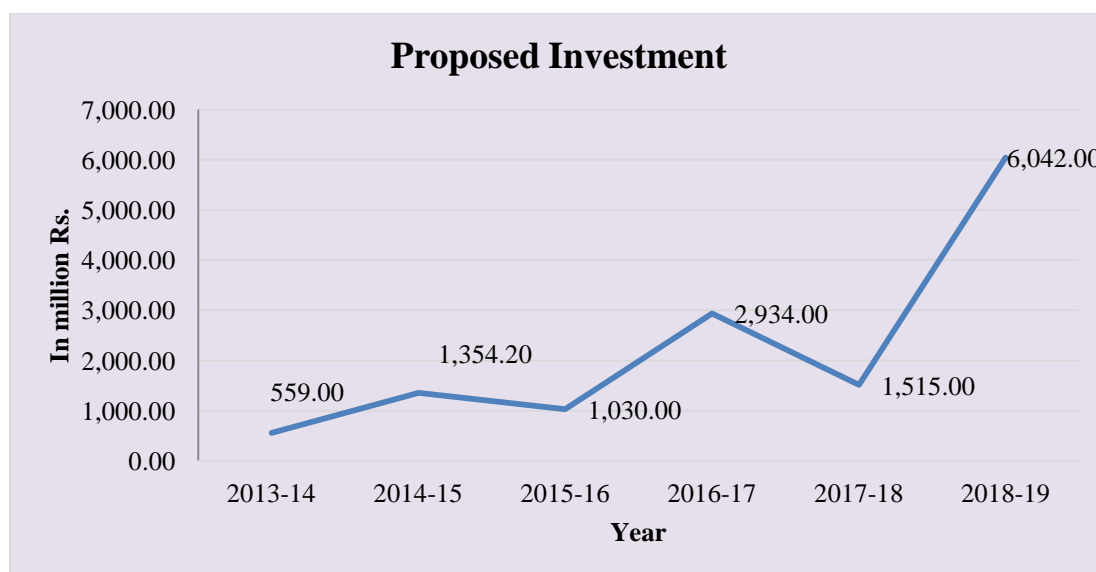
After 2015-16, the Chinese investment declined for next two coming years. In the very next year 2018-19, it touches its highest level when crossed even 5,000 million rupees. This significant surge took place due to approval of large number of proposed Chinese investment after Nepal Investment Summit 2017. There were more than fifty percent Chinese projects among the total projects approved by Nepalese authority in

this category in this year. Out of 108 projects, 58 were Chinese projects (Government of Nepal 2019). Coming to its share in this category of Nepal, it has been increasing throughout the reference time period of six years. It was around 16% in the year 2013-14, increased to 71.64% in the year 2018-19.

3.5.4 Tourism

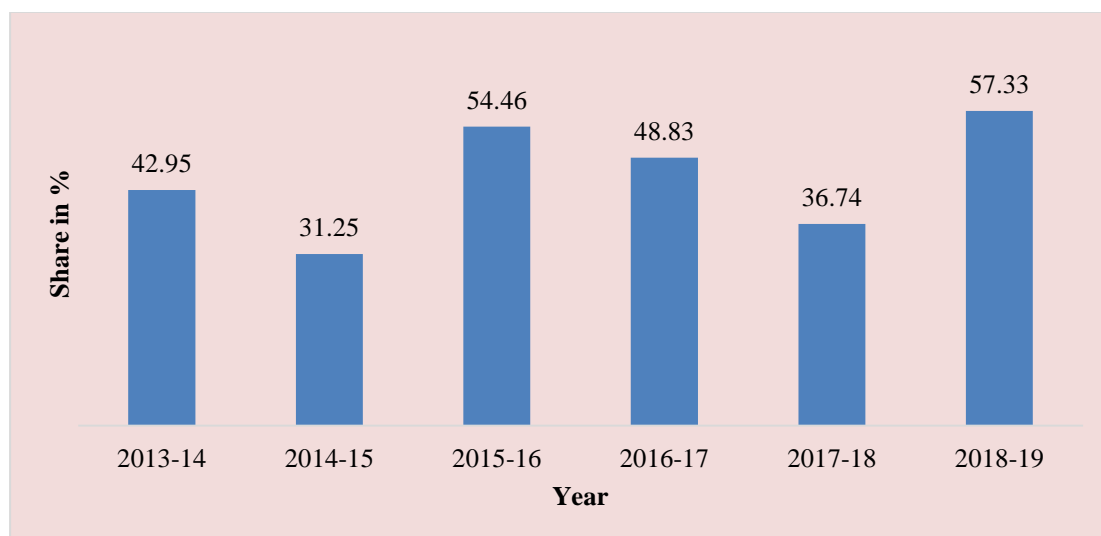
For the last some years, China has come out as the largest player in terms of investment commitment in Nepal, more specifically in tourism category. In the recent years, as the number of tourists from China is increasing, the interest of Chinese investors in tourism industries in Nepal is also increasing. They are interested in making investment in hotels and restaurants particularly in Kathmandu Valley, Pokhara and Chitwan (Republica 2020). The famous hotels operated by Chinese entrepreneurs in recent times in Nepal include Hongfu Pastry Private Limited and Fushun Hotel Private Limited (Tourism Mail Crew 2018).

Graph 3.7 Chinese investments in Tourism industry.



Source: Industrial Statistics, Department of Industry, Nepal.

Graph 3.8 Share of Chinese investments in Tourism industry.



Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (3.3 and 3.4) and graph (3.7 and 3.8) , it can be seen that the Chinese investment in tourism category has increased more than 10 fold during the reference time period of 6 years as it was around 560 million rupees in 2013-14, surged to around 6,000 million rupees in 2018-19. As the flow of Chinese tourists is increasing in Nepal, the Chinese nationals are investing more in the tourist destination of the Himalayan nation. The drastic increase in tourists from China to Nepal took place since 2009. A growth of 250 percent was witnessed in terms of inflow of Chinese tourists in Nepal from 2009 to 2013. In 2013, the number of Chinese tourists visited Nepal increased to become 113,173 which was only 32,272 in 2009. This resulted to increase in number of weekly flights between the two countries. Also, Chinese people began making investment in hotel industry in different tourist destinations of Nepal. They now own a number of hotels in tourist destinations like Thamel and Pokhara in Nepal (Routray 2015).

It was above 1,000 million rupees in the years 2014-15 and 2015-16 and become nearly thrice in the fiscal year 2016-17 compared to the preceding year. It has crossed the mark of 6,000 million rupees in 2018-19.

It can also be seen that the minimum share of Chinese investment in this category has never gone below 30%. The minimum share was 31.26% in the fiscal year 2014-15. The share has been more than 50% twice, in 2015-16 and 2018-19 when it was above 54% and 57% respectively. Yang Chan Yu, who is an Economic Manager of China

Eastern Airlines, told that China Eastern is going to increase the number of flights to Nepal in coming days. He said, “We have 11 flights to Kathmandu from China in a week at present. Weekly flights to Kathmandu were slashed from 14 after the earthquake in Nepal. But, we are working to increase our flights due to more Nepal-China connectivity and rise in Nepal’s tourism” (Setopati 2018).

This chapter finds that in Nepal, Chinese investment is not only increasing but has also made China as the largest investor, not once or twice but six years in a row since 2014. Out of the eight categories, significant Chinese investments are seen in agriculture, manufacturing, service and tourism apart from the energy-based category. What the hotels and restaurants were the areas where Chinese investments were mostly witnessed, have now diverse to big projects related to hydroelectric projects, railways and roadways, industrial park, manufacturing units etc. More big projects will be executed in the coming time under BRI. Different factors like BRI projects, geopolitical factors and potential for minerals and resources are responsible for the increasing its investments in the Himalayan nation. However, there are certain concerns remain attached with BRI projects and some agitation and opposition against Chinese projects have been witnessed in the Himalayan nation. BRI projects involve billion of dollar and the huge loan along with the interest rate has to be paid by Nepal within stipulated time period. Certain project like Kyirong-Kathmandu railway project does not seem economically viable. Nepal is a poor country and if the project, with billion of dollar investment, will prove non-profitable, it would lead the Himalayan nation to fall into a debt trap in future. This may lead to some compromise with Nepalese sovereignty as evident from the example of Sri Lanka which was forced to transfer its deep water port harbour of Hambantota to the hand of China on lease for 99 years as the huge loan and its interests were impossible to pay back by this non-profitable project.

In the next chapter, comparison between India’s and China’s investment has been undertaken.

Chapter 4: Comparison of India's and China's Investment in Nepal

India has long been Nepal's investment partner, and its investments are mostly ascribed to the two countries' extensive historical and social ties. The economic cooperation between the two had started with signing of Treaty of Trade and Commerce in 1950. Further in 1990s, with dropping of the requirement of a trade license by India for most of the goods in its import-export policy 1992, amendment in Indo-Nepal trade agreement regarding domestic content reduction to 50 percent in goods and allowing of content certification by designated Nepalese institution, made the economic arrangement more liberal. In order to take advantage of big Indian market in this new arrangement, Indian investors invested in Nepal to export Nepal-manufactured goods to India. Dabur Nepal rushed to take the advantages and started manufacturing health supplements and personal care products. Later it also started manufacturing juices to target particularly northern part of India. Nepal Unilever also invested in manufacturing of soaps and cleaning components to take the benefits of this policy change. However, it is focusing more on its domestic market of Nepal but there was a time when it used to export 40 percent of its products to India.

China, on the other hand, is relatively recent investor in the Himalayan nation and its investments are mainly attributed to its political motive. The economic cooperation between China and Nepal deepened after 2015 Gorkha Earthquake in latter, when former came forward for reconstruction of various destroyed infrastructures. The Madhesi blockade in the same year at Indo-Nepal border gave China a golden opportunity to further enhance its economic engagement. The supply of essential commodities by China at this time of crisis and need of alternative transit route of Nepal brought latter to more close of former. These events clear the way for China to send its firms to Nepal for exploration of new financing possibilities in different infrastructure sector like roadways, railways, air port and hydropower plant. To diversify its dependency for transit route, Nepal signed Trade and Transit Agreement (TTA) with China in February 2016. The gateway of huge Chinese investments opened next year, when Nepal joined China's billion dollar Belt and Road Initiative (BRI).

4.1 Quantitative Comparison

India has been the largest foreign investor in Nepal. But, since 2014-15, China has been holding the tag of largest source of investment in the Himalayan nation. The Chinese investment has become three times more than that of Indian investment in Nepal. Not only in terms of total amount, but China has overtaken India in total number of projects too (Jha 2020).

Table 4.1 Indian and Chinese Proposed Investments (in Million Rs) and Their Shares in Total Investments to Nepal (in %).

Year	Indian investment	Chinese Investment	Indian Share	Chinese Share
2010-11	7,007.26	1,187.40	69.72	11.81
2011-12	2,298.00	986.03	32.18	13.81
2012-13	2,809.07	2,771.80	14.09	13.9
2013-14	6,540.83	7,314.44	32.53	36.38
2014-15	34,719.00	4,373.25	51.46	6.48
2015-16	1,941.91	6,211.81	12.83	41.03
2016-17	2,082.89	6,246.75	13.75	41.22
2017-18	5,098.81	46,506.94	9.15	83.45
2018-19	5,098.81	46,506.94	9.15	83.45
2019-20	3,897.09	25,582.65	10.3	67.58

Source: Industrial Statistics, Department of Industry, Nepal.

From the above table (4.1), it can be clearly seen that China was far behind India in terms of proposed investment in Nepal in fiscal year 2010-11. The Indian proposed investment in this year was around six times that of Chinese investment in Nepal as the former was slightly above to Rs 7,000 million against around Rs 1,190 million of latter. Also, India's share was around 70% in the total investments inflow to Nepal against China's share of around 12% in this year.

In the fiscal year 2012-13, the proposed investment from both the sides were close to each other when Chinese proposed investment stood at Rs 2,771 million and that of India was at Rs 2,809 million. Also, the shares of both these players were more or less 14% in this year. By mid 2013, there were 525 Indian firms and industries compared to 478 Chinese firms and industries operating in Nepal. By that time 575 Chinese companies against 566 Indian companies got approval for foreign investment in Nepal. Even though, more number of Chinese companies got approved for investment

compared to Indian company, China was behind India in terms of amount of foreign investment. Although China was behind India in terms of making investment by mid 2013, more approval of Chinese companies than that of Indian companies for investment, was indicating that China may beat India in this term in the near future (Business Standard 2014).

In the terms of proposed investment in Nepal, it was in the fiscal year 2013-14 when China surpassed India for the first time. The Chinese share also became more than the Indian share in this year. In the fiscal year 2014-15, the Indian investment approved by Nepalese authority was around 8 times compared to that of Chinese investment. The approved investment proposal of India was of worth above Rs 34,000 million against Rs 4,300 million worth of Chinese investment proposals. In the terms of actual investment made in Nepal, China surpassed India in the year 2014-15 for the first time.

Comparing the investment commitment during the Nepal Investment Summit 2017, China was at the first rank in terms of investment commitment in Nepal while rank of India was even behind Japan, Sri Lanka and Bangladesh. Out of total investment commitment of 13.52 billion US Dollar, Chinese investment commitment was 8.36 billion US Dollar and Indian investment commitment was only 317 million US Dollar (Jha 2020). In the fiscal year 2017-18 and 2018-19, the Chinese proposed investment in Nepal became nearly 9 times of Indian proposed investment as the former was around Rs 46,500 million against only around Rs 5,000 million of latter. The overtaking of Indian investment by Chinese investment is also visible in the share of the two countries in Nepal's total investment as Chinese share surged sharply to around 83.5% against Indian share of around 9.2%. In the year 2019, Nepal witnessed around 40% of Chinese investment and 30% of Indian investment in its total new investment flows (Thakur and Thapa 2020).

Despite of the Covid-19 pandemic, the Chinese investment commitment has become nearly double in the fiscal year 2019-20 compared to the just previous year 2018-19. The amount of Chinese investment commitment was \$220 million in the fiscal year 2019-2020 Compared to \$116 million in the preceding fiscal year 2018-19 (China Daily 2020). But due to the uncertainty pertaining to the pandemic, the Indian

investment pledges has fallen and there is possibility of further decline in it. It will take some time for the Indian investment to make recovery in Nepal (Prasain 2021).

4.2 Implications of Investment for Nepal

The Indian investments have an important contribution in the Nepal's economic development. They have introduced management skills and new technologies in Nepal. Apart from expanding Nepal's export to India and revenue to the government treasury, they have also played important role in employment generation (Nepal-India Chamber of Commerce and Industry 2020).

Hundreds of Indian companies are operating in wide range of industries. Till 2014, India had created more than 58,000 jobs in the Nepal (Business Standard 2014). For instance, Dabur Nepal Private Limited (DNPL) has created thousands of both direct and indirect employment opportunities. It has generated nearly 2,000 direct and 20,000 indirect employment opportunities in the Himalayan nation (Adhikari 2013A). Also, Unilever Nepal, whose majority ownership is in the hand of an Indian company, is contributing a lot in generating employment in Nepal. Through its value chain network, it has engaged many small and medium scale enterprises. It has also given a large number of jobs to the Nepalese people as agents for distributing, stocking, carrying forwarding etc the commodities. The company gives direct employment to more than 240 people and indirect employment to around 20,000 people through its value chain network (Prasai 2021).

Indian investments have also a positive implication in export of Nepal. The Dabur Nepal Private Limited has good contribution in the total export of Nepal. The annual turnover of this company, which was only 5.3 million Nepali rupees in 1992, surged drastically to 10 billion Nepali rupees by 2019. Export of its commodities played very important role in achieving this significant annual turnover. The export alone contributed for 60 percent in its annual turnover. It implies that this company alone contributed around 6 billion Nepali rupees worth of commodities in Nepal's total exports in this time period (Prasai 2021).

China is investing in several infrastructure projects like roadways, railways, transmission lines, aviation etc in Nepal. Also, China is providing third country access to Nepal through its 4 sea and 3 land ports for international trade under Trade and

Transit Agreement (TTA). The investments in BRI connectivity projects along with Trade and Transit Agreement (TTA) will have a significant implication for Nepal. Apart of improving connectivity and trade between the two countries, it will reduce Nepal's dependency on India for trade with third country. For instance, with completion of Kyirong-Kathmandu railway project along with access to Chinese ports, Nepal will get an alternative to route connect with rest of the world in case of any blockade sort of situation at its border with India (Pandey 2020). Chinese investments have a very crucial role in cement industries of Nepal. These are not only catering the domestic cement demand of the country but also contributing in reduction of its cement import. Chinese investment in HongshiShivam Private Limited is widely appreciated in the Himalayan nation. This company has capacity of producing 6,000 tons of cement per day. China has also made a new investment through Huaxin Cement Narayani Private Limited in the new cement plant which has capacity to produce 3,000 tons of cement per day. These companies are meeting large scale cement demand for Nepal's domestic use as construction of several hydropower projects are going on and several other big infrastructure projects are going to start in Nepal. The cement import is getting reduced with Chinese investments in this sector. Nepal's cement imports which was worth of 1.31 billion Nepali rupees in the fiscal year 2018-19, reduced significantly to 570 million Nepali rupees in the fiscal year 2020-21. Also, the sharp fall in the import of cement clinkers was also witnessed as it has reduced significantly from 11.67 billion Nepali rupees in 2018-19 to 3.6 billion Nepali rupees in the fiscal year 2020-21 (Huaxia 2021C). The Chinese investment also has positive implication in energy sector of Nepal. The Upper Marsyangdi A hydro power project, constructed by China Power-a Chinese company, is continuously supplying clean and safe power to the national grid of Nepal and hence playing crucial role in reducing power shortage problem of the country. Apart from this, the power China has also constructed roads, bridges, irrigation system, water supply infrastructures etc under its social responsibilities for the benefits of the local population. Construction of various public facilities like schools, hospitals, soccer fields, women's associations etc have also been supported by this Chinese company (Chincold 2020).

The huge Chinese investments in various projects may also have certain negative implications. The connectivity projects under BRI are very costly. They require

billions of Dollars. So, Nepal may get overburdened with Chinese loans (Kumar 2021). With the billion dollar Chinese investments in Nepal, the interference of China in the political affairs of Nepal has been increasing. In December 2020, when tussle between the two factions of the ruling Communist Party of Nepal, one led by Prime Minister Oli and other led by co-chair Prachanda, took place for power, the ambassador of China to Nepal Huo Yanqi tried to resolve the differences between the two factions. When tussle for power deepened, the PM Oli recommended President Vidya Devi Bhandari to dissolve the house. With the dissolution of house, a political crisis emerged in Nepal. Since, China did not want any political crisis and split in the ruling party of Nepal, it sent Guo Yezhou, a vice-minister in Communist Party of China (CPC), to resolve the power issue between the two factions. This is not the first instance when China interfered in Nepali politics at such a scale. In May and June of the same year, when PM Oli was facing pressure to resign from the post of prime minister amidst power tussle, the Chinese ambassador tried to maintain unity between the factions of the ruling party. Hou Yanqi did many meetings with president Bhandari, PM Oli and with various prominent leaders of the party including Prachhanda and Jhala Nath Khanal. She requested all the leaders to maintain unity in the party and to avoid any probable split in the party. At that time, the rival faction of the ruling party, led by Prachanda, left its demand of resignation of K P Sharma Oli from the post of Prime minister (Firstpost 2020). The influence of China can also be seen in Nepal pertaining to the Tibetan population residing in it. As the Chinese influenced has increased, the Tibetan community in Nepal is facing some restriction from the Nepalese government. The Nepalese government prevented Dalai Lama's birthday celebration in public by the Tibetan community (Kathmandu Post 2019).

The Chinese investment may also have other negative implications, such as on environment in some Himalayan region of Nepal. Many projects related to road and tunnel construction are running through the ecologically sensitive area like national parks, can disturb wildlife. The carving of land in the fragile alpine ecosystem for construction of roads and tunnels could increase the frequency of landslide due to yearly monsoon. Frequent landslides can adversely affect the trekking industry in Nepal (Augustin 2022).

4.3 Sector-wise Comparison

Nepal has been able to attract investments from countries all over the world over time in its different sectors like agriculture, manufacturing, service, construction, energy, tourism etc. Its two neighbours, India and China have been the major players in terms of making investments in almost all its sectors (Roka 2015). If we see the data of Industrial Statistics 2014 of Nepal, it can be seen that both these players have made investments in tourism, service, mineral and energy categories. From category-wise investment data in the reference time period of six years from 2013-14 to 2018-19, it is seen that both India and China have significantly invested in Energy category particularly in hydro power sector, manufacturing, service and tourism categories. Apart from these categories, China's investments are also significant in agro and forestry based and mineral categories while India's investment is quite low in these categories.

As per these six year data, India's proposed investment in Agro and Forestry Based category is insignificant against the Chinese proposed investments. India's amount is only Rs 20 million against China's big amount, which is above Rs 3,400 million. Indian investment is mainly seen in agro-processing units. A famous example of Indian investment in this sector is Dabur Nepal Private Limited (DNPL). This company with Indian investment initially involve in processing of Himalayan medicinal herbs for health supplements and personal care products. Later, the company also started producing fruit juices (Prasai 2021). In the last 29 years, China alone contributed around Rs 5 billion as investment in agriculture category of Nepal. As far as its investment in this category is concerned, it has invested in organic products. These organic products include organic fruits and organic vegetables (Roka 2015).

India's second highest proposed investment is seen in manufacturing category where it has proposed nearly Rs 10.3 billion. China, in this category, is behind India but not by so much. China's proposed investment is around Rs 8.6 billion. Manufacturing is the only category where India has beaten China in terms of proposed investment in Nepal. Indian investments in this sector are seen in manufacturing of products like soap, detergents, cigarettes, paints, textile etc. Unilever Nepal is the multi-national company, controlled by its parent company Hindustan Unilever, manufactures soap

and cleaning compounds. It manufactures around 35 items which includes Lux soap, Lifebuoy soap, Areal surf, Sunsilk shampoo, Fair & Lovely cream etc. Surya Nepal Pvt. Ltd. (SNPL), having Indian investment from ITC Limited, is a textile industry, manufactures and markets good quality of cloths for adults, youth, men and women. It also manufactures cigarettes under various brands. It has captured around 70 percent share of Nepalese cigarette market (Bishop 2012). Also, Asian Paints an Indian company, invested in Asian Paints Nepal with 51 percent stake. Asian Paints Nepal is the largest manufacturer of paints in Nepal, engaged in manufacturing of decorative paints for painting of furniture, buildings, home etc. Apart from the decorative paints, some industrial paints are also manufactured by it.

The largest investment that Nepal has seen in manufacturing sector is from a Chinese company-Hongshi Holdings Group. With the massive investments of 21 billion US dollar, the Chinese company has made a joint venture with a Nepalese company to set up Hongshi-Shivam Cement Private Limited, which has capacity to produce 6,000 tons of cement per day (Republica 2017). Also, two Chinese companies are making joint venture with a Nepali company, named Damak Clean Industrial Park to manufacture wide range of goods including apparel, mobiles, electric cars etc (Sigdel 2021).

In service category, China's proposed investment is around four times of the Indian proposed investment. With the amount of Rs 13.3 billion, China has a rough margin of Rs 10 billion as the amount of India was only Rs 3.6 billion. In service category, China is preferring in language, software, medical service and international cargo for its investments (Roka 2016). In health and medical sector, China has significant role in the construction of B.P. Koirala Memorial Cancer Hospital, Civil Service Hospital and the National Ayurveda Research and Training Centre (Routray 2015). But, the Indian investments can be seen in banking and finance, telecom, education, health, dry ports etc. Indian companies like VSNL and MTNL, have made investments in telecom while other Indian entities like State Bank of India, Punjab National Bank, IL&FS, Life Insurance Corporation of India have stake in banking and finance sector of Nepal. There are total 14 joint venture finance companies in Nepal and out of these, 5 joint ventures are with Indian companies. Patel Engineering and Manipal Group have role in education sector of Nepal. In health sector, Indian involvement

can be seen in institutions like Nepal-Bharat Maitri Trauma Centre, eye-centre in Krishnanagar in Kapilvastu, gynaecological hospital in Bhadarpur in Jhapa etc.

Both neighbours, India and China, have also invested significantly in tourism category of Nepal. Tourism is an important sector of Nepal. It contributes around 8 percent in the Nepal's Gross Domestic Product (GDP). Various geographical and religious factors attract tourists in the country. Geographical and environmental factors like hilly terrain, high mountains, dense forests, diverse flora and fauna, rivers and lakes attracts tourists. Several Hindu religious sites like Janakpur, Goddess Sita's birthplace; Pashupatinath temple and Muktinath temple and Buddhist site like Lumbini, Gautam Buddha's birth place also contributes in tourism sector of Nepal. Now, medical tourism in Nepal is also increasing to take the advantages of Nepal's specialization in bypass surgery, eye surgery and organ transplantation (Jha 2020A). The tourism sector of Nepal attracts significant foreign investments in hotels, restaurants, airlines, resorts and travel agencies from different countries all over the world.

In the tourism category, both the players are mainly investing in hotels and restaurants (Roka 2016). In this category, Chinese proposed investment is around Rs 13.4 billion, which is many fold of India's proposed investment which stands at nearly Rs 2.6 billion.

The Chinese nationals are investing in a number of small hotels and restaurants at the popular tourist destination of the Himalayan nation. They now own a number of hotels in tourist destinations like Kathmandu valley, Thamel, Pokhara and Chitwan in Nepal (Routray 2015). Hongfu Pastry Private Limited and Fushun Hotel Private Limited are among the famous Chinese hotels in the Himalayan nation. With the increase in inflow of Chinese tourists in Nepal, the business opportunities for Chinese investors in this sector is also increasing and so more Chinese investments are being seen. China is committing highest share of its investment commitment to tourism sector in Nepal. In the fiscal year 2020-21, this sector secured US dollar 125 million out of total Chinese commitment of US dollar 188 million. On this increase of Chinese commitment in this sector, Bhusal, the director general of the department of industry said, "I think the Chinese investors want to prepare tourism infrastructure in

Nepal for the post-COVID-19 scenario when the arrival of more foreign tourists can be expected” (Huaxia 2021A).

Indian investment in this sector has been witnessed in some big and luxurious hotels. Indian hospitality company, that is, Indian Hotels Company Limited (IHCL), has invested in Vivanta Kathmandu. Apart from other basic hotel services, this hotel in Nepal also provides swimming pool, therapeutic bath facility, fitness centre, concierge services etc. The Indian company has also opened Taz safaris lodge , named Meghauli Sarai, which is popular for major Asian cuisine, local dishes, all-day diner, rooftop bar etc for the tourists.(Ihltata 2019).

India’s proposed investment in construction category is nil in these six years while that of China is more than Rs 110 million. In mineral category, China has left India far behind in terms of proposed investment in Nepal. The Chinese proposed investment in this category is around Rs 4 billion against Indian proposed investment of around Rs 103 million. In Information Technology category, total proposed investment from India amounted to around Rs 39 million against around Rs 500 million of proposed investment from China.

Initially, the investments from China were centered towards small investment items like hotels and restaurants but these are also seen in infrastructure sector in the recent time. The convergence of Nepal’s aspiration for infrastructure projects in roadways, railways, aviation, transmission lines etc and Chinese ambition to develop infrastructures under Belt and Road Initiative (BRI), lead to increasing Chinese investments in infrastructure sector of the Himalayan nation.

In 2015, the blockade situation at Indo [Nepal border stopped the inflow of several essential commodities to Nepal. That time, Nepal felt the need of an alternative way for unhindered flow of commodities. The economic blockade at the southern border compelled Nepal to move for more connectivity infrastructures. China had already shown its interest for development of infrastructure projects and this problematic situation of Nepal came as a golden moment to prove itself as the supporting and helpful neighbour. China showed a good gesture by sending several tanker of fuel to Nepal which clear the way for China to send more firms to latter for exploration of new financing possibilities in different infrastructure sector like roadways, railways, airport and hydropower plant construction. Since then, China joined Nepal more

assertively in development of its infrastructures (Pandey 2020). Only after few month of blockade, Nepal signed Trade and Transit Agreement (TTA) with China in February 2016. Through this agreement, Nepal got access of various infrastructures for its international trade with third countries But these infrastructures were at the Chinese side and to access these Chinese infrastructures, Nepal also needed to construct infrastructures in its own region. This requirement provides Chinese investors an opportunity to invest in infrastructure projects of Nepal. In the next year, Nepal joined China led billion dollar initiative, that is, Belt and Road Initiative (BRI). Altogether 9 infrastructure projects were selected for Chinese investment under BRI framework. These are Kathmandu-Kiyrong Railway, the Galchi-Rasuwegadhi-Kerung 400 KB Transmission Line, the 426 MW Fukot-Karnali Picking run-of-the-river hydropower project, the 762 MW Tamor hydropower project, the Tokha-Chahare road, upgrading of the Rasuwagadhi Highway, the Kimangthan-Hile road, a road connecting Dipayal with Tibet and the Madan Bhandari University (The Record 2019).

India has also contributed in the construction of several connectivity projects in Nepal. It has role in operation of various infrastructure projects related to big and small roadways, railways, bridges, barrages etc. The Tribhuvan Rajpath-Kathmandu-Pathlaiya Highway, one of the initial examples of Indian investment in Nepal, was maintained by The Indian Cooperation Mission till 1965. A Memorandum of Understanding was signed in 2006 between the two neighbours for construction of roads in the Terai region of Nepal. In August 2017, Nitin Gadkari, the Minister for Road Transport, Highways, Shipping and Water Resources of India, said that several road projects are being implemented to improve connectivity between India and Nepal. The worth of these road projects is around INR 5,253 crore that would benefit both the nations. A 144 km long road connecting Rupaidiha and Barabanki with cost of INR 1,338 crore, a 184 km long road connecting Sonauli and Gorakhpur with cost of around INR 570 crore, a road connecting Piprakodi and Raxaul and the Fobesganj-Jogbani road with cost of INR 429 crore and 10 other roads of worth INR 500 crore were included in this roadway projects (Nayak 2020). India is also working on different joint railway projects which will improve the connectivity between the two countries. These joint railway projects include Jaynagar-Janakpur to Bardibas,

Nautanwa to Bhairahawa, New Jalpaiguri to Kakarbhitta, Jogbani to Biratnagar, Rupaidiha to Nepalgunj etc (Bhattarai and Thakur 2020).

4.4 Hydropower Potential

There are more than 5000 small and big rivers flowing in Nepal, showing that the country is blessed with huge potential of hydropower generation. It has potential of around 43,000 MW hydropower generations. But due to certain reasons like political instability, lack of investment in this sector etc, the country is far behind in exploiting its full potential. The country has generated around 9,000 MW of hydropower, which is quite below its actual potential of generating more than 40,000 MW (Adhikari 2017).

Both the neighbouring countries of Nepal, India and China, has made massive investment in this sector. From the category-wise investment data in referencetime period of six fiscal years from 2013-14 to 2018-19 (Table 2.3 & 3.3), it can be seen that Both China and India have largest proposed investment in energy-based category, particularly due to involvement of huge cost in hydropower projects, in Nepal. However, there is not much difference in the amount of proposed investment of the two, China has a little edge over India as India's amount is close to Rs 40,000 million and China's amount is little more than this amount.

Indian entities have invested in two major hydropower projects. These are Upper Karnali and Arun3 hydropower project, each project is expected to produce around 900 MW of hydropower. The GMR Group has invested in Upper Karnali and the Satluj Jal Vidyut Nigam Limited is investing in the Arun III. The annual electricity generation capacity of Arun III is 4, 018.87 million units and has an construction involves an expected cost of around 1.6 billion US Dollar. After the two countries reached agreement in February 2020, the Arun III project received financial closure. It is expected that this project will create roughly 3000 employment in both the nations during the building phase, which will last until 2023 (Nayak 2020). The government of Nepal and Satluj Jal Vidyut Nigam of India signed a deal in 2021 to build Lower Arun Hydropower project. It will be developed in eastern Nepal, having capacity of 679-megawatt power generation. With the estimated cost of around 1.3 billion US Dollar, Lower Arun project will be one of the major hydropower plants in Nepal (Kathmandu Post 2021). After the Upper Karnali project began operation with full

capacity in August 2021, Nepal became a power surplus nation (The Economic Times 2021).

China is also investing billions of Dollars in hydropower sector of Nepal. First Chinese investment was registered in this sector in Upper Marsyangdi A Hydropower Station. It is a small hydropower plant with capacity of 50 MW electricity generations, built by China Power, a Chinese company. On the same Marsyangdi river, the development of two more projects, one is 135 MW Manang Marsyangdi Hydroelectric Project and other is 327 MW Upper Marsyangdi-2 Hydropower Project is being planned by a joint venture of Nepali and Chinese companies, named SCIG International Nepal Hydro Joint Development Company Private Limited. Recently, The Investment Board Nepal (IBN), headed by PM K. Sharma Oli, gave approval to the Chinese investment worth of 33.41 billion Nepali rupees equivalent to 280 million US dollars for Lower Manang Marsyangdi Hydropower Project. It will be 139.2 MW hydropower project, to be developed by Nepalese Butwal Power Company in a joint venture with three Chinese companies-Chengdu Xingcheng Investment Group Co. Ltd, Sichuan Provincial Investment Group Co. Ltd and Sichuan Qing Yuan Engineering Consulting Co. Ltd. (Huaxia 2021B). Also, A Memorandum of Understanding (MoU) has been signed between Investment Board Nepal (IBN and the consortium of China Power (a Chinese company) and Hydroelectricity Investment and Development Company Limited (a Nepali company), for development of Tamor Storage Hydroelectricity Project. It has capacity of 756 MW electricity generation, will be located in eastern region of Nepal (Mingmei 2020).

Some controversy has also been seen with Chinese invested hydropower projects in Nepal. One of the good examples of it was seen in the case of Budhi-gandaki project. In June 2017, an agreement between Energy Minister of Nepal and the China Gezhouba Group Corporation (CGGC) was signed for the building of Budhi-Gandaki hydroelectric project. However In November 2017, the contract has been scrapped by the Nepali Congress led Nepalese government with the Chinese company citing irregularities in awarding the contract. However, when new government led by Communist Party of Nepal came to power in 2018, decided to reverse the decision of previous government. The Nepalese government led by PM K. P. Sharma Oli restored the 2.5 billion dollar deal with the Chinese Gezhouba Group regarding building of the Budhi-Gandaki hydroelectric project (Sharma 2018B). There have also been cases

where Chinese companies have walked out from hydropower project deal due to financial viability issues, such as the case of West Seti Hydroelectric Project. A memorandum of understanding (MoU) was signed with Chinese investor Three Gorges Corporation in 2012 for development of the 1.2 billion US Dollar project. The Chinese company pulled itself from the project citing the reason of financial non-viability as massive displacement and rehabilitation of population was involved and the project was officially terminated in 2018 (Pandey 2020).

4.5 Project Pendency and Completion

In Nepal, there is good reputation of China for timely completion of its project whereas India has an image of not completing its project within the stipulated time period. The perception that, "India promises, China delivers" is growing in Nepal. C. Raja Mohan, an analyst of India's foreign policy, said that "Despite geographic proximity, cultural intimacy, economic interdependence and shared political values, India has stumbled in Nepal. India's record of project implementation in Nepal is awful" (Kannampilly 2014).

Some big project of India witnessed delay and some of them has not yet take off. For example, the India was supposed to build Nepal Police Academy 3 decades ago, is still in uncertainty at present (Chalise 2019). Also, The agreement between India and Nepal related to Pancheshwar Multipurpose Hydel Project was done many years ago, under which two hydropower plant having installed capacity more than 5,000 MW and a dam having 351 metre height, had to be built. The agreement came into effect more than 20 years ago with the signing of Mahakali Treaty for sharing of water of Mahakali river, but the work on this project has not yet started (Joshi 2020). One of the very important billion dollar India's pending projects in Nepal is Arun III. India started this project in 1990s but this hydropower project has not been completed yet. However, some progress has been witnessed in this project in last few years as the financial closer of this Arun III hydro-electric project has been done in February 2020 (Budhathoki 2020). There are also some joint projects which are not yet completed fully. The joint railway project, that is, Jainagar-Janakpur-Bardibas is still incomplete. However, out of its 69 Km long stretch, preparation is now being done to start rail service on 35 Km long stretch from Jaynagar to Janakpur and the remaining stretch up to Bardibas is expected to be completed in next two to three years (Shashi 2019).

In order to oversee the progresses of India-led project in Nepal, an Oversight Mechanism was constituted in 2016. The first meeting of this mechanism was co-chaired by Nepali Foreign Secretary and Indian ambassador to Nepal in the year 2016, where not only the progression several Indian projects in Nepal was reviewed but also discussion on the resolution of different issues coming in the way of their implementation took place. The latest meeting of the Oversight Mechanism was the ninth one, took place in Kathmandu in 2021. In this meeting, implementation status of different projects like Pancheshwar Multipurpose Project, Nepal Police Academy construction, Arun III power plant, reconstruction work after 2015 earthquake, terai roads, bridge over Mahakali river, power transmission lines, cross-border railways, integrated check points, irrigation infrastructure, Ramayana circuit etc were discussed (Government of Nepal 2021).

However impression of India regarding the completion of its projects in Nepal is gradually changing. With timely completion of some very important project in Nepal in recent past, the India's reputation of not completing project on time has been changed to some extent. One of the very popular project completed by India before the targeted time is Motihari- Amalekhgunj Cross-Border Petroleum Pipeline. In April 2018, the foundation stone of project was laid down jointly by the Prime Ministers of the two countries. The target time for its completion was two year but it got completed much before its deadline. Its inauguration took place in September next year, jointly by PM Narendra Modi and Pm K P Sharma Oli, helping in reducing time and cost of transportation of fuel from India to Nepal (Bhattarai and Thakur 2020). Progress is also being witnessed in the construction of roads funded by India in terai region of the Himalayan nation. The Indian government committed for construction of ten roads with the total length of 306 Km in the Nepal's terai region in 2016. These 10 roads are divided into 14 packages, have huge potential to improve connectivity between the two countries as completion of this project will connect East-West Highway of Nepal with Indian border. Out of these 14 packages, 7 packages have been fully completed and completion work is progressing smoothly on the remaining 7 packages too (Khabarhub 2020).

A considerable progress has also been noticed in the Indian railway projects in Nepal at the time when engagement between Nepal and China in this sector is increasing. India proposed six railway connectivity projects. In the last one year significant

progress has been seen in Kathmandu-Raxaul railway line. The pre-feasibility study of this railway project has already been done by the Indian side and consultations between both the sides are going on for preparation of Detailed Project Report of this rail project. India is also constructing various Integrated Check Post (ICP) for Nepal. India and Nepal reached an agreement for construction of four Integrated Check Posts along the border at the major points. Construction of two out of total four Integrated Check Posts has been already finished. For example the ICP Birganj to Nepal was completed by India in 2018. Although, it took 7 years to complete its construction, but works for completion of other check posts are going on rapidly (Bhattarai and Thakur 2020).

China has made its good impression regarding timely completion of its project in the Himalayan nation. With good record of executing its project, China has implemented certain major projects in Nepal in recent time. Its recent properly executed projects include Araniko highway restoration, Upper Madi hydropower project, Marsyangdi A Hydro Power Project. Also, Kathmandu Ring Road improvement project is a big project currently going on with Chinese involvement. A China backed foundation is also working on one of the huge Nepali project for converting birth place of Gautam Buddha, that is, Lumbini into a cultural zone (Roi 2018). China also won the hearts of Nepalese people by completing the construction of training academy for the Nepalese police after failure of India on its promise to construct similar type of training academy (Custer et al. 2019).

Some poor record of China has also been seen in implementation and completion of certain projects in the Himalayan nation. China's poor record in implementation of project in Nepal can be seen in several examples like Budhigandaki Hydropower project, Kulekhani 3 hydropower project and West Seti hydropower plant. The construction of Kulekhani project was given to a Chinese company in the year 2008 and was to be completed by 2012, but the project is not yet completed. Also the construction of 750 MW West Seti hydro power project was awarded in 2012 to a Chinese company named China Three Gorges International Corporation but no progress was seen in its construction till 2016. Due to unhappy with company's performance, the Nepali government warned of scrapping this deal. Ultimately, the Chinese company withdrew itself from construction of this project (Record 2019).

Apart from the delay in implementation, Chinese record is also poor in some project in terms of considerable cost over runs. Against the target time of 3 years for completion of Chameliya hydropower project, China took 10 years for its completion. Due to this delay, it became one of the most costly projects implemented in Nepal. The initial estimated cost of this project was only 6 million Nepali rupees, surged considerably to 16 million Nepali rupees by its completion (Asian News International 2021). Also, due to delay in its completion, the estimated cost of KuleKhani hydro power project has risen by around 1.8 billion US dollar (Business Standard 2017).

This chapter finds that China has become a major player in terms of making investment in the Himalayan nation in the last 5-6 years. If we see a decade ago data of proposed investment, China was far behind India. The proposed investment of China was even less than 20 percent of that of India. But, a major Change in the trend of foreign investment in the Himalayan nation was seen in the fiscal year 2014-15, when China became the largest investor in the Himalayan nation and since then it has been on the top spot. A huge gap in investment commitment during Nepal Investment Summit 2017, between India and China was also seen when as Indian investment commitment was even below 0.5 billion dollar against more than 8 billion dollar investment commitment from China.

There have been important implications of Indian investments in economic development of Nepal. Indian investments have created a large number of jobs and also contributed in the exports of Nepal. Chinese investments also have various implications in Nepal. Its investment in cement industry is helping Nepal in reducing its cement imports apart from catering its domestic requirement. Its investment in various infrastructures is also reducing Nepal's sole dependency on India for trade and transit route. There are some negative implications of its investments too as its huge investments in several big projects may make Nepal overburdened with loans. With billion dollars of investments, the Chinese influence in internal political affairs of Nepal is also increasing. They also have negative implication in environmental and ecological point of view as some Himalayan sensitive region where BRI project is proposed will not tolerate burden of big infrastructures.

By comparing category-wise investments, it seen that Nepal has received the largest proposed investments in its energy category, particularly in hydropower sector, from

both the countries. The reason of largest investments in this category is the involvement of huge cost in the construction of hydropower projects. Manufacturing, service and tourism are the other categories where both the players have made significant investments. China's investment is also seen significant in agriculture category, particularly in organic fruits and vegetables. However, Indian investment is quite low in this category, seen mainly in agro-processing. In manufacturing category, Indian investment can be seen in manufacturing of soaps, cleaning components, cigarettes, textiles, readymade garments, decorative and industrial paints etc, while China has made a significant investment in the cement industries apart from textiles. In tourism category, small but large number of investments by Chinese nationals is being made in small hotels and restaurants at various famous tourist spots, while Indian investments are going in some big and luxurious hotels. In service category, the Chinese investments are seen in the field of language, software, medical, international cargo etc. While from India, the investment is flowing in banking and finance, telecom, education health etc. Huge investment from China is being seen in the field of infrastructure generally after 2015 Madhesi blockade and particularly post Nepal's joining to BRI. India has also role in development of infrastructure but not at the scale of China.

The impression of India and China regarding completion and delivery of projects in Nepal is quite different. At the one hand, India had image of not completing its project on time while China succeeded to make more or less good impression in this regard. However there are some case where China delayed or not completed its projects on time and faced the criticism of both Nepalese government and people. Now, the image of India has been changing with the delivery of some very important projects to Nepal even before its proposed deadline.

Chapter 5: Conclusion

Nepal is a Least Developed country (LDC). Its rate of economic growth is low. Its growth rate has been just over 4 percent per year over last decade. The country wants to promote itself from a low-income country to a middle-income country. Nepal is aiming to see itself as a middle-income country by 2030. A higher rate of economic growth is needed for Nepal to achieve its aim. The foreign investments inflows in the Himalayan nation can play a vital role in raising its economic growth rate.

To attract foreign investments, Nepal took certain initiatives in the recent years. In order to make the economy more dynamic and competitive and in changing investment scenario, new Foreign Investment Policy 2015 was introduced in March 2015, which has made provisions like access to credit, access to foreign exchange, facilities and exemptions, acquisitions of land, hiring foreign workers and industrial security and business promotion to facilitate FDI. The country has also introduced new Foreign Investment and Technology Transfer Act (FITTA) 2019 in May 2019 in the place of FITTA 1992, keeping in mind the changing investment atmosphere. In this new act, one-stop-shop was introduced to give various concessions, facilities, exemptions and other services to the foreign investors at the same window, which was missing in the earlier act. In this new act, Nepal has also allowed repatriation of all forms of investments according to Nepalese law after getting clearance of all the taxes. Repatriation of proceeds, benefits, income and profits from shares are also allowed. Nepal Investment Summits in 2017 and again in 2019 were organized to attract more foreign investments in the country.

Nepal has been able to receive foreign investment from different countries all over the world. But the two major investment partners in its journey are India and China. India has been the first and largest investor most of the time in Nepal and China has been the largest investor for six consecutive years since fiscal year 2014-15. The objective of our research is to make a comparative analysis between Indian and Chinese investment in Nepal. Various research questions related to trend of India's and China's investment in Nepal, factors affecting India's investment, reasons for China's huge investment, possible impact of BRI on Nepal's geo-economics and categories getting more or less investment from both investors in Nepal have been addressed.

The research questions are addressed by examining two hypotheses. These are, first, BRI investments have been a major factor leading to China emerging as the largest investor in Nepal in recent years and second, replacement of India by China as the largest investor in Nepal, over the last 5 years, is attributed more to political than economic factors. For addressing research questions and examining the hypotheses, graphical and statistical measures like trends, growth and share have been used. The empirical analysis has been conducted using proposed investment data from “Industrial Statistics”, issued by Department of Industry, Government of Nepal. For analysis, data of total investment and category-wise investment by both India and China have been taken. Data of total investment, after latest amendment in Indo-Nepal Trade Treaty that took place in 2009, for 10 years from fiscal year 2010-11 to 2019-20 and category-wise investment, as available, for 6 years from fiscal year 2013-14 to 2018-19 have been taken. Percentage change in total investment, share of total investment and share of category-wise investment have been analyzed to draw the comparison.

As regards India, it is the oldest investment partner of Nepal. Nepal witnessed its first foreign investment as the Indian investment in Nepal Commercial Corporation, way back in 1951-52. It was made in a joint venture with 67 percent Indian stake. During 1970s and 1980s, India was only player investing significantly in Nepal. It shares 30 percent in the total investment inflow to the Himalayan nation.

This study finds that there are five major factors affecting India’s investment in Nepal. These are the bilateral agreement between the two countries, pegging of Nepalese currency with Indian currency, socio-cultural relation, domestic law and order of Nepal and geopolitical factors. The economic cooperation between the two countries began formally with signing of Treaty of Trade and Commerce in 1950. In 1990s, the economic arrangement between the two became more liberal, which induced Indian investors like Dabur India, Hindustan Unilever etc, to invest in Nepal in order to target Indian market by exporting goods manufactured in Nepal to India. Nepalese currency is pegged with Indian currency at exchange rate of 160 Nepali rupees for 100 Indian rupees (1.6:1) and this exchange rate has been stable for long time. This pegging arrangement creates a sense of certainty among the Indian investors while investing in Nepal and hence positively impacts India’s investments in the Himalayan nation. The social and cultural commonality between the people of

Nepal and India also impacts positively to the inflow of Indian investment. Since, the taste and preference of people on both the sides are more or less similar, commodities produced for the people of one country, can be easily sold to other. The law and order issue in Nepal has created problems for the Indian investors in the past. The GMR Group has witnessed a hurled of petrol bomb on its headquarter in 2016. Also, Upper Karnali project, on which the GMR Group was working, was attacked multiple times in 2011. These incidents will certainly generate a sense of insecurity among the Indian investors which can negatively impact the Indian investment inflow. India has a historical relation with Nepal and wants to maintain its relationship over the latter in the changing times. India sees the increasing Chinese investment in Nepal in geopolitical terms and so that is another factor contributing to India's investment in the Himalayan nation.

By analyzing the trends of Indian total investment in Nepal for ten years from 2010-11 to 2019-20, the study finds that the amount of total investment has been fluctuating. With the adoption of new Foreign Investment Policy 2015 in the early days of March 2015, huge approval of proposed Indian investment has been witnessed in the fiscal year 2014-15. It was worth of 34,719 million rupees with more than 430 percent annual growth compared to just previous year. The impact of the Madhesi blockade at Indo-Nepal border in 2015 has been seen on proposed Indian investment inflows too as proposed Indian investment has sharply fallen in the fiscal year 2015-16. However, some improvement in it has been witnessed after Nepal Investment Summit 2017. The impact of Foreign Investment and Technology Transfer Act (FITTA) 2019 on proposed Indian investment cannot be analyzed as only one fiscal year follows this act in our analysis. Also, in terms of share, India's share was around 70 percent in total proposed investment in the fiscal year 2010-11. In fiscal year 2014-15, Indian proposed investment was highest till date but a significant proposed investment was also received by Nepal from all other sources, made Indian share at 51.5 percent. The impact of blockade is also visible in Indian share as it has never crossed 13 percent after the fiscal year 2015-16 while it was quite high, even more than 50% twice, in the preceding years.

Analyzing India's category-wise investment in Nepal for the six years from 2013-14 to 2018-19, the study finds that its proposed investment is massive in energy sector due to the huge cost involvement in hydropower infrastructures. Out of eight

categories for foreign investment in Nepal, India has regularly invested in manufacturing, service and tourism. Its investment is quite low in agro and forestry-based category. It has mainly invested in agro-processing in this category. The famous example is Dabur Nepal, which was earlier engaged in production of health supplement and personal care products and now producing various brands of juice. Reasons like restriction of foreign players in the primary sector of agriculture and non-availability of sufficient agro-infrastructure are the responsible for low Indian investment in this category. In the reference time period of six years, the highest Indian investment was worth of only 20 million rupees, recorded in 2016-17 and its share never crossed 2 percent in this category.

The manufacturing category of Nepal witnessed considerable Indian investment in 1990s. Many Indian companies like Hindustan Unilever, Asian Paints etc, set up joint ventures with Nepalese partners. Indian investment in this category has been seen in manufacturing of soaps, cleaning compounds, textiles, garments, paints, cigarettes etc. This is the category in which India's proposed investment is highest among all eight categories. In the reference time period of six years, it has increased by 10 times and the share also increased from 20 percent in 2013-14 to 72 percent in 2018-19. In service category, the Indian investments are seen in banking and finance, telecom, education, health etc. VSNL, MTNL, State Bank of India, IL&FS, Punjab National Bank, Patel Engineering and Manipal Group are among the important Indian players which are investing in different areas of this category. In the reference time period of six years, Indian proposed investment has increased significantly and became 13 times in 2015-16, what it was in 2013-14 due to the adoption of new foreign policy 2015. The positive impact of Nepal Investment Summit 2017 has also been seen on Indian proposed investment in this category. In tourism category, India has invested in big and luxurious hotels under the brand of Vivanta. Vivanta Kathmandu and Meghauli Serai are the famous examples of Indian investments in this category. In the reference time period of six years, Indian proposed investment has been lowest in fiscal year 2015-16 because of insecurity and unrest due to Madhesi agitation in Nepal. However, with the improvement in security environment, the Indian proposed investment has shown a considerable rise as it surged to more than 100 million rupees in the year 2016-17 from 15 million rupees in 2015-16 and registered further increment in the succeeding years. In this category there is a huge scope of joint

cooperation between the two countries particularly in religious tourism related to Hinduism and Buddhism through Ramayana and Buddhist circuits.

China is a relatively recent investor in Nepal. Its investment was very marginal in latter in starting years of this century. There were only 25 operational, 6 under-constructed and 13 licensed industries in Nepal with Chinese investment till mid 2003, mainly related to hotels, restaurants, garments, electronics, nursing, hydropower etc. The Chinese investments started increasing since 2008 and become the largest in the fiscal year 2014-15 for the first time and since then it has been the largest for the next consecutive six years. The share of China in Nepal's total proposed investment is around 67.6%, which is more than even six times of that of India in Nepal's total proposed investment in the fiscal year 2019-20.

This study finds that there are mainly three factors which are determining the inflow of Chinese investments in Nepal. These are Belt and Road Initiative (BRI), Geopolitical factor and energy and natural resources potential in Nepal. The signing of MoU of BRI has opened the door of large-scale Chinese investments in different infrastructure projects in Nepal. The Chinese investment is being made in nine different big infrastructure projects. Although, the terms and conditions related to this investment deal are not properly known, but the total involvement of Chinese investments is estimated to be more than 10 billion US dollar. China is also making investment in Nepal in geopolitical terms in order to increase its influence and reduce dependency of latter on India. It is being done by developing infrastructure in Nepalese side and then connecting them with Chinese infrastructures. Also, through its investments, it is influencing Nepal in containing Tibetan refugee's freedom movement in latter. The energy and natural resources potential in Nepal also attracts Chinese investments. At the one hand Nepal is a country with abundant untapped resources and China is facing shortage of mineral and natural resources at the other. Natural resources need of China is increasing and it may exploit these resources for the same in future.

This study finds that the Chinese investment under Belt and Road Initiative has potential to transform the infrastructure sector of Nepal. Also, the projects will help Nepal to reduce its dependency on single country for trade and transit route. But these huge investments also involve threats of debt-trap and land grab, in the case if the

Chinese invested projects will prove economically non-viable. BRI projects involve huge amount of investment, and Nepal has to repay the massive loan, as well as the interest rate on it within a set time frame. Nepal is a poor country, and if the project, which involves billions of dollars in investment, proves unprofitable, the Himalayan nation will fall into debt-trap in the future. This may lead to some compromise with Nepalese sovereignty, as seen in the case of Sri Lanka wherein the Sri Lankan government forced to surrender its deeper water port harbour of Hambantota to state-owned Chinese company on a 99-year lease because the massive debt and associated interest were difficult to repay from this port. The investment in certain BRI projects seems more in the interest of China than the interest of Nepal. For example, the investment in Kyirong-Kathmandu-Pokhara-Lumbini Railway Project is in strategic interest of China In terms of accessing area near to Indian border, but will not be economically viable for Nepal because of the challenging topography of the areas through which the railway line will traverse. The project's severely sloping Syaphrubesi-Kerung segment would be the most challenging and expensive to construct. Moreover, in this length, the snow-resistant track will be required and the snow-resistant track for railway is quite expensive compared to the normal track. Also, the project's repair and maintenance work may be difficult and expensive in any major damage to the structures.

This study also finds that the trends of Chinese proposed investment for the ten years from fiscal year 2010-11 to 2019-20 is fluctuating. The positive impact of new foreign Investment Policy 2015, adopted by Nepal, is clearly visible on the Chinese proposed investments. It took a surge of 42 percent in the year 2015-16 compared to the preceding year and crossed 6,000 million rupees. Its share in total proposed investments from all sources in Nepal became around 41 percent. Again, a massive surge in Chinese proposed investment took place just after Nepal Investment Summit 2017 in the fiscal year 2017-18 when more than 600 percent annual growth was registered and its share became around 83.5 percent.

In the reference time period of 6 years for category-wise analysis from 2013-14 to 2018-19, the study finds that the Chinese proposed investment has been regularly seen in categories like agro and forestry based, manufacturing, service and tourism out of the total eight categories for foreign investment in Nepal. China has been the largest investor in the agriculture category of Nepal for last three decades. It has invested

around 5 billion US dollar in last 29 years. It has particularly invested in organic products like organic fruits and organic vegetables. A significant surge in its proposed investment took place in fiscal year 2018-19, after Nepal Investment Summit 2017. In this year, China alone had the share around 94 percent of total proposed investments from all the sources in this category. It is also accounting for the largest share in the total foreign investment received in manufacturing category in Nepal. Its investment is mainly seen in the cement industries in the country. The investment in the cement industry has been predominantly made by the Hongshi Holdings. After Nepal Investment Summit 2017, more than 100 percent surge in Chinese proposed investment took place in the fiscal year 2017-18, compared to just previous year. The Chinese proposed investment crossed 2,000 million rupees for the first time in this fiscal year in the reference time period of 6 years. The share of Chinese proposed investment in the total proposed investment in the service category of Nepal is showing an increasing trend as it increased from around 16 percent to 71.6 percent in the reference time period of six years. After Nepal Investment Summit 2017, a massive surge has been recorded due to approval of large number of Chinese proposed investments. Out of the total proposed investments approved by the Nepalese authority, more than 50 percent are from China, which is worth of around 5,000 million rupees. It is mainly seen in software, languages, international cargo, medical services etc. In tourism category, Chinese investment is increasing very rapidly. The proposed Chinese investment has become more than ten times in the reference time period of six fiscal years. The Chinese nationals are investing more in this category with increasing inflow of Chinese tourists in Nepal. The investments are mainly going in hotels and restaurants. Its share has never been below 30 percent in the reference time period of six years.

When comparing Chinese and Indian investment in Nepal, it is clear that China has emerged as a major player in making investment in Nepal over the previous 5-6 years. China was well behind India in terms of proposed investment a decade ago. In the fiscal year 2010-11, China's proposed investment was less than a quarter of that of India. However, a significant shift in the trends of foreign investment in the Himalayan nation occurred in the fiscal year 2014-15, when China overtook India as the largest investor in the Himalayan nation. Moreover, it has been the largest investor for the six fiscal years in a row since 2014-15. Also, during the Nepal Investment

Summit 2017, a massive gap in investment commitments between India and China was also seen as Nepal registered Indian investment commitments of less than 0.5 billion dollars compared to China's investment commitment of more than 8 billion dollars.

Indian investment in Nepal has important role in its economic development. It has contributed in Nepal's exports apart from generating a large number of employment opportunities. For instance, the Dabur Nepal has contributed in export of health supplement and personal care products from Nepal to India. Also, it is exporting several brands of juices to northern part of India. Similarly, Nepal Unilever used to export 40 percent of its soap and cleaning compounds to India. The Indian companies have also created large number of direct and indirect jobs through their value chain networks.

Chinese investments also have various implications in Nepal. Its investment of around 21 billion US dollar through Hongshi Holdings, to set up a joint venture with Nepalese company in the cement industry, is assisting Nepal in reducing cement imports apart from meeting its domestic demand. Nepal's only reliance on India for its trade and transit is also being reduced with Chinese investment in various infrastructure projects. The Chinese investments have also certain negative implications to Nepal. Its massive investments in many large projects may load Nepal with huge debt. With billions of dollars investments, China's influence in Nepal's internal political matters is growing as well. The Nepal Communist Party (NCP), in general, and one of its prominent leaders PM K P Sharma Oli, in particular, is considered as pro-China. In December 2020, when tussle between the two factions of the ruling Nepal Communist Party, one led by Prime Minister Oli and other led by co-chair Prachanda, took place for power, the ambassador of China to Nepal Huo Yanqi tried to resolve the differences between the two factions. The ambassador held several meetings with president Bhandari, PM Oli, co-chair Prachanda and also with other prominent leaders of the party to avoid any split in the party and also to avoid unseat of K P Sharma Oli from the chair of prime minister. Moreover, Guo Yezhou, a vice-minister in Communist Party of China (CPC), also came to resolve this power issue between the two factions. The Chinese investments also have significant environmental and ecological implications, as fragile alpine ecosystem where the BRI

project is proposed may be unable to bear the strain of large infrastructures and frequency of landslide during yearly monsoon may also increase.

This study finds that both India and China have made significant investment in the energy category, particularly in hydropower sector. Although, the investments from both the players are not regular in this category in the reference time period of six years, but huge cost involvement in construction of hydropower projects, makes this category as the largest investment received category in Nepal. Other categories where both players have made major investments include manufacturing, service, and tourism. China's investment in agriculture is also enormous, particularly in organic fruits and vegetables. However, India has made little investment in this category. Agro-processing industry, particularly the processing of herbal health supplement, personal care products and juice, has seen Indian investment in this category. In manufacturing category, China's investment is mainly in areas like cement, textile, readymade garments etc. Out of the different areas in manufacturing category, cement industry is the one which is getting most of Chinese investment. However, India in this category has made substantial investments in the manufacturing of soaps, cleaning components, cigarettes, textiles, readymade garments, paints, and so on. In service category, the Chinese investments are seen in the field of language, software, medical, international cargo etc. While from India, the investment is flowing in banking and finance, telecom, education health etc. In the tourism category, Chinese nationals are investing in small hotels and restaurants in a variety of well-known tourist destinations, while Indian company has invested in few big hotels under big brand like Vivanta.

Both the players have recognized the huge hydropower potential of Nepal. Both have made investment worth of more or less 40,000 million rupees in this sector in the reference time period of six years. Indian companies have invested in two major hydropower projects. These are Upper Karnali and Arun3 hydropower project, each having capacity to produce around 900 MW of hydropower. The government of Nepal has also signed a deal with an Indian entity in 2021 to build Lower Arun Hydropower project, having capacity of 679 MW of electricity generation. China is also investing billions of Dollars in hydropower sector of Nepal. First Chinese investment was registered in this sector in Upper Marsyangdi A Hydropower Station having 50 MW capacity of power generation. On the same Marsyangdi river, the

development of two more projects, one is Manang Marsyangdi Hydroelectric Project and other is Upper Marsyangdi-2 Hydropower Project with capacities of 135 MW and 327 MW of electricity generation respectively, are being planned by a joint venture of Nepali and Chinese companies. Also, the Chinese investment in Lower Manang Marsyangdi Hydropower Project, having capacity of 139.2 MW of electricity generation, has been approved recently by Investment Board of Nepal (IBN). The capacity of hydropower generation of hydropower projects with Indian investment is generally higher than that of hydropower projects with Chinese investment.

In the eyes of Nepal regarding completion and delivery of project, India had an image of not completing its projects on time, whereas China had a more or less positive image in this regard. However, there have been instances where China has delayed or failed to complete projects on schedule, resulting in criticism from both the Nepalese government and the general public. For instance, China took ten years against the target time of three years to complete Chameliya hydro power project, which led to cost overrun by around 10 million rupees. In recent times, with the delivery of some very major projects like Cross-border petroleum pipeline from Motihari to Amalekhgunj, to Nepal even ahead of the stipulated deadline, India's image is changing.

Nepal signed MoU on Belt and Road Initiative (BRI) in May 2017 and initially proposed 35 projects for Chinese investment under it. But later in 2019, it finalized altogether 9 projects for Chinese investment under this framework. Looking as China as the largest investor in Nepal, it achieved this tag in the fiscal year 2013-14 in terms of proposed investment. In this term, China has been the largest investor from fiscal year 2013-14 to 2018-19 except the fiscal year 2014-15. In actual investment term, China became the largest investor in fiscal year 2014-15, around 4 years before the finalization of Nepal's projects for its investment under BRI, and since then it has been the largest investor for six years in a row. Although, the total Chinese investment under BRI to different projects in Nepal is estimated to be around 10 billion US dollar, but BRI projects in Nepal are in early stage. Not a single project related with BRI has taken-off yet. It will take several years to realize these projects. Different processes like doing feasibility study, preparation of Detailed Project Report, and finalization of financing modality may take long time. Currently, there are some projects worth of 0.65 billion US dollar are underway in Nepal. Hence, the first

hypothesis which says “BRI investments have been a major factor leading to China emerging as the largest investor in Nepal in recent years” does not stand verified as although nine big projects were finalized for Chinese investments under BRI in 2019, BRI has yet to take form in Nepal. The implementation of BRI projects in the Himalayan nation is in early stage and it will take some years to realize these projects.

Nepal has been historically an ally of India. There have been historical treaties between the two that influenced Indian investment in Nepal. China has been willing to decrease Indian influence and increase its own influence in Nepal. For the same, it is using investment as a mean. It is also going to invest in connectivity projects in Nepal to reduce Nepal’s only dependency on India for trade and transit route. Since 2008, its investment started increasing but since fiscal year 2014-15, it has been the largest investor in the Himalayan nation. With its massive investment, it has been succeeding to influence the internal politics of Nepal for its own interest in recent times. It interfered multiple times to avoid any unseat of PM K P Sharma Oli, a pro-China leader, from the post of prime minister. China is also utilizing its influence in containing Tibetan refugee’s freedom movement in Nepal. Hence, the second hypothesis which says “Replacement of India by China as the largest investor in Nepal, over the last 5 years, is attributed more to political than economic factors”, stands verified.

India has been the historical investment partner of Nepal and its investments are mainly attributed with the deep historical and social relation, it shares with the latter. On the other hand China has started making major investment in the Himalayan nation for recent few years and that too is with political motivation. Although, the Chinese investments are increasing with a significant margin to Indian investment in Nepal in recent few years, but it should be kept in mind that Indian investments have generated large number of employment and also contributed in Nepalese exports. It has also played vital role in exploring the hydropower potential of Nepal. Very importantly, it has never posed any sort of threat to sovereignty of the Himalayan nation. The importance of the historical partner should not be reduced in the eyes of Nepal amid increasing Chinese investment. Also, Security and safety of infrastructure of Indian investors should be properly insured.

With increasing Chinese investment in Nepal, China is influencing internal political affairs of latter. It is also influencing some other domestic matter of Nepal like restricting certain activities of Tibetan refugees residing in Nepal. With the billion dollar BRI investment, Chinese influence will increase more in future apart from the threat of debt-trap for Nepal. BRI in Nepal is in early stage and so, before accepting any big Chinese investment, Nepal should properly examine the economic profitability of the concerned project. The Chinese investments in any project should not be approved just only to meet the election promise made by leaders to the public. The Nepalese government should consult different stakeholders regarding whether any particular investment from China is needful for the country and how that investment will impact the Nepalese national interest.

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(*indicates primary resource)

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