

Voluntary Report – Voluntary - Public Distribution

Date: March 18, 2021

Report Number: NP2021-0001

Report Name: Nepal Attempts to Increase Foreign Investment Opportunities for Agriculture as it Pushes Self-Reliance

Country: Nepal

Post: New Delhi

Report Category: Agricultural Situation, Agriculture in the News, SP1 - Expand International Marketing Opportunities, Trade Policy Monitoring

Prepared By: Mark A. Rosmann, Agricultural Attaché

Approved By: Ronald Verdonk

Report Highlights:

On January 1, 2021, the Government of Nepal's (GON) Ministry of Industry, Commerce and Supplies (MOICS) applied a provision in the Foreign Investment and Technology Transfer Act 2019 to allow foreign direct investment (FDI) in primary agriculture activities such as grains, poultry, dairy and horticulture. The amendment allows FDI in primary agriculture if 75 percent of the products are exported, and local officials estimate that through the order, Nepal could potentially export \$5 billion annually in agricultural products. On January 20, the Supreme Court of Nepal issued an interim order, which is currently in effect, directing the government not to implement the agricultural FDI decision. Meanwhile, on February 23, 2021, the Confederation of Nepali Industries announced a "Make in Nepal" campaign to support "self-reliant" manufacturing and increase global demand for Nepali goods, including food and beverages.

Report Overview

On January 4, 2021, the Government of Nepal (GON) announced it would allow foreign investment (FDI) in agriculture. Nepal's Ministry of Industry, Commerce and Supplies (MOICS) utilized a provision in the 2019 Foreign Investment and Technology Transfer Act that amended the prohibition on foreign direct investment in primary agricultural activities including, but not limited to, poultry, aquaculture, livestock, dairy, apiculture, and horticulture. The amendment allows FDI in primary agriculture, so long as 75 percent of the food products are exported. Nepalese government officials indicate the country could potentially export \$5 billion annually in agricultural products, reduce its trade deficit, and enable agricultural modernization.

The decision was criticized by Nepal's private sector, who accused the GON of acting in favor of multinational corporations. Conversely, the GON contends that FDI would enable agricultural modernization, increase production, and support export development opportunities. Due to concerns on the validity of the order following a writ petition, Nepal's Supreme Court placed a temporary hold on the order on January 20, 2021, which remains in effect pending a final decision. Nepal continues to rely on FDI in other economic sectors, despite calls for building a self-reliant economy in the wake of the COVID-19 pandemic, which, in 2020, mildly reduced Nepal's trade deficit but exposed vulnerable supply chains, especially in agriculture. As a result, Nepal continues to import a range of agricultural products to meet its food needs, particularly coarse grains, wheat, and rice (Source: [MyRepublica](#)).

Need for Increased Market Opportunities

Economists and local stakeholders have argued that agricultural FDI could bring the technology and investments that will result in increased production and reduce Nepal's reliance on agricultural imports. In defending the benefits, a MOICS representative stated that the decision intends to create a "positive impact on export trade." Proponents also contend that Nepal's agricultural sector lacks critical infrastructure and access to modern technologies that would integrate Nepal into international markets.¹ Nepal highly depends on imported food products and farm inputs, including seed, fertilizers, and pesticides, as only 15 percent of Nepal's land is arable and historically suffers from low production due to low fertility. Nepal annually imports 300,000 metric tons of fertilizers, mostly inorganic compounds from India,² but the quantity is still insufficient to meet the agricultural sector's need.

The COVID-19 pandemic exposed gaps in Nepal's agricultural infrastructure and supply chains. Its closures and various lockdowns throughout 2020 resulted in significant farm input shortages. India's own nationwide lockdown that began in mid-March 2020 significantly contributed to Nepal's agricultural sector challenges, and the cross-border supply chain disruptions resulted in fewer imports of agricultural inputs, particularly fertilizer, although seed and pesticides shortages were reported. Nepal's lack of cold storage and regional food processing capacity also reduced farm profitability and food availability.³

¹ Agriculture provides livelihoods for 68 percent of Nepal's population and 34 percent of its gross domestic product (GDP).

² In [2019](#), India accounted for 73 percent of Nepal's total fertilizer imports, with the rest supplied by China.

³ For additional information, see Adhikari, Jagannath & Timsina, Jagadish & Khadka, Sarba & Ghale, Yamuna & Ojha, and Hemant. (2021). [COVID-19 impacts on agriculture and food systems in Nepal: Implications for SDGs](#). Agricultural Systems. 186.

Horticultural producers in particular were severely impacted during the initial stages of the pandemic, as closed markets, transport restrictions, and a precipitous drop in demand in urban centers resulted in significant post-harvest loss (Source: [Himalaya Times](#)). Smallholder farmers in food insecure regions reportedly lost access to local markets, especially those who had pivoted away from traditional grains and legume production. As Nepal closed its borders to foreign visitors and international travel ground to a virtual halt, the traditionally strong tourism, hotel, and restaurant sectors also saw a plunge in demand for food products, including imported consumer-oriented goods. On March 29, 2020, due to a lack of foreign currency reserves, MOICS enacted an import ban on several commodities and products, including dry peas, black pepper, betel nut, alcohol, and other “luxury” items.⁴

The Foreign Investment Effect

While Nepal’s FDI is low compared to other countries in South Asia, it receives significant foreign investment in hydropower, services and telecommunications, and the hotel/restaurant sectors, primarily from China⁵ and India. China is the largest contributor of FDI to Nepal, and investors pledged more than \$220 million during Nepal’s fiscal year (FY) (July 16 to July 15) 2019/20, having doubled FY 2018/19 investments (Source: [The Jamestown Foundation](#)). Nepal has welcomed foreign investment, as it looks to lessen its trade deficit. In 2019, imports were valued at \$14.2 billion, and exports totaled \$2.7 billion, with a negative trade deficit of \$11.5 billion (Source: [World Bank](#)).

Concerns on Agricultural FDI

While stakeholders agree on the need for Nepal to adopt new technologies and investments in agriculture, reactions are mixed on the GON’s FDI order. Several local agricultural trade associations criticized the amendment and warned that Nepali farmers would not be able to compete if foreign investment is allowed in the sector, as foreign investors would reap the benefits and take generated income away from Nepal. Other private sector stakeholders argued that the rule change could allow large foreign firms to price Nepal’s smallholder farmer segment out of the market, and that the GON would be unable to monitor and regulate the foreign companies. A “struggle committee” consisting of the Nepal Dairy Association and the Nepal Egg Association, among others, organized protests in early January 2021 and argued that sufficient capital already exists in Nepal’s agricultural sector, and dairy leaders stated they are already using the latest technologies available and remain competitive. They expressed concerns that international companies such as Amul, India’s largest dairy cooperative, view Nepal as a favorable market to exploit (Source: [MyRepublica](#)).

Make in Nepal Campaign

Attempting to replicate India’s “Self-Reliance” strategy and “Make in India” campaign, on February 23, 2021, the Confederation of Nepali Industries (CNI), a private sector organization representing Nepal’s manufacturing sector, launched the “Make in Nepal-Swadeshi”⁶ initiative. With this campaign, the CNI’s goal is to annually bring 1,000 new industries into operation and provide employment to 150,000

⁴ Following Nepal’s ban on imported peas in March 2020, prices have increased in both India and Nepal due to reduced supply and the reduction of “illegal” trade of pea consignments crossing the border into India.

⁵ Under Prime Minister Oli, Nepal was among the first countries to join China’s Belt and Road Initiative and has received millions in infrastructure development and electrification projects from its neighbor. See: [Stimson Center](#).

⁶ Sanskrit word meaning “of one’s own country.” The term was historically used to boycott foreign goods.

people. With public support from Prime Minister KP Sharma Oli, the “Make in Nepal” campaign aims to increase domestic manufacturing’s contribution to Nepal’s GDP to 26 percent by 2030, and export Nepali Rupee (NPR) 5 billion (approximately USD \$43.2 million) in finished processed goods in the next five years. In the near term, Nepal must continue to rely on imports for its raw materials for value-added manufacturing but may implement import substitution policies.

Going Forward

On January 20, 2021 the Supreme Court of Nepal issued an interim order placing a hold on the agricultural FDI decision, based on a writ petition submitted by stakeholders who stated that local agricultural industries would collapse if Nepal were to allow foreign investment. As of March 16, 2021, the GON provided a written statement to appeal the interim order, but the Supreme Court has not made a final decision on the validity of the law. Concurrently, on March 16, MOICS reported that Nepal received non-agricultural FDI pledges of approximately USD \$218 million in the first seven months of Nepal FY 2021, with the majority 71 percent from China, and 6.2 percent from the United States (USD \$13.5 million) (Source: [MyRepublica](#)).

India remains the largest supplier of agriculture, food, and related products to Nepal, exporting \$1.2 billion in 2020 (Source: Trade Data Monitor). Canada and China are the second and third largest suppliers for Nepal at \$106 million and \$72.9 million respectively, in the same period. The United States ranked fourth, exporting \$56.7 million in food and agricultural products in 2020.

Attachments:

No Attachments.