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Foreign Direct Investment as a Catalyst for Nepal's Economic Transformation: Insights from Emerging Asian Economies

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Abstract

Background: Foreign Direct Investment (FDI) is widely recognized as a critical instrument for economic development, facilitating technology transfer, capital formation, employment generation, and trade integration. Nepal's FDI inflows remain critically low relative to GDP despite vast untapped potential in hydropower, tourism, and information and communication technology (ICT).

Methods: This study employs a qualitative, document-based comparative research design, synthesizing secondary data from Nepal Rastra Bank, UNCTAD World Investment Reports, and U.S. State Department Investment Climate Statements. Kurtishi-Kastrati's (2013) five-channel framework resource transfer, employment, balance of payments, trade, and competition is applied and extended with absorptive capacity theory to benchmark Nepal's FDI performance against Vietnam, Bangladesh, India, and Sri Lanka, each selected for a specific structural parallel with Nepal's economy

Results: Nepal's net FDI inflows fell about 69 percent, from USD 185 million in 2019 to USD 57 million in 2024, with only 13.59 percent of approved investment actually realized in FY 2023/24. Political instability, inconsistent regulation, and weak profit-repatriation rules limit FDI's benefits, while comparator countries absorb and use FDI far more effectively for jobs, exports, and technology transfer

Conclusion: Nepal's weak FDI performance stems from limited absorptive capacity, not a lack of opportunity. Unlocking its potential requires moving beyond investment-summit pledges toward structural reform, institutional credibility, and targeted strategies in hydropower, tourism, and ICT to realize FDI's development potential.

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Novelty: This study extends Kurtishi-Kastrati's framework with an absorptive-capacity lens for Nepal's post-2026-election context, using the latest (2025–2026) policy data to offer a timely, regionally benchmarked assessment not yet found in the literature.

Keywords: Absorptive Capacity, Economic Transformation, Emerging Asian Economies, Foreign Direct Investment, Investment Climate

1. Introduction

Foreign Direct Investment (FDI) has emerged as one of the most powerful engines of economic transformation in the developing world. Unlike portfolio investments or aid flows, FDI brings with it a distinctive combination of capital, technology, managerial expertise, and global market access that can fundamentally reshape a host economy's productive capacity. Multinational enterprises (MNEs) investing abroad not only inject financial resources into their host countries but also stimulate local firms through competitive pressure, supply-chain linkages, and knowledge spillovers (Kurtishi-Kastrati, 2013; Dunning, 1993).

For South and Southeast Asian economies navigating the transition to middle-income status, FDI has been a decisive differentiator. Vietnam's industrialization anchored by Samsung's USD 18 billion investment and Apple's multi-billion-dollar supply chain relocation stands in stark contrast to Nepal's persistent inability to translate investment pledges into realized capital inflows. While Vietnam attracted over USD 36 billion in FDI disbursements in 2023 (OECD, 2025), Nepal recorded net FDI inflows of just USD 67 million in the same year, a figure representing less than 0.2% of GDP (Nepal Rastra Bank [NRB], 2024; UNCTAD, 2024).

Nepal's FDI story is one of chronic underperformance relative to both its potential and its regional peers. The country possesses extraordinary natural endowments: an estimated 42,000 MW of economically viable hydropower potential, a strategic location between two of Asia's largest economies, competitive labor costs, and growing domestic consumption. Yet FDI inflows fell from USD 185 million in 2019 to just USD 57 million in 2024, a decline of approximately 69% over five years (UNCTAD, 2025; Kathmandu Post, 2025), and Nepal has cycled through 14 governments since its democratic transition in 2008 (CESIF, 2025).

This paper contributes to the growing literature on FDI and development in South Asia by systematically analyzing the channels through which FDI affects, or fails to affect, Nepal's economy, drawing comparative lessons from Vietnam, Bangladesh, Sri Lanka, and India to identify actionable policy pathways.

2. Research Objectives

This study is guided by the following specific objectives:

- To analyze the trends, structure, and constraints underlying FDI inflows in Nepal over the past decade.
- To evaluate, using Kurtishi-Kastrati's (2013) framework, the channels through which FDI shapes Nepal's economy namely resource transfer, employment, balance of payments, trade, and competition.

- To compare Nepal's FDI performance with Vietnam, Bangladesh, Sri Lanka, and India, and to draw evidence-based policy recommendations for strengthening FDI's contribution to Nepal's economic transformation..

3. Review of Literature

3.1 Theoretical Foundations:

Research since the 1990s shows that FDI promotes growth only when certain structural conditions are met, not automatically. Three studies establish this "absorptive capacity" framework. Borensztein, De Gregorio, and Lee (1998) analyzed 69 developing countries (1970–1989) and found that FDI boosts investment and productivity only where human capital exceeds a minimum threshold. Below it, FDI remains an isolated enclave with little spillover to the domestic economy. Balasubramanyam, Salisu, and Sapsford (1996) showed that trade orientation matters as much as human capital: export-oriented economies gain more from FDI than import-substituting ones, since open markets push multinationals to transfer technology and management skills. This helps explain why Nepal where FDI concentrates in extraction and domestic services has underperformed compared to export-driven economies like Vietnam and Bangladesh. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004) added a third condition: financial market depth. Using data from 1975-1995, they found that FDI's growth effect is ambiguous unless a country has well-developed financial markets that let local firms exploit spillovers. Osei and Kim (2020), studying 62 middle and high-income countries, confirmed a threshold effect weak financial systems blunt FDI's benefits regardless of inflow size, a pattern consistent with Nepal's shallow banking sector and limited capital markets. Together, these studies identify three preconditions for FDI to drive growth: human capital, trade orientation, and financial depth. Nepal is weak in all three. This suggests its low FDI approval-to-realization rate reflects not just weak policy, but a deeper structural inability to absorb foreign capital productively.

3.2 Regional Empirical Evidence: South Asia and the Institutional Dimension

Recent research extends the absorptive capacity framework by treating institutional quality as a critical, possibly dominant, precondition for FDI to drive growth. Ahsan and Rashid (2022) find that political stability, regulatory quality, and rule of law significantly strengthen the FDI growth relationship across South Asia, while Khan and Khan (2022) show that human capital, particularly tertiary and technical education, acts as a binding constraint on how much countries benefit from FDI, consistent with Borensztein et al.'s (1998) threshold theory. Nepal-specific studies confirm these patterns: Bhattarai and Adhikari (2023) attribute Nepal's weak FDI performance largely to political instability and unpredictable regulation, Nepal and Sharma (2023) trace the country's approval-to-realization gap to procedural and inter-agency coordination failures rather than weak investor interest, and Upadhyaya and Bhandari (2025) find that governance quality, regulatory consistency, and contract enforcement explain Nepal's FDI trends better than standard macroeconomic variables like GDP growth, inflation, or

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exchange rates. Together, this evidence indicates that institutional factors, more than macroeconomic fundamentals, determine both the volume and effectiveness of FDI in Nepal.

3.3 Comparative Regional Perspectives

Comparative literature places Nepal's underperformance within a broader regional pattern of institutional weaknesses limiting FDI absorption. Sahoo and Sahoo (2021) show that South Asia as a whole attracts FDI well below its share of global GDP, linking this gap to systemic issues such as weak contract enforcement, opaque regulation, and inconsistent repatriation rules. Manandhar and Rana (2024) highlight Vietnam's experience, where sustained investment in transport, power, and export-processing infrastructure preceded its FDI-driven manufacturing growth a sequence Nepal has not replicated outside hydropower. Osei and Kim (2020) add a caution that FDI does not automatically translate into growth, particularly where financial markets remain shallow, as in Nepal. Together, these studies support the present study's use of an absorptive-capacity-augmented version of Kurtishi-Kastrati's (2013) framework to analyze Nepal's specific institutional context.

3.4 Gaps in the Existing Literature and the Present Study's Contribution

Notwithstanding the richness of this literature, two significant gaps remain. First, existing studies have not systematically applied the absorptive capacity framework to Nepal's specific institutional context in a manner that accounts for the chronic magnitude of its approval-to-realization gap a dimension of FDI underperformance that extends beyond the human capital and financial market conditions specified in the foundational literature. Second, no prior study has assessed Nepal's FDI prospects in light of the 2026 political transition and the structural reforms it has initiated, leaving a temporal gap in the regional literature at a critical juncture in Nepal's investment policy trajectory. The present study addresses both gaps by applying Kurtishi-Kastrati's (2013) five-channel framework resource transfer, employment, balance of payments, trade, and competition effects augmented with the absorptive capacity conditionalities identified above, to Nepal's most current institutional and policy context, drawing comparative benchmarks from Vietnam, Bangladesh, India, and Sri Lanka to generate evidence-based policy conclusions

4. Conceptual Framework: The FDI-Development Nexus

The theoretical link between FDI and host-country development is grounded in several complementary mechanisms. The resource transfer hypothesis holds that FDI brings capital, technology, and managerial expertise that a host economy might otherwise lack (Hill, 2000; Kurtishi-Kastrati, 2013). The employment hypothesis focuses on job creation, both directly through multinational operations and indirectly through linkages with local suppliers. The trade hypothesis connects export-oriented FDI to stronger trade balances and deeper integration into global markets. The competition effect adds that foreign firms entering a market push domestic firms to become more efficient and innovative (OECD, 2002). Building on these mechanisms, more recent scholarship has introduced an absorptive capacity framework, which holds that

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FDI only generates these benefits if the host country is able to absorb the technology and knowledge it brings.

This capacity depends on a country's human capital, institutional quality, financial market depth, and regulatory governance, all of which shape how much an economy actually gains from foreign investment (Borensztein, De Gregorio, and Lee, 1998; Balasubramanyam, Salisu, and Sapsford, 1996). Supporting this view, a study of Bangladesh, India, Nepal, Pakistan, and Sri Lanka from 2019 to 2023 found that FDI's positive effect on growth held only where absorptive capacity was sufficient (Science Publishing Group, 2025). Nepal's absorptive capacity remains limited on several fronts: a literacy rate of about 71%, minimal domestic investment in research and development, shallow financial markets, and a regulatory environment that the U.S. State Department's Investment Climate Statement describes as inconsistent with international standards (U.S. Department of State, 2024). This suggests that simply attracting more FDI is unlikely to translate into meaningful development gains unless Nepal also invests in building human capital and strengthening its institutions.

5. Methods

5.1 Research Design

This study employs a qualitative, document-based comparative research design, appropriate for synthesizing macro level secondary data across countries and time periods where primary data collection is impractical.

5.2 Data Sources

Data were drawn from Nepal Rastra Bank (NRB) survey reports and balance-of-payments statistics, UNCTAD World Investment Reports (2024–2025), U.S. State Department Investment Climate Statements (2024–2025), and national statistical and policy sources for Vietnam, Bangladesh, India, and Sri Lanka (OECD, World Bank). News and policy-brief sources were used only to corroborate institutional and political-economy context, not as primary evidentiary sources for quantitative claims.

5.3 Analytical Framework

Kurtishi-Kastrati’s (2013) five-channel framework resource transfer, employment, balance of payments, trade, and competition structures the analysis of FDI’s effects on Nepal, supplemented by absorptive capacity theory to explain why these channels operate unevenly.

5.4 Comparative Method

Vietnam, Bangladesh, India, and Sri Lanka were selected as comparators because each shares at least one structural parallel with Nepal labor-cost competitiveness (Bangladesh), a transitional middle-income trajectory (Vietnam), regional market scale and IT-sector specialization (India), or a comparable post-conflict South Asian development context (Sri Lanka) while having achieved materially higher FDI absorption.

5.5 Data Analysis Technique

NPRC Journal of Multidisciplinary Research
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Descriptive trend analysis and cross-country benchmarking (FDI as a share of GDP, sectoral composition, and approval-realization ratios) were used to identify patterns; no econometric estimation was performed.

5.6 Limitations

This design relies on the consistency and comparability of officially reported secondary data, which vary in periodization (fiscal versus calendar year) and definitional scope across sources. The study does not establish causal relationships and should be read as a descriptive, policy-oriented comparative assessment.

6. Results

6.1 FDI Trends in Nepal

Nepal's FDI history is characterized by modest and volatile inflows. Calendar-year data compiled by UNCTAD show net FDI inflows peaking at approximately USD 196 million in 2021boosted by post-COVID rebound effects before collapsing to USD 66 million in 2022 and partially recovering to USD 67 million in 2023 (UNCTAD, 2024).

Table 1

As shown in Table 1, which presents the corresponding series on a Nepali fiscal-year basis as reported by Nepal Rastra Bank, the two series differ slightly in periodization but tell a consistent story of decline and volatility.

Table 1: Nepal's Net FDI Inflows and Approval-to-Realization Ratio, FY2019/20–2023/24

Fiscal Year	Net FDI Inflow (USD million)	ApprovalRealization Rate (%)
2019/20	185	n/a
2020/21	196	n/a
2021/22	66	n/a
2022/23	67	n/a
2023/24	57	13.59

Source: Nepal Rastra Bank (2024); Nepal Economic Forum (2025); UNCTAD World Investment Report (2025).

The trend illustrated in Figure 1 reveals a deeply troubling pattern: not only are total inflows declining, but the gap between approved FDI and realized inflows has widened dramatically. In FY 2023/24, only 13.59% of approved foreign investment materialized into actual capital inflows a rate that signals systemic failures in Nepal's investment facilitation environment (Annapurna Express, 2024). This persistent approval-realization gap represents perhaps the single greatest challenge to Nepal's FDI ambitions.

Figure 1: Nepal's Net FDI Inflows and Approval-to-Realization Ratio, FY2019/20–2024/25

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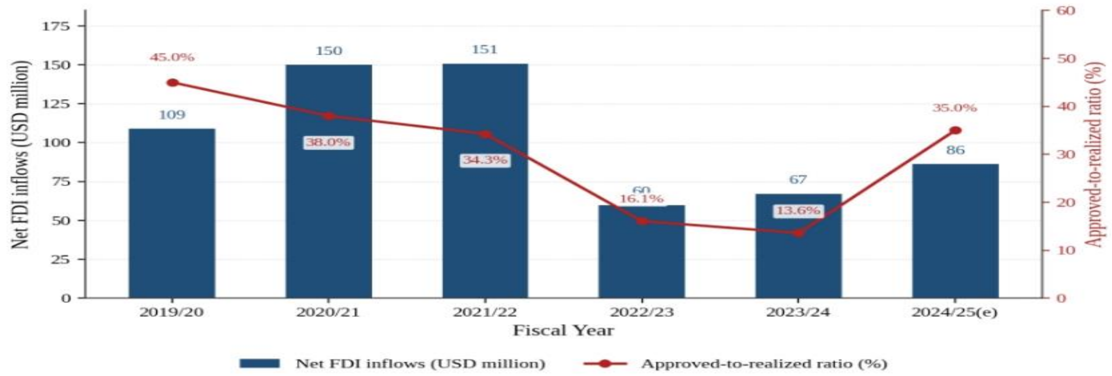
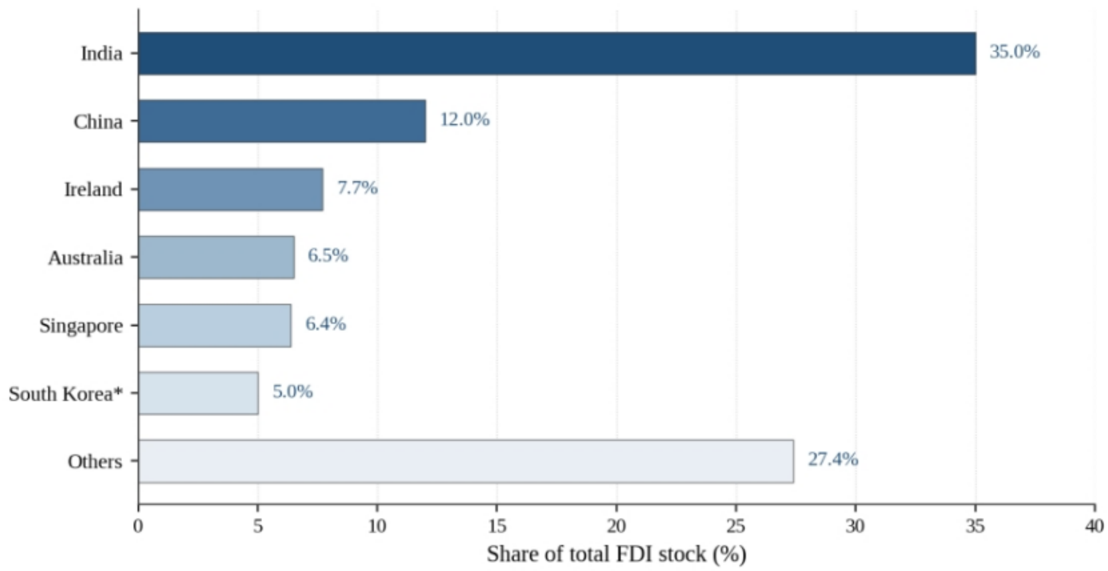


Source: Author's visualization based on data in Table 1.

6.2 Source Countries and Sectoral Distribution

Nepal has received FDI from 58 countries as of mid-July 2023. India dominates with NPR 103.5 billion in FDI stock approximately 35% of the total reflecting deep historical, cultural, and economic integration between the two neighbors (NRB, 2024). India's dominant position is reinforced by landmark investments such as SJVN Limited's development of the 900 MW Arun III Hydropower Project (IANS, 2025). China ranks second with NPR 35.5 billion (12%) in actual FDI stock, as shown in Figure 2. By mid-2024/25, Chinese investment commitments represented 44.77% of total approved FDI, yet actual stocks reflect a markedly lower realization rate than India's illustrating that summit pledges do not automatically translate into productive capital (Prokerala, 2025).

Figure 2: Top Foreign Direct Investment Source Countries in Nepal, by Share of FDI Stock (mid-July 2023)



Source: Nepal Rastra Bank Survey Report on Foreign Direct Investment 2022/23 (NRB, 2024).

Sectorally, electricity, gas, steam, and air conditioning account for the largest share of FDI stock at 30%, followed by manufacturing at 29.4% together comprising nearly 60% of total

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ISSN: 3059-9148 (Online)
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FDI (NRB, 2024). The service sector, including financial and insurance services, accounts for a further 40.2% of FDI stock.

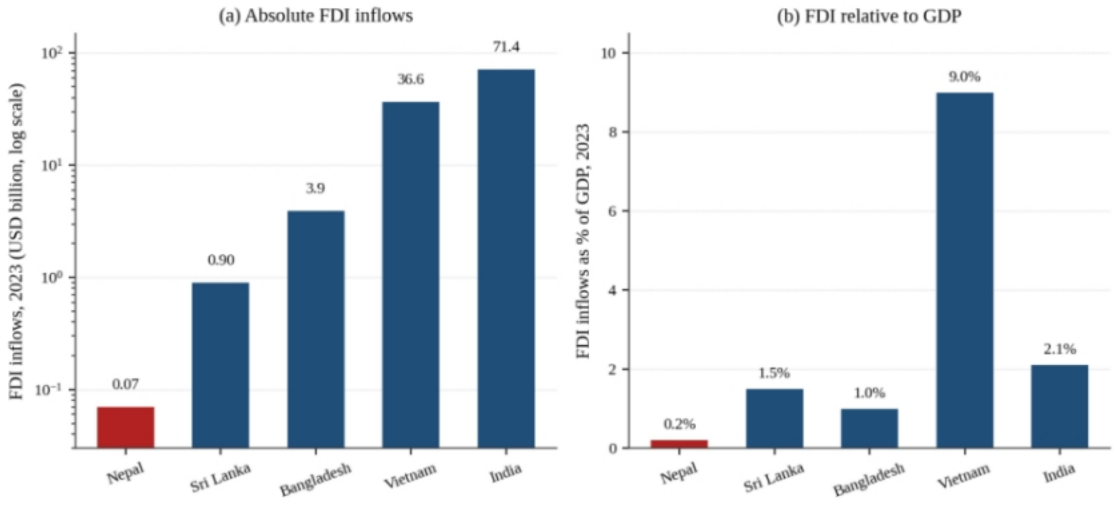
6.3 Resource Transfer, Employment, and Trade Effects

The resource transfer, employment, and trade mechanisms are visible in Nepal's FDI experience, though each remains constrained. In hydropower, where only about 3,200 MW of an estimated 28,500 MW achievable by 2035 has been developed, projects such as the Millennium Challenge Corporation's USD 500 million compact and SJVN's Arun III illustrate the crowding-in effect described by Borensztein et al. (1998), in which FDI mobilizes additional investment well beyond the foreign capital itself (Prime Law Associates, 2025). Employment effects are similarly present but limited in scale. Aaron (1999) estimated that each direct FDI-linked job generates roughly 1.6 indirect jobs through production linkages, a multiplier most visible in Nepal's hydropower construction sector. However, this contribution remains modest set against the more than 700,000 workers who left for foreign employment in FY 2023/24 alone (Department of Foreign Employment, 2024), highlighting how little of Nepal's labor force FDI currently absorbs compared to, for instance, Bangladesh's four-million-worker garment industry. Trade effects remain the weakest of the three channels. Nepal's FDI has been largely resource-seeking, concentrated in hydro-power, and market-seeking, concentrated in financial services and retail, with little of the efficiency-seeking or export-platform investment that has driven the export booms of Vietnam and Bangladesh (Balasubramanyam et al., 1996, as discussed in Kurtishi-Kastrati, 2013).

6.4 Comparative FDI Performance

Table 2 (see Figure 3) benchmarks Nepal against four Asian peers with broadly similar developmental starting points or contextual parallels.

Figure 3: Comparative FDI Performance, Nepal and Selected Asian Economies (2023)



Source: UNCTAD World Investment Report (2024); NRB (2024); OECD Vietnam Survey (2025); World Bank (2024).

Vietnam attracted USD 36.6 billion in FDI in 2023, with manufacturing capturing approximately 64% of inflows and FDIlinked firms generating nearly three-quarters of exports

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(OECD, 2025). Bangladesh's garment-sector FDI employs over four million workers and generates approximately USD 47 billion in exports annually. India attracted USD 71.4 billion in FDI in 2023, anchored by IT and business services.Nepal's USD 57–67 million range in the same period is an order of magnitude smaller than that of any comparator, even after adjusting for economic scale.These patterns are reported as descriptive associations rather than causal effects, since manufacturing growth, export performance, and FDI inflows are jointly influenced by trade policy, exchange rates, and global demand conditions that this study does not separately model.

7. Discussion

7.1 Justification for Country Selection

Each comparator was chosen deliberately to test one specific structural feature relevant to Nepal, rather than as a generic benchmark of "best practice." Bangladesh tests the labor-cost channel: although its wages are comparable to Nepal's, its garment sector has absorbed FDI on a scale, employing over four million workers, which Nepal's resource-seeking investment has not matched, even though Bangladesh's own inflows remain below their potential due to infrastructure and governance constraints (International Finance Corporation, 2025). Vietnam represents the transitional-economy case, having moved from resource-based investment in the 1990s to a manufacturing and electronics export base, a trajectory broadly similar to the one Nepal aims to follow from a comparable low-income starting point (OECD, 2025; World Bank, 2024). India illustrates the market-scale and services pathway, using its large domestic market and strength in IT and business services to remain South Asia's top FDI destination, with software and services alone contributing close to a third of recent inflows (UNCTAD, 2025). Sri Lanka offers the closest post-conflict comparison, showing that the end of civil war alone did not guarantee stronger FDI absorption without accompanying institutional and macroeconomic reform (Athukorala & Jayasuriya, 2013). Together, these four cases allow the study to examine labor cost, structural transition, market scale, and post-conflict recovery as separate explanatory factors, while holding constant the common finding that each country has achieved substantially higher FDI absorption than Nepal despite comparable or less favorable starting conditions.

7.2 FDI Trends and Regional Performance

Nepal's under performance in attracting FDI cannot be explained by a lack of resources. The country holds an estimated 42,000 MW of economically viable hydropower potential, occupies a strategically advantageous position between India and China, and offers competitive labor costs, all of which should make it an attractive investment destination. Yet actual inflows have consistently lagged behind approved commitments and regional peers, indicating that the binding constraint lies in institutional weaknesses rather than in any shortage of underlying resources or opportunities. This finding aligns with Balasubramanyam, Salisu, and Sapsford (1996), who show that FDI generates substantially stronger growth benefits in economies that are trade-open and export-oriented than in those reliant on resource- or market-seeking

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investment. Nepal falls into the latter category: its FDI has concentrated in hydropower extraction and domestic consumer markets, with little integration into regional or global value chains. Vietnam and Bangladesh offer a useful contrast, having deliberately cultivated efficiency-seeking, export-oriented FDI that has produced broader employment effects, greater technology diffusion, and stronger foreign exchange earnings. Vietnam's transformation from a resource-based FDI recipient in the 1990s into a globally integrated manufacturing hub was driven by sustained trade liberalization, the development of export processing zones, and steady improvements in regulatory quality (OECD, 2025). Bangladesh followed a similar path, building its ready-made garment sector into a source of over 80% of merchandise exports and using it to anchor export-oriented FDI (UNCTAD, 2024). Nepal has yet to undertake a comparable strategic shift. Closing the performance gap will therefore require more than simply attracting a larger volume of investment; it will require a deliberate reorientation of FDI composition, away from enclave-style resource extraction and toward export-linked investment integrated into value chains. Such a shift is essential for generating the technology spillovers that Borensztein, De Gregorio, and Lee (1998) identify as the primary channel through which FDI translates into sustained economic growth.

7.3 Theoretical Implications: Absorptive Capacity as the Binding Constraint

The findings support recent absorptive-capacity scholarship (Science Publishing Group, 2025; Upadhyaya and Bhandari, 2025) over purely volume-based accounts of FDI benefit. Nepal's 13.59% approval-realization rate suggests that the binding constraint is institutional delivery capacity rather than investor demand a nuance that extends Kurtishi-Kastrati's (2013) framework, which was not originally specified for a chronic approval-implementation gap of this magnitude.

7.4Costs and Non-Economic Concerns

FDI's benefits are not unambiguous. In hydropower, Chinese-funded projects such as West Seti and Upper Trishuli have faced criticism for relying on imported labor, attenuating employment multipliers (Kurtishi-Kastrati, 2013). Profit repatriation from financial-sector FDI substantially favors source countries such as Ireland, Australia, and Singapore over domestic reinvestment (NRB, 2024). Environmental and social concerns associated with large dam construction, and contested labor standards in Special Economic Zones, echo a documented 'race to the bottom' risk in environmental and labor regulation (Kurtishi-Kastrati, 2013; Brown, Deardorff, and Stern, 2004).

7.5 Comparison with Theoretical Expectations and Limitations

Causal interpretation of the results requires caution: this study's comparative design cannot fully isolate FDI's independent contribution from confounding macroeconomic and political factorstrade policy shifts, exchange-rate movements, and global demand cyclescommon to all five economies in the sample. Statements describing Nepal's "chronic inability to translate investment pledges" similarly warrant a more sector- and period-specific reading: the approval-realization gap is most acute in hydropower and large infrastructure projects, where land acquisition and licensing delays are concentrated, whereas smaller financial-sector FDI

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commitments have historically converted at higher rates. The literature's correlation between absorptive capacity and FDI benefit should accordingly be read as suggestive rather than causal, consistent with the Methods section's stated limitations.

8. Policy Recommendations for Nepal

Based on the foregoing analysis, the following policy directions are recommended for Nepal to maximize FDI's developmental contribution:

Institutionalize Stability: Establish an autonomous, non-partisan Investment Promotion Board with binding approval timelines and a single-window facilitation mechanism, as regulatory predictability is the foremost prerequisite for FDI (Kurtishi-Kastrati, 2013; U.S. Department of State, 2024).

Anchor FDI in Hydropower; Diversify Sectorally: Prioritize Nepal's 42,000 MW hydropower potential while developing tourism and ICT as complementary sectors to deepen domestic value-chain linkages (OECD, 2025).

Close the Approval-Realization Gap: Deploy a dedicated Investment Project Delivery Unit with investor aftercare services and digital facilitation tools to address Nepal's chronically low 13.59% realization rate (UNCTAD, 2024).

Build Absorptive Capacity: Invest in human capital and financial market development to enable FDI-generated technology spillovers a minimum threshold condition for productivity gains (Borensztein, De Gregorio, & Lee, 1998).

Leverage Regional Connectivity: Pursue bilateral investment treaties with India and China and develop cross-border special economic zones to attract efficiency-seeking FDI.

Track and Evaluate Reform Outcomes : Systematically track realization rates and sectoral diversification over five year monitoring period to build an evidence base for adaptive policy adjustment.

9. Conclusion

This paper has demonstrated that FDI's capacity to generate capital, technology, employment, and competitive market development in Nepal is real but strictly conditional on institutional quality, regulatory predictability, and political stability conditions Nepal has chronically struggled to meet. Grounded in the theoretical framework of Kurtishi-Kastrati (2013), who identifies FDI as a fundamental part of an open and successful international economic system and a major mechanism for development, the analysis reveals a structural paradox: Nepal possesses compelling natural and geographic endowments, including 42,000 MW of economically viable hydropower and a strategic position between India and China, yet net FDI inflows declined by nearly 70% between 2019 and 2024, and only 13.59% of approved investment was realized in FY 2023/24.This under performance is best understood through the absorptive-capacity lens established by Borensztein, De Gregorio, and Lee (1998), who found that FDI contributes to economic growth only when a sufficient absorptive capability of advanced technologies is available in the host economy. Nepal's human capital constraints,

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Volume 3, Issue 7, July, 2026 Pages: 132-147
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shallow financial markets, and weak regulatory enforcement continue to limit the technology spillovers and employment multipliers that FDI has generated elsewhere in the region, as documented by UNCTAD's World Investment Report 2024.

The contrast with Vietnam is instructive. OECD (2025) documents that Vietnam's FDI inflows between 2015 and 2023 amounted to 4.8% of GDP exceeding other ASEAN countries, China, and India driven by the Doi Moi reforms of 1986 and decades of consistent, cross-government commitment to investor-friendly governance. Nepal's approval-to-realization gap underscores precisely what such sustained institutional effort can achieve.

The March 2026 general election and the subsequent 100 point governance agenda, including the proposed repeal of the Foreign Investment Prohibition Act 1964, represent the most consequential political opening for Nepal's investment climate in a generation. Nevertheless, Nepal's FATF grey-listing and its long record of pledges outpacing delivery mean that credibility must still be earned through sustained legislative execution rather than political declarations alone. Whether the current reform momentum translates into durable institutional infrastructure will ultimately determine whether Nepal's extraordinary natural and geographic endowments finally attract the FDI-led development they have long warranted.

Novelty/Contribution: This study extends Kurtishi-Kastrati's (2013) framework with an absorptive-capacity lens specific to Nepal, integrates the most current (2025–2026) policy data into the regional FDI literature, and is among the first to assess Nepal's FDI prospects in light of the 2026 political transition.

Author Contribution

Durga Lamichhane: Conceptualization, methodology, data collection, analysis, writing original draft, writing review and editing.

Conflict of Interest

The author declares no conflict of interest.

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