

**IMPACT OF EXCHANGE RATE ON FOREIGN DIRECT
INVESTMENT: A COMPARATIVE STUDY OF NEPAL,
INDIA AND CHINA.**

**A Thesis
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Department of Economics,
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in
Economics**

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DECLARATION

I hereby declare that this thesis entitled **IMPACT OF EXCHANGE RATE ON FOREIGN DIRECT INVESTMENT: A COMPARATIVE STUDY OF NEPAL, INDIA AND CHINA** submitted to the Department of Economics, Patan Multiple Campus, in partial fulfillment of the requirements for the Degree of **MASTER OF ARTS in ECONOMICS**, is entirely my original work prepared under the guidance of my supervisor. I have made due acknowledgements to all ideas and information borrowed from different sources in the course of writing this thesis. The results of this thesis have not been presented or submitted anywhere else for the award of any degree. I shall be solely responsible for any evidence found against my declaration.

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LETTER OF RECOMMENDATION

This thesis entitled **IMPACT OF EXCHANGE RATE ON FOREIGN DIRECT INVESTMENT: A COMPARATIVE STUDY OF NEPAL, INDIA AND CHINA** has been prepared by **SURYA BAHADUR BHANDARI** of **PATAN MULTIPLE CAMPUS**, under my guidance and supervision. I, hereby, recommend it in partial fulfillment of the requirements for the Degree of **MASTER OF ARTS** in **ECONOMICS** for final examination.

Dr. Raghu Bir Bista
Associate Professor
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APPROVAL SHEET

We certify that this thesis “IMPACT OF EXCHANGE RATE ON FOREIGN DIRECT INVESTMENT: A COMPARATIVE STUDY OF NEPAL, INDIA AND CHINA” submitted by Surya Bahadur Bhandari to the Department of Economics, Patan Multiple Campus, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirement for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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I am alone responsible for any mistakes and errors occurred in preparing this thesis.

January, 2024

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ABSTRACT

This paper empirically investigates the impact of exchange rate volatility on FDI in Nepal, India and China respectively using time series data from 1990-2022. Data used in study is from secondary source specially from UNCTAD. It observed that the foreign direct investment in Nepal increased by 10.96 times in absolute terms, the FDI in India increased by 208.52 times in absolute terms whereas, the FDI in China increased by 54.24 times in absolute terms during the study period. The percentage of FDI inflows to GDP at current price range is - 0.10% to 0.54% in Nepal, 0.03% to 3.72% in India and 0.88% to 5.98% in China, during the study period. The exchange rate shows that, the 4.26 times decrease in value of Nepalese rupee in terms of US dollar, the 4.49 times decrease in value of Indian rupee in terms of US dollar and 1.41 times decrease in Chinas Yuan in term of US dollar during the study period. For the selection of the model's lag duration, the Akaike information criteria (AIC) is employed. The Autoregressive Distributed Lag (ARDL) model is used to investigate the effects of exchange rate volatility on Foreign Direct Investment (FDI). The empirical results show that the estimated coefficient of nominal exchange rate volatility is negative in all the selected countries but significant only in India and China. In short, the currency volatility of the host country leads to decrease the FDI inflows into that country.

Keywords: Foreign Direct Investment, Exchange rate, Currency Volatility

TABLE OF CONTENTS

	Page No.
CHAPTER I: INTRODUCTION	1-10
1.1 Background of the Study	1
1.2 Statement of the Problem	5
1.3 Objectives of the Study	7
1.4 Significance of the Study	7
1.5 Limitations of the Study	9
1.6 Outline of the study	9
CHAPTER II: LITERATURE REVIEW	11-47
2.1 Introduction	11
2.2 Literature Review	12
2.3 Research Gap	46
CHAPTER III: RESEARCH METHODOLOGY	48-64
3.1 Introduction	48
3.2 Theoretical Framework	48
3.3 Research Design	50
3.4 Nature and Source of Data	51
3.5 Data Collection Method	51
3.6 Tools of Analysis	52
3.7 Model Specification	63
3.8 Operational Definition of Variables	64
CHAPTER IV: DATA PRESENTATION AND ANALYSIS	65-98
4.1 Introduction	65
4.2 Overviews of the Study	65
4.3 Trend Analysis of FDI And Exchange Rate	68

4.4	Examine the Impact of Exchange Rate Volatility on FDI	75
4.5	Discussion	96
	CHAPTER V: SUMMARY AND CONCLUSIONS	99-103
5.1	Introduction	99
5.2	Summary	99
5.3	Major Finding	100
5.4	Conclusion	101
5.5	Recommendation	102
	REFERENCES	104-111
	APPENDIX	112-119

LIST OF TABLES

	Page No
Table No. 1 Literature review	25
Table No. 2 Trend of FDI in Nepal, India and China	68
Table No. 3 ADF Unit Root Test Result	76
Table No. 4 Optimal Lag Length Result	77
Table No. 5 ARDL Bound test for Cointegration	78
Table No. 6 Long-run Coefficient Test Result	79
Table No. 7 ECM Test for Short Run Relationship	81
Table No. 8 LM Test for Serial Correlation	83
Table No. 9 Heteroscedasticity Test	84
Table No. 10 Normality Test	86

LIST OF FIGURES

	Page No
Figure No. 1 Trend of FDI and Exchange Rate in Nepal	71
Figure No. 2 Trend of FDI and Exchange Rate in India	72
Figure No. 3 Trend of FDI and Exchange Rate in China	74
Figure No. 4 Normality Test of Nepal	88
Figure No. 5 Normality Test of India	88
Figure No. 6 Normality Test of China	89
Figure No. 7 CUSUM Test of Nepal	90
Figure No. 8 CUSUM Test of India	91
Figure No. 9 CUSUM Test of China	92
Figure No. 10 CUSUM of Square Test of Nepal	93
Figure No. 11 CUSUM of Square Test of India	94
Figure No. 12 CUSUM of Square Test of China	95

ABBREVIATIONS/ACRONYMS

AAI	Average Annual Increment
ADB	Asian Development Bank
ADF	Augmented Dickey–Fuller
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIPPA	Bilateral Investment Promotion and Protection Agreement
CBS	Central Bureau of Statistics
CNY	Chinese Yuan Renminbi
CEDECON	Central Department of Economics
DOI	Department of Industry
DTAA	Double Taxation Avoidance Agreement
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investment
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FTA	Free-Trade Agreement
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
GNP	Gross National Product
HRD	Human Resource Development
HAI	Human Asset Index
IMF	International Monetary Fund
LDCs	Least-Developed Countries
MFNs	Most Favored Nations
MNC	Multi-National Corporation

MOF	Ministry of Finance
MOICS	Ministry of Industry, Commerce, and Supplies
NRB	Nepal Rastra Bank
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Square
PRI	Policy Research Institution
RFDI	Real Foreign Direct Investment
RGDP	Real Gross Domestic Product
RMB	Renminbi (Official Currency of the People Republic of China)
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
TNC	Trans-national Corporation
TRIMS	Trade-Related Investment Measures
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNU/WIDER	United Nations University / World Institute for Development Economics Research
WTO	World Trade Organization
WIR	World Investment Report