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# STALLED ROAD TO NORTH: **A CASE OF BRI** IN NEPAL

**Editors**

Vijay Kant Karna | Arpan Gelal



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## **Stalled Road to North: A Case of BRI in Nepal**

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### **Editors**

Vijay Kant Karna  
Arpan Gelal

### **Research Team**

Prashanti Poudyal  
Sourav Dahal  
Prabisha Basnet (Research Support)  
Rasila Dhamala (Research Support)  
Milan Acharya (Research Support)

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Center for Social Inclusion and Federalism  
Kumaripati, Lalitpur



# Preface

After 2015, there was a widespread perception of Nepal's turn to North. The strengthening of bilateral engagements and signing of several agreements between Nepal and China signaled the same, but this wasn't entirely accurate. After the disturbances in Nepal's Southern border in 2015, Nepal realized the need to diversify its trade and transit routes and seek alternative connectivity through the northern frontier. Amid great anticipation and enthusiasm, Nepal signed the Transit Transport Agreement with China in 2016 and the Memorandum of Understanding (MoU) on China's flagship Belt and Road Initiative (BRI) in 2017. However, the BRI MoU was kept secret by both parties for five years until a media outlet in Nepal released it in 2022. The release of the MoU brought it under public scrutiny and led to concerns being raised about some of the contentious provisions.

A segment of the Nepali population perceived BRI as a game-changer that could realize Nepal's aspirations of strengthened connectivity and economic prosperity. It was seen as an opportune moment to rectify Nepal's dependence on India through new connectivity routes and investment opportunities. However, seven years after signing the MoU, the progress on BRI projects remains minimal. The two countries are yet to finalize the implementation plan and agree on the funding modality of the projects. China's insistence on funding the projects on commercial loans and Nepal's preference for grants-based funding has stalled further developments on BRI. Furthermore, the experiences of various countries on debt sustainability, economic viability of BRI projects, and environmental and social concerns have added to Nepal's reluctance to pursue BRI. As a result, enthusiasm for BRI in Nepal has waned. The initial optimism has been replaced by skepticism and caution. With no significant progress in sight, the future of BRI in Nepal appears uncertain.

This report delves deeper into the complexities surrounding Nepal's BRI engagement. It sets the context by analyzing China's intensified engagements in Nepal after 2015, particularly through the leftist forces. It then explores Nepal's initial motivations and political and public perceptions around its decision to join BRI.

In addition, it probes the provisions of BRI MoU between the two countries and highlights how provisions like Policy Exchange and Free Trade Agreement could potentially affect Nepal's interests. It also analyzes the geopolitical interplay of global and regional powers in Nepal through the lens of BRI and examines Nepal's effort to navigate this complex landscape. In the final section, the report investigates the reasons for the stalled progress of BRI from both China's and Nepal's perspectives and explores the potential future trajectory of the initiative in Nepal.

This report is an attempt to navigate Nepal's experiences with BRI and critically scrutinize associated political, geopolitical, and strategic dimensions. We aim to invite critical discourse on optimizing Nepal's policy stance within BRI to maximize Nepal's interest in the context of the dynamic South Asian geopolitical landscape. We suggest that while it is difficult for Nepal to move forward with BRI in its current state, there is space for Nepal to harness the potential benefits of the initiative. However, Nepal's ability to benefit from BRI depends on Nepal's effective negotiation, internal political consensus, ability to manage geopolitical interests and China's willingness to accommodate Nepal's concerns. Else, the BRI case will stand as a testimony of Nepal's stalled road to North.

Vijay Kant Karna  
Arpan Gelal

# Acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
B3W	Build Back Better World
BCIM	Bangladesh, China, India and Myanmar Economic Corridor
BRI	Belt and Road Initiative
CAMC	China Automobile Manufacturer Company
CCP	Chinese Communist Party
CESIF	Centre for Social Inclusion and Federalism
CGE	Computable General Equilibrium
CIDCA	China International Development Cooperation Agency
Covid-19	Corona Virus Disease 2019
CPC	Communist Party of China
CPEC	China-Pakistan-Economic Corridor
CPN	Communist Party of Nepal
DFQF	Duty-Free Quota-Free
DoR	Department of Roads
DPR	Detailed Project Report
EPC	Engineering, Procurement and Construction
EXIM	Export Import
FTA	Free Trade Agreement
G7	Group of Seven
GATT	General Agreement on Tariffs and Trade
GCI	Global Civilisation Initiative
GDI	Global Development Initiative
GDP	Gross Domestic Product
GoN	Government of Nepal
GSI	Global Security Initiative
GTAP	Global Trade Analysis Program
H.E.	His Excellency
HIDCL	Hydroelectricity Investment and Development Company Limited
HS	Harmonized System

IBN	Investment Board Nepal
IMF	International Monetary Fund
IPEF	Indo-Pacific Economic Framework
IPS	Indo-Pacific Strategy
JICA	Japan International Cooperation Agency
DoED	Department of Electricity Development
KIIs	Key Informant Interviews
KIs	Key Informants
kV	Kilo Volt
kVA	Kilo Volt Ampere
LDC	Least Developed Countries
MCC	Millennium Challenge Corporation
MoFA	Ministry of Foreign Affairs
MoF	Ministry of Finance
MoICS	Ministry of Industry, Commerce, and Supplies
MoU	Memorandum of Understanding
MW	Mega Watt
NCP	Nepal Communist Party
NEA	Nepal Electricity Authority
NPR	Nepali Rupee
NTB	Non-Tariff Barriers
OBOR	One Belt One Road
PGII	Partnership for Global Infrastructure Investment
PIA	Pokhara International Airport
PM	Prime Minister
QUAD	Quadrilateral Security Dialogue
RM	Renminbi
SSR	Southern Silk Road
TAR	Tibet Autonomous Region
THMCN	Trans-Himalayan Multidimensional Connectivity Network
TTA	Transit and Transport Agreement
UML	Unified Marxist–Leninist
UN	United Nations
UNHRC	United Nations Human Rights Council
US	United States
USAID	United States Agency for International Development
USD	United States Dollars
WB	World Bank
WTO	World Trade Organization

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## Executive Summary

The Belt and Road Initiative (BRI), launched in 2013, is the central component of President Xi Jinping's "major country diplomacy" which calls for China to "assume a greater leadership role for global affairs in accordance with its rising power and status." The BRI is joined by more than 146 countries and 32 international organizations and is estimated to cost around USD 1.2 – 1.3 trillion by 2027. Nepal officially entered into the BRI on May 12, 2017. The then Foreign Secretary Shanker Das Bairagi and the then Chinese Ambassador to Nepal H.E. Yu Hong signed the BRI Memorandum of Understanding (MoU). In 2018, Nepal presented a list of 35 projects to be carried out under the BRI to Beijing. Upon request from the Chinese side, the number of projects were trimmed, first to fifteen and then upon China's further insistence to reduce the number to a single digit, nine projects were subsequently proposed.

Apart from cooperation on connectivity and infrastructural projects, the MoU also includes some other provisions, such as the Free Trade Agreement (FTA), Policy Exchange, trade in national currencies, people-to-people connectivity, and regular exchange of visits, among others. Although seven years have passed since the signing of the MoU, not a single project under BRI has been materialized, nor any provisions implemented. Furthermore, there is a lack of comprehensive study to assess the geopolitical, strategic and political implications associated with the BRI in Nepal; and this study aims to fill that gap.

Nepal's navigation of the geopolitical landscape surrounding the BRI is heavily influenced by the perceptions of its key partners- India, its close neighbour, and the US, a global superpower. India has remained firmly opposed to the BRI

claiming that the initiative's China-Pakistan-Economic-Corridor (CPEC) 'passes through Indian territory, illegally held by Pakistan.' India views BRI as China's strategic initiative challenging India's status and leverage within South Asia. Similarly, the US perceives BRI as a purely strategic pursuit with attempts to expand China's sphere of influence. Nepal is already dragged into the quagmire of geopolitical rivalries. Ergo, if and when the projects under the BRI were to materialize, and provisions under it implemented, it could be further difficult for Nepal to tread the thin line of geopolitical balance.

As Nepal hasn't seen any progress in BRI so far, this research attempts to pinpoint a series of plausible explanations for the same. Firstly, Nepal's lack of preparation was seen right from the beginning when the MoU was signed without much deliberation, and the projects were selected and reshuffled without any credible reasons. Secondly, China has experienced a slowed BRI momentum beginning from 2018 after its economy showed signs of slowing down. China is also wary of not lending frivolously anymore like it did in Sri Lanka and Malaysia where new governments were found to be questioning their predecessors' decisions of borrowing from Beijing. Thirdly, Nepal, particularly political leaders, got wary of funding modality of BRI projects on commercial loans and its potential consequences. As a Least Developed Country (LDC), Nepal has been enjoying soft and concessional loans. The average interest rate of Chinese loans globally is 4%, and the average estimated interest rate of China's loans for BRI-related projects is 4.2%, with a grace period of less than two years, and maturity length of less than 10 years. In comparison, the maximum interest rate of soft loans that multilateral donors such as the World Bank (WB) and the Asian Development Bank (ADB) provide is around 1.3% with a more extended repayment period. Furthermore, the high-interest rate of Chinese loans and experiences of some nations like that of Sri Lanka have raised doubts if China is guided by debt trap or strategic trap diplomacy. Loans from Chinese banks, which account for around 19.6% of the total foreign debt, have further exacerbated Sri Lanka's economic crisis. The failure of the Hambantota Port has been a glaring example of challenges associated with Chinese commercial loans. The Nepali Congress-led government in 2022 clearly stated that Nepal cannot take commercial loans and would only accept grants if projects under BRI are to materialize.

This research also attempts to understand two contentious provisions mentioned in the BRI MoU-the Free Trade Agreement (FTA), and the Policy Exchange. If Nepal and China were to enter into an FTA, it would entail the

free movement of Chinese products into Nepal and vice versa. It may seem that Nepal can benefit from the deal, which was corroborated by an economic analysis provided by the Chinese side that speculated an increase in Nepal's Gross Domestic Product (GDP) by 4.8% if Nepal is to move forward with the FTA. Contrarily, Nepal conducted an analysis of its own, which provided a different scenario- a loss of 0.24% in the GDP, if Nepal engages in FTA with China. Nepal's analysis was then forwarded to China for further discussions, however, there has been no response from China yet on the matter.

Nepal has witnessed an increase in China's influence in both political and bureaucratic fronts in the past few years. The implementation of the Belt and Road Initiative in Nepal may signify China's further increased presence in Nepal's internal affairs. With the signing of the MoU of BRI, Nepal also agreed to a provision of Policy Exchange, 'in areas of major development strategies, plans, and policies.' While addressing his visit to Nepal in October 2019, President Xi Jinping had reiterated the need to have "more exchanges and experience sharing on governance and development to deliver greater benefits to peoples." Over the years, China has engaged in various initiatives encompassing 'high-level exchanges' and training programs on 'experience sharing on governance' to the Nepali leftist leaders, which falls under the broader umbrella of policy exchange. A prominent one is a two-day symposium on Xi Jinping Thoughts conducted during the Nepal Communist Party (NCP) administration in 2017. There is considerable ambiguity regarding what carrying out exchanges in areas of major development strategies, plans and policies actually entails. However, the provision as vague as "policy exchange" with China which has an authoritarian model of governance carry challenges to Nepal's democratic practices.

Like any other foreign endeavors, implementation of BRI entails a myriad of challenges. However, the benefits can outweigh if Nepal keeps a firm stance on its national interest if Nepal has to materialize projects under BRI. Nepal is nonetheless in a desirable position as of now as the implementation plan of BRI is yet to be agreed upon and signed, which allows room to negotiate with China for a better deal.

## CHAPTER I

## Introduction

The Belt and Road Initiative (BRI) was first announced by President Xi Jinping in 2013 during his visit to Kazakhstan as the *Silk Road Economic Belt*. The same year, in his subsequent visit to Indonesia, President Xi announced the *21<sup>st</sup> Century Maritime Silk Road*. The two-pronged connectivity project which was then known as *One Belt One Road* was later rebranded as the Belt and Road Initiative. The overland *Silk Road Economic Belt* proposes routes for road and rail transportation passing through landlocked Central Asia along the historical trade routes of the Western regions with an aim to revitalize a series of ancient overland trading routes connecting Asia.<sup>1</sup> The *21<sup>st</sup> Century Maritime Silk Road* moves along the Indo-Pacific Sea routes through Southeast Asia to South Asia, the Middle East, and Africa.<sup>2</sup>

In November 2014, President Xi announced that China would contribute USD 40 billion to set up a *Silk Road Fund* to finance the BRI projects.<sup>3</sup> In 2016, the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank, was established in China's initiative which now has been joined by as many as one hundred and five countries.<sup>4</sup> The AIIB along with the Export-Import Bank

- 1 Kuo, Lily & Kommenda, Niko. 30 July, 2018. *What is China's Belt and Road Initiative?* The Guardian. <https://www.theguardian.com/cities/ng-interactive/2018/jul/30/what-china-belt-road-initiative-silk-road-explainer>. (Accessed on 6 January, 2023)
- 2 Bernhard, Simon. 1 January, 2020. *Can The New Silk Road Compete with The Maritime Silk Road?* The Maritime Executive. <https://maritime-executive.com/editorials/can-the-new-silk-road-compete-with-the-maritime-silk-road>. (Accessed on 6 January 2023)
- 3 Xinhua. 24 June, 2016. *Chronology of China's Belt and Road Initiative*. People's Daily Online. <http://en.people.cn/n3/2016/0624/c90883-9077342.html>. (Accessed on 6 January, 2023)
- 4 Dollar, David. 2015. *The AIIB and the 'one Belt, one Road'*. Brookings. <https://www.brookings.edu/articles/the-aiib-and-the-one-belt-one-road/>. (Accessed on 6 January, 2023)

of China (EXIM bank) and China Development Bank are the main institutions financing the initiative.<sup>5</sup>

The BRI is one of the world's most ambitious connectivity projects undertaken by China which stretches from the East Asia to Europe and Africa.<sup>6</sup> Along with connectivity projects, the BRI in general entails four other components – unimpeded trade, financial integration, policy coordination, and people-to-people connectivity.<sup>7</sup> The infrastructure projects span some one hundred and forty countries, mostly in Asia and Europe, as well as Oceania and Latin America. More than 148 countries and 32 international organizations have signed cooperation agreements for the BRI as of April 2023.<sup>8</sup> It is estimated that the BRI investment could cost around USD 1.2-1.3 trillion by 2027<sup>9</sup>; and projects under BRI are slated to be completed by 2049 to coincide with the centennial anniversary of the People's Republic of China.

The BRI forms an integral part of President Xi's "major country diplomacy" - his signature foreign policy doctrine which calls for China to assume a greater leadership role in global affairs in accordance with China's growing power and status.<sup>10</sup> While labeled as merely an initiative by China, with benign goals of enhancing connectivity and financial integration that would create a win-win scenario for all participant nations, the BRI is viewed by the US-led west, and other China's regional rivals, as a strategic tool to intensify China's presence as a global power. Further, over the years, the cases of irregularities, corruption, imprudent lending, inadequate planning for environmental damage mitigation, and perceived debt trap diplomacy concerning the BRI projects have made headlines across the globe. In response, China has made efforts to broaden the

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5 Reuters Staff. 27 March, 2019. *China Development Bank provides over \$190 billion for Belt and Road projects*. Bo'ao. Reuters. <https://www.reuters.com/article/us-china-finance-cdb-bri-idUSKCN1R8095>. (Accessed on 5 January, 2023)

6 Kuo, Lily & Kommenda, Niko. 30 July, 2018. *What is China's Belt and Road Initiative?* The Guardian. <https://www.theguardian.com/cities/ng-interactive/2018/jul/30/what-china-belt-road-initiative-silk-road-explainer>. (Accessed on 6 January, 2023)

7 European Bank. *Belt and Road Initiative*. <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>. (Accessed on 5 January, 2023)

8 Nedopil, Christoph. 2023. *Countries of the Belt and Road Initiative*. Green Finance & Development Center. <https://greenfdc.org/countries-of-the-belt-and-road-initiative-bri/>. (Accessed on 26 December, 2022)

9 Morgan Stanley. 14 March, 2018. *Inside China's Plan to Create a Modern Silk Road*. <https://www.morganstanley.com/ideas/china-belt-and-road>. (Accessed on 21 December, 2022).

10 Smith, Stephen N. 16 February, 2021. *China's "Major country Diplomacy": Legitimation and Foreign Policy Change*. Oxford Academic. <https://academic.oup.com/fpa/article-abstract/17/2/orab002/6139347?redirectedFrom=PDF>. (Accessed on 6 January, 2023)

initiative's international legitimacy and credibility whilst addressing criticisms surrounding it, beginning from 2018.<sup>11</sup> President Xi had remarked that the initiative demanded “high-quality shift from big free-hand to meticulous brushwork in planning future BRI projects.”<sup>12</sup> This has been read as China's attempt to rebrand the initiative, with some even labeling it as the BRI 2.0.<sup>13</sup>

Nepal entered into BRI on May 12, 2017. The then Foreign Secretary Mr. Shanker Das Bairagi, currently National Security Advisor to the National Security Council in Nepal and the then Chinese ambassador to Nepal H.E. Yu Hong signed the MoU in Kathmandu, Nepal.<sup>14</sup> In 2018, the then PM K.P. Sharma Oli presented a list of 35 projects to be implemented under the BRI, to his Chinese counterpart the then Premier Li Keqiang.<sup>15</sup> China, however, repeatedly insisted on reducing the number of projects, after which, Nepal proposed fifteen projects. Upon China's further insistence to reduce down the number to a single digit, nine projects were subsequently proposed.<sup>16</sup> The proposed projects are as follows –

1. Upgradation of Rasuwagadhi-Kathmandu Road
2. Kimathanka-Hile Road Construction
3. Road joining Dipayal to China's border
4. Tokha-Bidur Road
5. Galchii-Rasuwagadhi-Kerung 400 Kilo Volt (KV) Transmission line
6. Kerung-Kathmandu Rail (feasibility study)
7. Tamor Hydroelectricity Project (756 Mega Watt)
8. Phukot Karnali Hydroelectricity Project (480 MW) and
9. Madan Bhandari Science and Technology University

Besides connectivity and infrastructure projects, the MoU includes provisions for free trade, policy exchange, use of national currencies for trade, people-

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11 Cao, Jiahua. 2019. *China's Belt and Road Initiative 2.0*. World Scientific. <https://www.worldscientific.com/doi/10.1142/S2377740019500155>. (Accessed on 5 January, 2023)

12 Ibid.

13 Yu, Hong. 30 September, 2022. *Is the Belt and Road Initiative 2.0 in the making? The case of Central Asia*. Taylor & Francis Online. <https://www.tandfonline.com/doi/abs/10.1080/00472336.2022.2122858>. (Accessed on 6 January, 2023)

14 Ying. 12 May, 2017. *Nepal, China sign bilateral cooperation agreement under Belt and Road Initiative*. Xinhua. [http://www.xinhuanet.com/english/2017-05/12/c\\_136276949.html](http://www.xinhuanet.com/english/2017-05/12/c_136276949.html). (Accessed on 27 December, 2022)

15 Giri, Anil. 18 January, 2019. *Nepal trims projects under BRI from 35 to 9 at Chinese call*. The Kathmandu Post. <https://kathmandupost.com/national/2019/01/18/nepal-trims-projects-under-bri-from-35-to-9-at-chinese-call>. (Accessed on 6 January, 2023)

16 Ibid.

people connectivity among others. Seven years have passed since the signing of the agreement, and yet not a single project has been materialized, nor any provisions implemented.

## **1.1 Rationale and Objectives of the Study**

Nepal signed up for the BRI in 2017. However, there has been little to no progress on the implementation of projects under BRI. The MoU on BRI between Nepal and China was kept undisclosed for five years by both the governments until a Nepali media house published it in June 2022. The disclosure of the MoU brought attention to a few contentious provisions like that of the Free Trade Agreement (FTA) and Policy Exchange, which demanded a scholarly scrutiny. Added to that, experiences of other countries like that of Sri Lanka have raised fears about the possibility of economic distress, and perceived “debt trap” induced by its loan component that entails a higher interest rate and a shorter payback period compared to development financing from other multilateral financial institutions. Further, there has been no analysis on geopolitical, strategic and political implications associated with the BRI in Nepal. This study aims to fill this gap with the following objectives:

1. Study and analyze the political, geopolitical, and strategic dimensions attached to the Nepal-China BRI agreement and its implementation.
2. Study and analyze interests and motivation factors behind the BRI agreement of both Nepal and China.
3. Study and analyze the political economy aspects of the agreement - provisions of the FTA and Policy Exchange, to assess their impacts, meanings and implications for Nepal.
4. Study and analyze as to why the BRI has remained in limbo for these seven years and opportunities and challenges of BRI implementation in Nepal.
5. Prescribe recommendations to the relevant stakeholders based on the findings and analyses.

## **1.2 Approach and Methodology of the Study**

### **Desk research and review of existing literature**

This study conducted a thorough desk research and review of literature to track down all useful existing pre-published information from a magnitude of sources including the *“Memorandum of Understanding (MoU) between the Government of Nepal and the Government of the People’s Republic of China on Cooperation under Belt and Road Initiative”* itself, other BRI related reports, government reports,

joint statement from high-official's visits, scholarly articles, journals and media reports, interviews of officials published in media, and websites of both public and private bodies that have published literature on the Nepal-China BRI agreement.

### **Qualitative Interviews**

A number of Key Informant Interviews (KIIs) were carried out to gather information and stakeholder opinions on prospects and challenges of BRI implementation in Nepal. The information collected was imperative in substantiating and validating all the previous sources of literature, desk research and data and information collected from other secondary sources.

### **Data Analysis**

The Centre for Social Inclusion and Federalism (CESIF) researchers then collated and analyzed all information received from desk review and KIIs to write the report. Moreover, interactive discourses and dialogues with relevant stakeholders also formed a part of the analysis to extrapolate the report.

## CHAPTER II

# An Overview of Heightened Chinese Engagements in Nepal

## 2.1 Intensification of Chinese engagements post 2015

With the promulgation of the Constitution of Nepal 2015, dissatisfaction soared in the southern plains of Nepal resulting in the third Madhes Uprising – and subsequently in the imposition of the unofficial blockade in the southern border points of Nepal. Trade with India was disrupted causing shortage of petrol and other essential products. The situation was so precarious that Nepal had no other options than to start importing oil and other products from China. This led to the watershed moment in Nepal's international trade when Nepal signed an oil trade deal with China on 28 October 2015, expecting to end decades-long monopoly of the Indian Oil Corporation in the Nepali market.<sup>17</sup> The need for trade diversification pushed Nepal to further open up trade and connectivity links through the northern frontier. Nepal signed the Transit and Transport Agreement (TTA) with China in 2016.<sup>18</sup> Meanwhile, China had also been pushing Nepal to sign up for the BRI which finally happened in 2017.

At the same time, Beijing's proclivities to enhance its influence over Kathmandu through its ties with the communist parties of Nepal began to intensify, even though China had already begun increasing its influence over Nepal starting from

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17 The Kathmandu Post. 29 October, 2015. *Nepal inks historic oil agreement with China*. <https://kathmandupost.com/miscellaneous/2015/10/29/nepal-inks-historic-oil-agreement-with-china>. (Accessed on 21 December, 2022)

18 The Himalayan Times. 21 March, 2016. *Nepal signs a transit treaty with China*. <https://thehimalayan-times.com/nepal/nepal-signs-trade-transit-treaty-china>. (Accessed on 21 December, 2022)

2008 itself. In 2017, China facilitated the communist coalition for the federal and provincial polls.<sup>19</sup> After the election, a unified communist party named Nepal Communist Party (NCP) was formed. So long as the NCP remained in power, Chinese influence over Nepal continued to increase. For instance, in 2019, about fifty Chinese Communist Party (CCP) leaders trained more than two hundred NCP leaders on “Xi Jinping Thought”.<sup>20</sup> In 2020, Nepal voted for Beijing’s new security law for Hong Kong, introduced amidst the Hong Kong pro-democracy protests with provisions of harsh penalties for vaguely defined political crimes, at the United Nations Human Rights Council (UNHRC).<sup>21</sup> Similarly, in 2020 itself, Nepal defended Chinese policies in the western region of Xinjiang, where the Uyghur Muslims community was subjected to atrocities by the state, at the United Nations (UN) General Assembly.<sup>22</sup> In December 2020, Chinese vice minister Guo Yenzhou visited Nepal in an attempt to avert the split of the NCP.<sup>23</sup> China’s ambassador to Nepal Hou Yanqi also stepped up engagements with the NCP leaders for the same<sup>24</sup> – but to no avail.

In March 2021, the NCP was dissolved by the Supreme Court of Nepal which led to its split into three different communist parties – CPN-UML, CPN (Maoist Center) and CPN (Unified Socialist). With this, the Nepali Congress-led alliance formed a new government. Beijing then lobbied against the parliamentary ratification of the US’s Millennium Challenge Corporation (MCC) compact,

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- 19 Chaudhury, Dipanjan Roy. 9 March, 2021. *China on backfoot as Nepal Communist Party derecognized by SC*. The Economic Times. <https://economictimes.indiatimes.com/news/international/world-news/china-on-backfoot-as-nepal-communist-party-derecognised-by-sc/article-show/81397458.cms?from=mdr>. (Accessed on 6 January, 2023)
- 20 Kaphle, Anup. 24 September, 2019. *A blueprint for consolidating power: China exports Xi Jinping Thought to Nepal*. The Kathmandu Post. <https://kathmandupost.com/national/2019/09/24/a-blueprint-for-consolidating-power-china-exports-xi-jinping-thought-to-nepal>. (Accessed on 21 December, 2022)
- 21 Lawler, Dave. 2 July, 2020. *The 53 countries supporting China’s crackdown on Hong Kong*. Axios. <https://www.axios.com/2020/07/02/countries-supporting-china-hong-kong-law>. (Accessed on 21 December, 2022).
- 22 Putz, Catherine. 9 October, 2020. *Which countries are for or against China’s Xinjiang Policies?* The Diplomat. <https://thediplomat.com/2020/10/2020-edition-which-countries-are-for-or-against-chinas-xinjiang-policies/>. (Accessed on 21 December, 2022).
- 23 Republica. 26 December, 2020. *Beijing sending Vice Minister Guo Yezhou to Kathmandu as ruling NCP sees a vertical split*. My Republica. <https://myrepublica.nagariknetwork.com/news/beijing-sending-vice-minister-guo-yezhou-to-kathmandu-as-ruling-ncp-sees-a-vertical-split/>. (Accessed on 21<sup>st</sup> December, 2022)
- 24 Giri, Anil. 2 May, 2020. *In a series of meetings, Chinese envoy calls for unity among ruling party members*. The Kathmandu Post. <https://kathmandupost.com/politics/2020/05/02/in-a-series-of-meetings-chinese-envoy-calls-for-unity-among-ruling-party-members>. (Accessed on 21 December, 2022)

labeling it as a “Pandora’s box”.<sup>25</sup> To China’s dismay, the compact was ratified by the parliament in February 2022. For Beijing, these developments were signs that its influence over Kathmandu was gradually slipping away.

China then stepped-up its high-level engagements. Within a span of a few months, there were three high level visits from Beijing to Kathmandu. China’s Foreign Minister and State Councilor Wang Yi visited Kathmandu in March, CCP’s International Liaison Department Head Liu Zianchao in July and Chinese Speaker Li Zhanshu in September 2022. In these visits, China attempted to improve its ties with democratic forces, particularly the Nepali Congress, while still pushing for the communist coalition.<sup>26</sup> The BRI implementation, however, has taken a backseat. Although it was expected that China would sign the BRI Implementation Agreement during Foreign Minister Wang Yi’s visit, that wasn’t to be.<sup>27</sup>

There were also no concrete developments on the BRI in subsequent high-profile visits from China. It appeared that the implementation of the BRI agreement was not a priority for China. Post November 2022 election, a new government was formed under the leadership of the CPN (Maoist Center)’s top leader Pushpa Kamal Dahal (Prachanda). On 26 December 2022, PM Dahal assumed office.<sup>28</sup> A Day later, on 27 December 2022, a six-member Chinese technical team landed in Kathmandu to carry out the feasibility study of the Kathmandu-Kerung cross-border railway.<sup>29</sup>

On December 31, 2022, one day before the inauguration of the Pokhara International Airport (PIA), the Chinese Embassy in Nepal claimed that the

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25 Giri, Anil. 24 February, 2022. *Why a deadline if it's a 'gift'? China taunts at US over MCC*. The Kathmandu Post. <https://kathmandupost.com/national/2022/02/24/why-a-deadline-if-it-s-a-gift-china-taunts-at-us-over-mcc>. (Accessed on 21 December, 2022)

26 Dahal, Sourav. 15 July, 2022. *China Pushes for Communist Coalition in the Upcoming Election*. CESIF. <http://cesifnepal.org/detail/China-Pushes-for-Communist-Coalition-in-the-Upcoming-Elections>. (Accessed on 20 December, 2022)

27 Giri, Anil. 27 March, 2022. *Wang visit: Nepal, China sign nine agreements, none on BRI*. The Kathmandu Post. <https://kathmandupost.com/national/2022/03/27/wang-visit-nepal-china-sign-nine-agreements-none-on-bri>. (Accessed on 21 December, 2022)

28 TRN Online. 26 December, 2022. *Prime Minister 'Prachanda' assumes office*. The Rising Nepal. <https://www.risingnepaldaily.com/news/20584>. (Accessed on 11 October, 2023)

29 Giri, Anil. 27 December, 2022. *Chinese arrive for rail feasibility study*. The Kathmandu Post. <https://kathmandupost.com/national/2022/12/27/chinese-team-arrives-for-feasibility-study-of-cross-border-rail>. (Accessed on 11 October, 2023)

PIA was a flagship project under the BRI.<sup>30</sup> However, Nepal's Foreign Minister clarified that the PIA, although constructed with a loan from China's Export-Import Bank, was not a BRI project.<sup>31</sup> Despite this clarification, Chinese Ambassador Hou Yanqi claimed that there are three different types of BRI projects<sup>32</sup> in Nepal:

- The first type is like the Gautam Buddha Airport in Lumbini, where the ADB has invested and Chinese contractors have worked.
- The second type is like the Pokhara Airport, where China has provided commercial loans and grants and the construction company is also Chinese.
- The third type is like the Tribhuvan International Airport in Kathmandu, where the responsibility for improving the airport has been given to a Chinese company and the cost will be borne by the Nepal Government.

Hou Yanqi used these three examples to justify her claim that both the Pokhara International Airport (PIA) and the Gautam Buddha International Airport (GBIA) at Bhairawaha fall under the BRI. However, neither of these projects are among the nine projects that Nepal has proposed to China. This suggests that China may be seeking to portray a favorable picture of the BRI in Nepal, possibly for its own domestic consumption.

In July 2023, the Communist Party of China (CPC) launched the “Silk Roadster” platform under the BRI, which focuses on practical cooperation and people-to-people exchanges among China and Southeast Asian and South Asian countries. The Silk Roadster platform is supposed to implement five projects: Silk Road Embarkment, Silk Road Empowerment, Silk Road Enjoyment, Silk Road Enlightenment, and Silk Road Enhancement.<sup>33</sup> Silk Roadster includes smaller projects focusing on training and skills development. The launch of the platform by the CPC, rather than the Chinese government, raised many eyebrows, confirming long-held speculation that China prioritizes party-to-

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30 Giri, Anil. 1 January, 2023. *Is the new Pokhara airport on China's BRI radar?* The Kathmandu Post. <https://kathmandupost.com/national/2023/01/01/is-the-new-pokhara-airport-under-china-s-bri-radar>. (Accessed on 11 October, 2023)

31 Giri, Anil. 27 June, 2023. *Nepal yet to execute BRI projects, says Foreign Minister Saud.* The Kathmandu Post. <https://kathmandupost.com/national/2023/06/27/nepal-yet-to-execute-bri-projects-says-foreign-minister-saud>. (Accessed on 11 October, 2023).

32 Khatiwada, Nishan. 30 June, 2023. *Why is China lumping Nepal projects under its Belt and Road Initiative?* The Kathmandu Post. <https://kathmandupost.com/national/2023/06/30/why-is-china-lumping-nepal-projects-under-its-belt-and-road-initiative>. (Accessed on 11 October, 2023)

33 Giri, Anil. 19 July, 2023. *China launches 'Silk Roadster' projects under BRI in Nepal.* The Kathmandu Post. <https://kathmandupost.com/national/2023/07/19/china-launches-silk-roadster-projects-under-bri-in-nepal>. (Accessed on 11 October, 2023)

party ties over government-to-government ties. The launching of the Silk Roadster Project under the BRI framework has been read by some as a shift from prioritizing big connectivity and infrastructure projects to soft arenas - Beijing's attempt to repackage the BRI.

In September 2023, Prime Minister Pushpa Kamal Dahal visited Beijing. Politicians and experts deemed the visit to be unfruitful, particularly due to the lack of progress on the BRI. While the Joint Communiqué touched upon China's BRI, mentioning that "both sides will pursue high-quality Belt and Road cooperation,"<sup>34</sup> no further agreements were signed on the matter. It was anticipated that the long-awaited Project Implementation Plan under the BRI would be signed, but the visit did not yield any breakthroughs.

In the past few years, even as the BRI lost steam, China launched quite a few initiatives - the Global Development Initiative (GDI), the Global Security Initiative (GSI) and the Global Civilisation Initiative (GCI). As of 2023, two projects<sup>35</sup> under China's GDI have been launched in Nepal: The Smiling Children Project; and another project to support schools and Communities in Remote Areas for Pandemic Prevention and Green Recovery. Nepal hasn't joined either the GCI or the GSI despite China's persistent lobbying for it. However, the dragon boat competition held in Pokhara in June 2023 was dubbed under the GCI.<sup>36</sup>

## 2.2 Nepal-China BRI MoU: Obscurity to Scrutiny

Nepal entered into BRI on May 12, 2017 signing the bilateral MoU by the then Foreign Secretary Shanker Das Bairagi, current National Security Advisor to the National Security Council of the GoN and the then Chinese Ambassador to Nepal H.E. Yu Hong.

Initially China unilaterally sent a draft template for the MoU to the GoN, following which, the then Minister of Foreign Affairs, Prakash Sharan Mahat made a series

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34 Ministry of Foreign Affairs. 26 September, 2023. Joint Statement between the People's Republic of China and Nepal. <https://mofa.gov.np/joint-statement-between-the-peoples-republic-of-china-and-nepal/#:~:text=The%20two%20sides%20agreed%20to%20strengthen%20connectivity%20in%20such%20areas,of%20the%20two%20countries%2C%20and.> (Accessed on 11 October, 2023)

35 Giri, Anil. 23 September, 2022. *Two Nepal projects selected under China's GDI*. The Kathmandu Post. <https://kathmandupost.com/national/2022/09/23/two-nepal-projects-selected-under-china-s-gdi> . (Accessed on 11 October, 2023)

36 Khabarhub. 29 June 2023. *Chinese Ambassador Song spearheading propaganda campaign*. <https://english.khabarhub.com/2023/29/308904/> . (Accessed on 11 October, 2023)

of alterations to it, including changes in provisions such as ‘Policy Exchange’ from ‘Policy Harmonization,’ among others. Former Minister confirmed this at an International Seminar held by CESIF in December 2022, adding that Nepal had pushed for as much as it could to exclude or modify contentious provisions. However, KIs revealed that Nepal could not make further changes to some of the other contentious provisions as China prioritized their own interest over Nepal’s. For instance, the Free Trade Agreement (FTA), a provision under the initial draft MoU came with substantive push from China, but Nepal opposed it, citing it to be detrimental for its economy. Former Minister Mahat claimed that since China was adamant to include the provision of the FTA, Nepal then convinced China to include only “feasibility study” for the same, instead of the provision of the FTA itself.<sup>37</sup> Later the Ministry of Industry Commerce and Supplies (MoICS) carried out its own study into the proposed FTA with a conclusion that if FTA was to materialize, Nepal would incur a loss of 0.24% of Nepal’s GDP. Likewise, former Minister Mahat also confirmed that other contentious provisions, like that of the provision of Policy Exchange, and use of national currencies in bilateral trade transactions were included in the MoU under China’s insistence.<sup>38</sup>

Our consultative interviews with ex-bureaucrats who were directly involved in the negotiation process also confirm the same - while some important changes were made to the draft MoU proposed by China, not all required changes were made, owing to China’s insistence coupled with Nepal’s lack of preparations.

Once the MoU was signed, both sides kept it undisclosed for five long years until a Nepali media house published it in June 2022.<sup>39</sup> This adds to doubt that if the MoU was kept undisclosed to evade public scrutiny. Nepal had signed the BRI agreement without much deliberations, study and discussions. Now that the MoU is out there in the public domain, provisions of the BRI agreement have attracted criticisms, scrutiny and debate from politicians, experts and the general public alike, from across the spectrum. The surreptitious manner in which BRI was signed keeping the MoU secret for years is something, which in and of itself, demands scrutiny. Experts are of the view that this agreement should have been first scrutinized, and debated in the parliament before signing on it – which was not to be.

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37 Prakash Sharan Mahat in an event “International Seminar on Geopolitics and BRI in South Asia” organized by CESIF Nepal. [https://www.youtube.com/watch?v=dfK1FTQn5OQ&ab\\_channel=CESIFNepal](https://www.youtube.com/watch?v=dfK1FTQn5OQ&ab_channel=CESIFNepal). (Accessed on 6 January, 2023)

38 Ibid.

39 Khabarhub. 27 June, 2022. *MoU between Nepal and China on BRI that remained secretive for five years*. <https://english.khabarhub.com/2022/27/260006/>. (Accessed on 5 January, 2023)

## 2.3 Nepal's recent experiences with Chinese Investment

Projects led by China are criticized for pushing the EPC (Engineering, Procurement and Construction) model wherein all of the preliminary and implementational tasks are carried out by the Chinese with little to no consultation at the domestic level. Often government-controlled Chinese lenders offer financial guarantees or 'big chunks of money,'<sup>40</sup> usually for infrastructural endeavors, and have the requirement of involvement of State Owned Enterprises (SOEs) in all the phases.

In Nepal, Budhi Gandaki Hydropower Project, contracted initially to Chinese contractor, met with a controversy regarding irregularity in tender process. In May 2017, the cabinet under Prachanda decided to contract China Gezhouba Group Corporation (CGGC), a black listed company by the World Bank, for the construction of the 1200 MW project under Engineering, Procurement, Construction, and Financing (EPCF) model. Questions were raised as to why a black-listed company was awarded the contract via the cabinet, which requires no competitive bidding during left leadership.<sup>41</sup> However, the succeeding Deuba government cancelled the agreement with CGGC and decided to build the project using domestic financial resources in November 2017, citing procedural flaw in the contract award. Again the government under KP Sharma Oli decided to hand the project to same Chinese company in September 2018. As of April 8, 2022, the succeeding government under Deuba decided to revoke the license issued to the Chinese state-owned China Gezhouba Group Corporation.<sup>42</sup>

Further irregularities and blatant corruption were also witnessed in the PIA. The construction of an airport with an estimated cost of USD 132 million ended up getting signed for USD 215.96 million under a Chinese dealership. As per the research conducted by CESIF, a secret MoU was signed between China Automobile Manufacturer Company (CAMC) and the Energy Ministry

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40 Bradsher, Keith. 29 June, 2018. *China Taps the Brakes on its Global Push for Influence*. Shanghai. The New York Times. <https://www.nytimes.com/2018/06/29/business/china-belt-and-road-slows.html>. (Accessed on 21 December, 2022)

41 Republica. 5 November, 2019. Rs 37 billion collected so far to build Budhi Gandaki Hydroelectric Project. My Republica. <https://myrepublica.nagariknetwork.com/news/rs-37-billion-collected-so-far-to-build-budhi-gandaki-hydroelectric-project/>. (Accessed on 28 December, 2022)

42 Lamsal, Himal. 8 April, 2022. *Chinese company's license to build Gandaki project scrapped, Nepal says it'll build the 1200MW project on its own*. My Republica. <https://myrepublica.nagariknetwork.com/news/chinese-company-s-licensed-to-build-budhi-gandaki-project-scrapped-nepal-says-it-ll-build-the-1200mw-project-on-its-own>. (Accessed on 28 December, 2022)

of Nepal on September 20, 2011.<sup>43</sup> The MoU had stated that a tender would be called later for which ‘the government of Nepal shall provide CAMC with solid and substantial support.’<sup>44</sup> This was evidenced by CAMC winning the tender even at such an inflated price.<sup>45</sup>

Post Bahadur Bogati, the then Minister for Tourism and Civil Aviation, said that the China EXIM Bank had offered a soft loan for the project, but with a condition that it should be constructed by a company ‘recommended’ by the bank.

Upon the project’s completion, China now has claimed that the International Airport falls under the BRI, while that was never stated earlier. This false claim drew flak from across the spectrum.<sup>46</sup> While none of the BRI projects have materialized as of yet, it appears as if China is now seeking to portray BRI’s success stories by falsely claiming projects under Chinese investments – undertaken even before the Nepal-China BRI agreement – as part of the initiative.

This evidence of projects involving Chinese investment makes the case that Nepal must be cautious with its dealings with China. China is well known for pushing the EPC model not just in Nepal but also elsewhere, coupled with unfavorable loan components, corruption and other financial irregularities. Learning from such experiences, the Nepali political and bureaucratic leadership should negotiate for a transparent implementation model to ensure accountability on China related projects.

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43 Khanal, Ajaya Bhadra. 2 January, 2023. *Security and Geo-strategic Dimensions of Corruption in Development Projects*. CESIF. <https://www.cesifnepal.org/detail/corruption-infrastructure-research-report>. (Accessed on 10 July, 2023)

44 Ibid.

45 The Kathmandu Post. 30 August, 2012. Pokhara locals drop strike plan after government assurance. <https://kathmandupost.com/news/2012-08-30/pokhara-locals-drop-strike-plan-after-govt-assurance.html>. (Accessed on 6 January, 2023)

46 Bhattarai, Kamal Dev. 4 January, 2023. *China’s BRI Claim Over Pokhara Airport Shows Desperation*. The Annapurna Express. <https://theannapurnaexpress.com/news/chinas-bri-claim-over-pokhara-airport-shows-desperation-36553/>. (Accessed on 5 January 2023)

## CHAPTER III

# Nepal's and China's Interests in Joining BRI

## 3.1 Nepal's Interests in Joining BRI

### 3.1.1 Historical Connection with Tibet and Trans-Himalayan Silk Route

Before the advent of East India Company into the South Asian subcontinent, Kathmandu valley and few other regions which had connectivity ties with Tibet experienced relative prosperity compared to other regions.<sup>47</sup> For over a thousand years, generations of merchants of Kathmandu journeyed across the Himalayas to conduct business in Tibet; and even some parts of modern-day India carried trade with Tibet via Nepal.<sup>48</sup> During this period, people-to-people connectivity particularly between residents of the Kathmandu valley and Tibetan plateau had reached new heights. Both the historic Trans-Himalayan trade and people-to-people connectivity flourished as a consequence of the Trans-Himalayan Silk Road.<sup>49</sup> However, with time, trade with India slowly replaced trade with Tibet even within the Kathmandu valley. Now with technological progress, and new connectivity links through road and railway, there is a renewed interest in reviving the ancient Trans-Himalayan Silk route in forms of road and railway connectivity.

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47 Rana, Madhukar SJB. 10 February, 2017. *Trans-Himalayan Economic Corridor: Nepal as a Gateway*. Observer Research Foundation. [https://www.orfonline.org/research/trans-himalayan-economic-corridor-nepal-as-a-gateway/#\\_ftn4](https://www.orfonline.org/research/trans-himalayan-economic-corridor-nepal-as-a-gateway/#_ftn4). (Accessed on 17 November, 2022)

48 Sarkar, Ratna & Ray, Indrajit. 2006. *Two Nineteenth Century Trade Routes in the Eastern Himalayas: The Bhutanese Trade with India and Bengal*. International Center for Integrated Mountain Development. <https://lib.icimod.org/record/12295>. (Accessed on 17 November, 2022)

49 Ibid.

Nepal's desire to join BRI isn't just rooted in reviving the historical connectivity route. Changing geopolitical landscape, desire to benefit out of the growing Chinese economy, prospects of economic integration with the rest of world through BRI projects and Nepal's desire for diversification of connectivity and trade to minimize the exclusive dependence on India are the factors behind its interest in signing up for the BRI. Nepal's interests aside, a geopolitical obligation aftermath of the unofficial border blockade along Nepal's southern border in 2015 also played a defining role in the process.

### **3.1.2 Disruption along Nepal-India Border and Nepal's Desire for Connectivity and Trade Diversification**

Nepal promulgated its Republican constitution in 2015, few months after the devastating earthquake that killed more than nine thousand people. Following the earthquake, the constitution drafting process however was "fast-tracked" and not all envisioned procedures were followed. Further, the demands of Madhes-based parties pertaining to ensuring their equal rights in the constitution weren't addressed by three major political parties of the Second Constituent Assembly. In this context, India, which shares a border with the Madhes region of Nepal, had expressed discontent regarding the same. Mr. Subrahmanyam Jaishankar, the then Foreign Secretary of India, had visited Nepal as a special envoy of Indian Prime Minister Narendra Modi<sup>50</sup> - and asked leaders of major parties to not promulgate the constitution when half of the country - the Terai region - was paralyzed by protests. New Delhi through various channels had expressed dissatisfaction with the constitution promulgation - quoting "lack of broad ownership of the draft".<sup>51</sup> The Indian concern regarding Madhes-based parties' demands were neglected and the constitution was promulgated on 20 September, 2015; while Madhes-based parties boycotted the vote. The third Madesh uprising was taking place in the southern districts of Nepal starting from the second half of August 2015, and the uprising continued even after the promulgation of the constitution. The protest was so widespread that at least 45 people were killed within a span of one and half months.<sup>52</sup>

50 Jha, Prashant. 20 September, 2015. *How India was both right and wrong on Nepal*. Hindustan Times. <https://www.hindustantimes.com/analysis/how-india-was-both-right-and-wrong-on-nepal/story-mWkh9DU7dk8kSIHE1KceJ.html>. (Accessed on 17 November, 2022)

51 The Kathmandu Post. 19 September, 2015. *Utilize time before statute promulgation*. <https://kathmandupost.com/miscellaneous/2015/09/19/utilise-time-before-statute-promulgation> . (Accessed on 27 December, 2022).

52 Human Rights Watch. 16 October, 2015. *Nepal: Investigate deaths during Terai protests*. New York. <https://www.hrw.org/news/2015/10/16/nepal-investigate-deaths-during-terai-protests>. (Accessed on 27 December, 2022)

Nepal's decision to move ahead despite New Delhi's reservations is claimed to have irked India so much so that it imposed an "unofficial blockade" in the border posts with Nepal<sup>53</sup>, starting on Sept 23, 2015.<sup>54</sup> Whether or not India imposed a blockade over Nepal on its own is still a topic of contention even amongst Nepal's political parties and intelligentsia. Some claim that protesting Madhes-based parties blocked the border posts with India in all the major border points between the two, and as a consequence, trade with India got disrupted. India's role in that blockade however can't be denied altogether. An influential opposition leader of Indian National Congress, Shashi Tharoor wrote in his op-ed "despite India's increasingly feeble denials, India's de facto blockade of Nepal has choked the country's economy".<sup>55</sup> Then PM KP Sharma Oli had claimed that India had imposed the blockade<sup>56</sup>; and a leader of the opposition and ex-Finance Minister Ram Sharan Mahat had then argued that it was a mistake on the part of India to use international trade as a foreign policy tool in coercing its neighbors to abide by its demands.<sup>57</sup>

The Madhes-based parties however denied India's role in blocking the borders, and claimed that it was their own strategy to push Kathmandu to address their demands. Officially, India denies imposing a blockade with an affirmation that "incidents of violence had created difficulties for freight companies and transporters operating in Nepal."<sup>58</sup> And that its truck drivers were concerned for their safety.<sup>59</sup>

Regardless of India's role - if or not it was India's making - the border blockade reflected Nepal's vulnerabilities that come with relying solely on India for trade as a landlocked country. Nepal had faced the first Indian blockade in

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53 Pokharel, Sugam. 3 October, 2015. *Nepal accuses India of 'trade blockade' amid fuel crisis*. New Delhi. CNN. <https://edition.cnn.com/2015/09/29/asia/nepal-india-fuel-crisis/>. (Accessed on 27 December, 2022)

54 The Kathmandu Post. 22 November, 2015. *Over-reliance on India has hit economy hard*. <https://kathmandupost.com/money/2015/11/22/over-reliance-on-india-has-hit-economy-hard>. (Accessed on 27 December, 2022)

55 Tharoor, Shashi. 14 October, 2015. *India's Nepal Mess: Result of a mix of arrogance and ineptitude*. The Quint World. <https://www.thequint.com/opinion/indias-nepal-mess-result-of-a-mix-of-arrogance-and-ineptitude>. (Accessed on 27 December, 2022)

56 The Guardian. *Nepal border blockade 'threatens the future of the country itself', says UN*. <https://www.theguardian.com/global-development/2015/nov/18/nepal-border-blockade-india-threatens-future-un-unicef>. (Accessed on 27 December, 2022)

57 Ibid.

58 Pokharel, Sugam. 3 October, 2015. *Nepal accuses India of 'trade blockade' amid fuel crisis*. New Delhi. CNN. <https://edition.cnn.com/2015/09/29/asia/nepal-india-fuel-crisis/>. (Accessed on 27 December, 2022)

59 Ibid.

1970, and then again in 1989.<sup>60</sup> In 1989, India had imposed a fifteen-months long unofficial economic embargo on Nepal which denied Nepal access to Kolkata port facilities alongside closing nineteen out of the twenty-one border transit points.<sup>61</sup> Twenty-six years later, in 2015, the unofficial trade embargo heavily affected different sectors of Nepal's economy. It resulted in exports plunging by 25.4 percent (NPR 16.81 billion), alongside imports plummeting by 31.9 percent (NPR 130.94 billion).<sup>62</sup> More than 400 Indian origin trucks and consignments were left stranded at the border on a daily basis, heavily impacting the entry of perishable goods, petroleum, medicines, gas cylinders, earthquake relief materials among others.<sup>63</sup>

Nepal Rastra Bank then published a study report titled "Impact of Unofficial Indian Embargo on Nepal" which concluded that Nepal's economy was almost crippled by the blockade and that Nepal had failed to learn lessons from two earlier blockades of 1970 and 1988-89.<sup>64</sup> The report also concluded that Nepal's trade dependence on India continued to grow even after the second embargo of 1988-89, which had reached 63.7 percent in the fiscal year 2014-15.<sup>65</sup> The same report recommended opening up all nine border points with China for bilateral trade and upgrading existing two routes - Rasuwagadhi and Tatopani.<sup>66</sup>

The situation was so precarious that Nepal had no other options than to start importing essential petroleum products from China. This led to the watershed moment in Nepal's international trade when it signed a historic oil trade deal with China on 28 October 2015, with an expectation to end decades-long monopoly of the Indian Oil Corporation in the Nepali market.<sup>67</sup> The need for

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60 The Kathmandu Post. 22 November, 2015. Over-reliance on India has hit economy hard. <https://kathmandupost.com/money/2015/11/22/over-reliance-on-india-has-hit-economy-hard>. (Accessed on 27 December, 2022)

61 Crossette, Barbara. 11 April, 1989. *Nepal's economy is gasping as India, a huge neighbor, squeezes it hard*. The New York Times. <https://www.nytimes.com/1989/04/11/world/nepal-s-economy-is-gasping-as-india-a-huge-neighbor-squeezes-it-hard.html>. (Accessed on 27 December, 2022)

62 The Kathmandu Post. 24 November, 2015. Exports. Imports dive due to unofficial trade embargo. <https://kathmandupost.com/money/2015/11/24/exports-imports-dive-due-to-unofficial-trade-embargo>. (Accessed on 5 January, 2023)

63 The Kathmandu Post. 22 November, 2015. *Over-reliance on India has hit economy hard*. <https://kathmandupost.com/money/2015/11/22/over-reliance-on-india-has-hit-economy-hard>. (Accessed on 5 January, 2023)

64 Ibid.

65 Ibid.

66 Ibid.

67 The Kathmandu Post. 29 October, 2015. Nepal inks historic oil agreement with China. <https://kathmandupost.com/miscellaneous/2015/10/29/nepal-inks-historic-oil-agreement-with-china>. (Accessed on 5 January, 2023)

trade diversification in the context of the 2015 border blockade propelled Nepal to further open up trade with China, and explore other avenues of connectivity. In the words of Akhilesh Upadhyay, a researcher and a senior journalist, “China reached the podium without having to run the race.”<sup>68</sup>

In March 2016, during his visit to China, then PM KP Sharma Oli signed the Transit Transport Agreement (TTA)<sup>69</sup> - in which China has agreed to provide seven transit points - four sea ports (which includes Tianjin/Xingang, Shenzhen, Liyanyungang, and Zhanjiang) and three land ports (Lanzhou, Lhasa, and Xigatse) to Nepal for its third country trade. China also agreed to provide permits to trucks and containers ferrying Nepal-bound cargo to and from Xigatse to Tibet. Likewise, Nepali traders were also allowed to use any mode of transport - roadways or railways to access sea ports as well as dry ports, alongside accessing Chinese territory from six border checkpoints in Nepal.<sup>70</sup>

While the need for trade diversification and to reduce trade overreliance on India was felt since long - the embargo provided an opportune moment for Nepal to open up further avenues of trade, and search for new connectivity ways to link up with China. Building upon the TTA of 2016, the Nepal-China BRI agreement further envisions establishing and extending connectivity routes between the two, apart from other provisions. Of the proposed nine projects under the BRI framework in Nepal, six are connectivity projects. This isn't to claim that, had there been no Indian trade embargo, the BRI agreement could have never materialized. However, the embargo made major political parties converge to the common point that Nepal had no options but to diversify its connectivity and trade. And in doing so, made the agreement process faster. While there always have been a tendency among Nepali policymakers to diversify Nepal's trade routes, it has not been possible in the past due to China's own limitations. Once China built up the necessary infrastructure that allowed container traffic to pass through the Himalaya, Nepal's diversification of trade was possible, and Nepal finally made the move in the background of the 2015 border blockade.

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68 Akhilesh Upadhyay in an interview for this research.

69 Bhattacharjee, Kallol & Haidar, Suhasini. 21 March, 2016. *Nepal seals agreement on transit rights through China*. Beijing. The Hindu. <https://www.thehindu.com/news/international/Nepal-inks-transit-treaty-with-China-to-have-first-rail-link/article60514476.ece>. (Accessed on 5 January, 2023)

70 Acharya, Pushpa Raj. 7 September, 2018. *Nepal to use Chinese sea, land ports*. The Himalayan Times. <https://thehimalayantimes.com/business/nepal-allowed-to-use-chinese-sea-land-ports>. (Accessed on 5 January, 2023)

### 3.1.3 Nepal's Geostrategic Signaling to India

Given the geographical reality and close historical ties with India, the trade with China can't be a replacement or alternative to trade with India for the foreseeable future. Difficult geographic terrain in the northern frontier of Nepal makes it incredibly tough to trade with China in large volumes. On the other side, Nepal has easy access to the Indian market, and enjoys irreplaceable people-to-people linguistic and cultural ties. Nepal opened up trade with China, and subsequently signed up for the BRI to diversify its trade and connectivity, but Nepal isn't seeking to replace India as its main trading partner. Some politicians, particularly the leftists, have framed BRI and trade routes connecting China as alternatives to Indian routes. However, in reality, opening up trading routes in the north is more of Nepal's strategic signaling to India.

Our consultative interviews with the key stakeholders also corroborate the same. The connectivity links, envisioned through both BRI and TTA, were to secure additional, and not alternative routes to Indian ones. Chinese routes can't operate in all seasons, and difficult geography adds even more to this. Nepal is linked with mainland China via the TAR which is known for its varied topography and mountainous ranges averaging more than 4,000 meters in elevation.<sup>71</sup> Indian routes, on the other hand, are operable in all seasons, and are reliable, shorter and cheaper. One of the ex-secretaries involved in BRI and TTA negotiations even claimed that "Chinese routes are envisioned to be used only as and when required - like in the case of Indian embargo."

Despite all challenges, trade routes and connectivity links with China, serve as a strategic signaling to India. Nepal's almost total trade reliance upon India is one factor which has enabled India to seek political and strategic concessions from Nepal. The mere existence of alternative trade routes to Indian ones would reduce India's undue influence and leverage over Nepal. And reduce odds of Indian embargos. To this end, it appears as if Nepal's move yielded some positive results. Opening up connectivity links and new avenues for trade with China was read by India as Nepal slipping away from India's sphere of influence.<sup>72</sup>

71 Batala, L., Regmi, K. & Sharma, G. 1 January, 2017. *Cross Border Co-operation through Tourism Promotion & Cultural Exchange: A case study along Nepal and China (T.A.R.) OBOR- Prospective*. Scientific Research. [https://www.scirp.org/\(S\(351jmbntv-nsjt1aadkpozje\)\)/journal/paperinformation.aspx?paperid=73058](https://www.scirp.org/(S(351jmbntv-nsjt1aadkpozje))/journal/paperinformation.aspx?paperid=73058). (Accessed on 22 December, 2023)

72 Mulmi, Amish Raj. 25 July, 2017. *Kathmandu's support for BRI, an old story of India Losing Ground in Nepal*. The wire. <https://thewire.in/diplomacy/india-china-nepal-obor-bri-doklam>. (Accessed on 6 January, 2023)

## 3.2 China's Interests for engaging Nepal in the BRI

### 3.2.1 Expansion of Influence in the neighborhood

In extending BRI to Nepal, China is guided by its own interests. As a rising superpower and a potential Asian hegemon, China is actively seeking to expand its influence in its periphery, and aims to do the same in the South Asian region which has historically been under the Indian influence. For China to be a regional hegemon, it is essential that influence and reach of China in South Asia is to be achieved first. Apart from strategic interest to extend its sphere of influence, enhanced connectivity and trade ties with South Asia is expected to in turn help China domestically in sustaining its economic growth, and in integrating Western China with the South Asian market, which has been underdeveloped and economically weak compared to the other regions of China.<sup>73</sup> In this context, China roped in Nepal which shares a 1,414 km long border with China's Tibet Autonomous Region (TAR) with a potential of being a land route of bridging China with South Asia.

### 3.2.2 Nepal as China's Gateway to South Asia

China has proposed Trans-Himalayan Multi-dimensional Connectivity Network (THMCN) to link China's TAR via roadways and railways through the Himalayas to Nepal and then via Nepal to India and other South Asian regions. Nepal fits into China's BRI within this grand connectivity ambition of China in South Asia. Once Nepal signed up to China-led BRI, Beijing not only readjusted Nepal's previous proposal of bridging the two economic giants but also identified Nepal as a strategic gateway to enter the South Asian market.<sup>74</sup> And in pursuance of this South Asian ambitions, Beijing has floated the idea of Nepal as a land linked nation, as opposed to landlocked one. This was pronounced with much priority during President Xi Jinping's visit to Kathmandu in 2019.<sup>75</sup> Nepal's connection to the Silk Road Economic Belt is widely perceived as the beginning of China's connectivity penetration to South Asia.<sup>76</sup>

China borders five South Asian countries - Nepal, India, Pakistan, Bhutan and Afghanistan. Although there are some routes already in operation and

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73 Pant, Harsh V & Saha, Premesha. 24 February, 2021. *Mapping the Belt and Road Initiative: Reach, Implications and consequences*. ORF. <https://www.orfonline.org/research/mapping-the-belt-and-road-initiative/>. (Accessed on 5 January, 2023)

74 Bhattarai, Gaurav. 8 September, 2021. *Nepal: Bridge or 'Burden' to China's South Asia Ambitions?* My Republica. <https://myrepublica.nagariknetwork.com/news/nepal-bridge-or-burden-to-china-s-south-asia-ambitions/>. (Accessed on 5 January, 2023)

75 Ibid.

76 Ibid.

a few in pipelines which connect China with the South Asian market - the route via Nepal is still in China's interest. This is because Bhutan which enjoys strategic partnership and defense ties with India isn't willing to be a passage for China. With India, China has had geopolitical tensions which gets episodically manifested in skirmishes at borders; and border tensions have been a constant in relationship between the two. China-Pakistan and China-Afghanistan border are topographically difficult, and their complicated relationship with India adds further issues. Among the 312 passages connecting China's TAR with South Asia, Nepal's Himalayan region offers 184 potential passages - a large majority of those could be used to set up connectivity links.<sup>77</sup> Nepal, thus, could become a strategic gateway for China to South Asia.

In the same light, the THMCN is proposed to enhance connectivity between the two countries through investments on ports, roads, railways, aviation and communication.<sup>78</sup> The connectivity network is also supposed to link China through Nepal with the China-Pakistan Economic Corridor (CPEC) and Central Asia for trade.<sup>79</sup> The Lanzhou-Kathmandu railway link is the most ambitious of all, and aims to connect Lanzhou, a capital city of Gansu province to Kathmandu via Xigatse and Gyirong, through a 185 km long railway from Gyirong.<sup>80</sup> China has already extended its railway network from Lhasa to Xigatze (Shigatse) a city just 253 km away from China's border with Nepal.<sup>81</sup> The proposed Lanzhou-Kathmandu South Asia Corridor would eventually connect China with the Bay of Bengal, which would then open ways for China to get connected with other South Asian countries. The corridor is also expected to connect Bangladesh, Myanmar, and the entire South East Asia with Western China. And it is also expected to facilitate China's "western-region oriented opening-up" and the "westward corridor development."<sup>82</sup>

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77 Bhattarai, Gaurav. 8 September, 2021. *Nepal: Bridge or 'Burden' to China's South Asia Ambitions?* My Republica. <https://myrepublica.nagariknetwork.com/>. (Accessed on 27 December, 2022)

78 Ministry of Foreign Affairs. 13 October, 2019. *Joint statement between Nepal and the People's Republic of China*. <https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>. (Accessed on 27 December, 2022)

79 Ying. 12 May, 2017. *Nepal, China sign bilateral cooperation agreement under the Belt and Road Initiative*. Xinhuanet. [http://www.xinhuanet.com/english/2017-05/12/c\\_136276949.htm](http://www.xinhuanet.com/english/2017-05/12/c_136276949.htm). (Accessed on 27 December, 2022).

80 Adhikari, Mukunda & Ma, Zhiguo. 2022. The Belt and Road Initiative as a Gateway to the sea for Land-locked countries: with reference to Nepal. *SAGE Journals*, 12(1), doi. [org/10.1177/21582440221087271](https://doi.org/10.1177/21582440221087271).

81 Pillalamarri, Akhilesh. 8 January, 2015. *Nepal: China's gateway to South Asia?* The Diplomat. <https://thediplomat.com/2015/01/nepal-chinas-gateway-to-south-asia/>. (Accessed on 27 December, 2022).

82 Ibid.

### 3.2.3 The Tibet Factor

China's BRI interests in Nepal are also attached with the TAR, its development, trade and security. The Tibet factor has been the mainstay of Nepal-China relations, and will remain so for the foreseeable future. With routes connecting Nepal and Tibet, Beijing aims to boost the region's development and address commercial gap with mainland China. Connectivity routes via Nepal could enable Tibet to meet growing demands of essential products, and enhance commercial activities. Regardless, mainland China isn't likely to shift from tight control over the region, and it is also unlikely that the mainland could allow better people-to-people connectivity of the borderland residents through BRI connectivity projects. Of late, movements of borderland residents were tightly controlled<sup>83</sup> which could be to ensure the state's firm grip in Tibet's security. The presence of as many as fifteen to twenty thousand Tibetan refugees<sup>84</sup> in Nepal is also of China's concern. Beijing is cautious to not let any activities regarding "Free Tibet Movement" gain traction in Nepal, and even in further undertakings of the BRI, the Tibet factor is bound to remain of utmost importance to China.

### 3.3 Chinese Push for Nepal-China BRI Agreement

China had been pushing Nepal to sign up for the BRI ever since its inception in the year 2013. China had employed its diplomatic channels, and had lobbied the top and even second-tier leaders of major political parties for years to bring Nepal into the board. China had increased proximity with the leftist political parties in Nepal with intensified high-level visits and political engagements.

In these high-level visits, and in other diplomatic engagements, China had persistently pushed for Nepal to sign up for the BRI. Nepal's joining the BRI was of strategic interest to China. Nepal, although being an immediate neighbor of China, has been in the Indian sphere of influence. Nepal's signing up for the BRI could signal China's growing influence and acceptance in its neighborhood. The Nepal-China BRI agreement was, in essence, a culmination of Chinese push coupled with Nepal's search for connectivity and trade diversification aftermath the unofficial trade embargo in Nepal's southern border points in 2015.

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83 Magar, JB Pun. 2019. *Nepali Land Where Nepalis are Forbidden to Move*. [Unpublished Manuscript]. CESIF Nepal.

84 Budhathoki, Arun & Dahal, Bindesh. 28 July, 2021. *Nepal's cautious approach to the Tibetan question*. The Diplomat. <https://thediplomat.com/2021/07/nepals-cautious-approach-to-the-tibetan-question/>. (Accessed on 5 January, 2023)

**High-level engagements between Nepal and China (2013 - 2017)**

<b>Date</b>	<b>Event</b>
April 2013	CPN (Maoist) chairman Pushpa Kamal Dahal (Prachanda) met Chinese President Xi Jinping in Beijing
October 2014	Deputy PM Bam Dev Gautam visited to China
December 2014	Chinese Foreign Minister Wang Yi visited Kathmandu
February 2016	Senior Chinese Communist Party official, Mr. Xiao Wunan visited Nepal.
March 2015	CPN (Maoist) chairman Prachanda embarked a five-day visit to Kunming, China on the invitation of the Chinese Communist Party.
March 2016	PM KP Sharma Oli visited China.
June 2016	Vice President, Nanda Bahadur Pun visited Kunming, Yunnan Province of the People's Republic of China.
August 2016	Special Envoy of PM Pushpa Kamal Dahal to China, Deputy PM Krishna Bahadur Mahara embarked a five-day official visit to China
October 2016	CPN (Maoist Center) leader Narayan Kaji Shrestha flew to China at the invitation of Communist Party of China.
February 2017	Nepali PM Pushpa Kamal Dahal reiterated that Nepal and China will carry out bilateral development cooperation projects under the framework of the BRI proposed by China. Dahal made such remarks when Chinese Ambassador to Nepal Yu Hong met the prime minister at his official residence.
March 2017	Nepali PM Pushpa Kamal Dahal 'Prachanda' visited China. Upon his return, Prachanda mentioned that Nepal will soon become part of BRI.
May 2017	Nepal and China signed the MoU on Cooperation under the BRI in Kathmandu. Foreign Secretary Mr. Shanker Das Bairagi and Ambassador of China to Nepal Ms. Yu Hong signed the MoU on behalf of their respective governments at the Ministry of Foreign Affairs.
July 2017	Vice President Mr. Nanda Bahadur Pun visited the People's Republic of China.

## CHAPTER IV

# Overview of Projects Proposed under BRI in Nepal

## 4.1 Connectivity Projects

In the past, the Himalayas and the difficult geographic terrain in the northern frontier of Nepal and the southern Tibet Autonomous Region (TAR) were natural barriers to connectivity links between the two countries. While it still remains so, technological and scientific advancements have opened up possibilities for modern connectivity projects in the Himalayan region. Thus, special emphasis has been on building connectivity projects across the Himalayas by both Nepal and China. The BRI, and the Trans Himalayan Multi-dimensional Connectivity Project under the framework of BRI were both envisioned to prioritize connectivity. Even while trimming down the projects under BRI from 35 to 9, important connectivity links adjoining Nepal and Tibet Region were nonetheless prioritized.

Below is a brief summary of each of the connectivity projects proposed by Nepal to be undertaken under the BRI:

### 4.1.1 Kathmandu-Kerung Railway

Kathmandu-Kerung Railway is labelled as the flagship BRI connectivity project. The 170 km railway would link Kerung in southern Tibet with Kathmandu and is intended to extend onward to Pokhara and Lumbini. The MoU was signed with the Chinese part for the collaboration on railway project in 21 June 2018 and another MoU was signed in 13 October 2019 for the feasibility study of the proposed project. Added, the agreement signed during Chinese president Xi's

visit to Nepal in September 2019 again explicitly included a clause on feasibility study for trans-boundary railway. This agreement also included two tunnels (to be built) that can connect Kathmandu to Kerung via Himalayas. No significant progress has happened since, given the covid-19 crisis and China's strict anti-covid measures. As of late, China has deployed a technical team for a detailed feasibility study of the transboundary railway since December 2022, with an estimate to complete the study within 42 months.<sup>85</sup>

#### 4.1.2 Upgradation of Rasuwagadhi-Kathmandu Road

The earthquake of 2015 severely damaged the Syaubari-Dhunche-Syaphru road section of the Pasang Lhamu Highway in Rasuwa. The 134 km from Kathmandu to Syaphru is the only road link to Rasuwagadhi connecting Nepal with the Chinese border town of Kerung.<sup>86</sup> The 34-kilometer highway along the Syaubari-Dhunche-Syaphru section had been damaged and filled with potholes every few metres. In 2019, China's Tibet Tinalu Company Limited announced plans to upgrade the road.<sup>87</sup> The 16 km length is planned to be upgraded to a two-lane, all-weather roadway by the company; however, the covid-19 outbreak quickly halted the update effort.<sup>88</sup>

On October 13, 2019, a MoU establishing China's assistance in constructing two portions of the road between Rasuwagadhi and Kathmandu was signed between Nepal and China. The MoU was signed by Nepal's Ministry of Finance (MoF) and the China International Development Cooperation Agency (CIDCA). In order to reduce the distance between Kathmandu and the Chinese border point at Kerung by half, China agreed to build tunnels at two points.<sup>89</sup> A 4 km tunnel

85 Shrestha, Prithvi Man. 14 December, 2023. Feasibility study of Nepal-China railway on track, department says. The Kathmandu Post. <https://kathmandupost.com/national/2023/12/14/feasibility-study-of-nepal-china-railway-on-track-department-says>. (Accessed on 25 December, 2023)

86 Ghimire, Balam. 18 December, 2019. *Syaubari-Dhunche-Syaphru section of Pasang Lhamu Highway in dilapidated condition*. The Kathmandu Post. <https://kathmandupost.com/province-no-3/2019/12/18/syaubari-dhunche-syaphru-section-of-pasang-lhamu-highway-in-dilapidated-condition>. (Accessed on 5 January, 2023)

87 Devkota, Himnath. 7 January, 2021. *Upgradation of Syafru- Rasuwagadhi road section to begin from April*. Rasuwa. My Republica. <https://myrepublica.nagariknetwork.com/news/upgradation-of-syafru-rasuwagadhi-road-section-to-begin-from-april/> (Accessed on 5 January, 2023)

88 Ghimire, Balam. 10 August, 2022. *Syaubari- Rasuwagadhi road upgrade work halted by pandemic yet to resume*. Rasuwa. The Kathmandu Post. <https://myrepublica.nagariknetwork.com/news/upgradation-of-syafru-rasuwagadhi-road-section-to-begin-from-april/>. (Accessed on 5 January, 2023)

89 Shrestha, Prithvi Man. 14 October, 2019. *Nepal, China sign MoU to develop 50- km road linking Kathmandu and Rasuwagadi*. The Kathmandu Post. <https://kathmandupost.com/national/2019/10/14/nepal-china-sign-mou-to-develop-50-km-road-linking-kathmandu-and-rasuwagadia-town-bordering-china>. (Accessed on 5 January, 2023)

section to connect Tokha in Kathmandu and Chhahare in Nuwakot, while a 17 to 24 km tunnel stretch will connect Betrawati to Syaphrubesi in the Rasuwa District.<sup>90</sup> During PM Prachanda's visit to China in September 2023, the two sides have agreed to accelerate the feasibility study of the tunnel project.

A feasibility study was set to be conducted before beginning the construction. In a joint statement following Xi's visit in 2019, Nepal and China decided to actively work together on the feasibility study for the development of tunnels starting from the Chinese border town of Jilong/Kerung to Kathmandu.<sup>91</sup> The road will then connect to another route that connects Rasuwagadhi to Galchhi in Dhading, in the Nuwakot region of Gongote.<sup>92</sup> Through Betrawati and Syaphrubesi, Rasuwagadhi would be connected to Gongote by a single route. This allows access to India at the Thori border point in Chitwan via the Galchi-Mugling-Bharatpur road segment.

#### **4.1.3 Kimathanka-Hile road**

The construction work of the Kimathanka-Hile Road has yet to start. The roadway aims to link the Chinese border point at Kimathanka in Sankhuwasabha district bordering TAR and Hile in Dhankhuta district at eastern Nepal. This highway is envisioned to connect Tibet to the southern plain bordering India.

#### **4.1.4 Dipayal to the South of China**

The Detailed Project Report of the road project from Dipayal to a Chinese port is yet to be prepared.<sup>93</sup> The proposed road network aims to link western Nepal with TAR of China.

#### **4.1.5 Tokha-Bidur Road**

A feasibility study of the Tokha-Bidur road, including the tunnel, is yet to be completed.<sup>94</sup>

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90 Ibid

91 Ministry of Foreign Affairs. 13 October, 2019. *Joint statement between Nepal and the People's Republic of China*. <https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>. (Accessed on 5 January, 2023)

92 Shrestha, Prithvi Man. 14 October, 2019. *Nepal, China sign MoU to develop 50- km road linking Kathmandu and Rasuwagadi*. The Kathmandu Post. <https://kathmandupost.com/national/2019/10/14/nepal-china-sign-mou-to-develop-50-km-road-linking-kathmandu-and-rasuwigadi-a-town-bordering-china>. (Accessed on 5 January, 2023)

93 Timalisina, Krishna. 1 June, 2022. *China's Policy: to occupy Nepal's major projects and keep them in limbo*. Khabarhub. <https://english.khabarhub.com/2022/01/255080/>. (Accessed on 5 January, 2023)

94 Ibid

#### 4.1.6 Galchhi-Rasuwadghi-Kerung 400kv transmission line

During former PM KP Sharma Oli's visit to China in 2018, an agreement was reached between State Grid Corporation of China and Nepal Electricity Authority (NEA) to form a joint technical study team to fix the terms for the development of a 400kv trans-Himalayan power line. The transmission line would pass through Rasuwagadhi and reach Kerung in the northern border. By 2019, officials were nowhere towards starting the necessary studies for the planned cross-border transmission line project.<sup>95</sup> In 2022, during State Councillor Wang Yi's visit, a Cooperation Agreement on the Feasibility Study of Nepal-China Power Grid Interconnection was signed.<sup>96</sup> The transmission line incorporated inside Nepal is 70 km long with 208 towers in the entire project. The transmission line is expected to cost around NPR 10 billion. Langtang National Park is to be traversed by the transmission line proposed from Ratmate in Nuwakot to Rasuwagadhi.<sup>97</sup>

However, during visit of Nepali PM Puspa Kamal Dahal to China in September 2023, the two countries agreed to build Jilong/Kerung-Rasuwadghi-Chilime 220 kV transmission line instead of earlier proposed 400kv transmission line. However, the funding and construction mechanism is yet to be decided. It also calls for a fresh detailed project report, feasibility study and environmental impact assessment which might take atleast 3-4 years to complete.<sup>98</sup>

These connectivity projects proposed under the framework of BRI would fit into the Trans-Himalayan Multi-dimensional Connectivity Network (THMCN) or Trans Himalayan Economic Corridor which is envisioned to connect Nepal to China via lucrative trade routes through land, railway, sea port and airway routes. That Nepal (particularly Kathmandu valley and its peripheries) had prospered as an economic corridor between Northern India and Tibet further reinforces Nepal's desire to serve as a trade route that links two of emerging economic superpowers. THMCN would "revive the Southern Silk Road (SSR) to connect the Tibetan Plateau to Nepal and extend it further to Bihar in

95 Rijal, Prahlad. 21 December, 2019. *Trans- Himalayan power line project remains on the drawing board*. The Kathmandu Post. <https://kathmandupost.com/money/2019/12/21/trans-himalayan-power-line-project-remains-on-the-drawing-board>. (Accessed on 5 January, 2023)

96 Ministry of Foreign Affairs. 26 March, 2022. *Press Release on Bilateral Talks between the Foreign Ministers of Nepal and China*. <https://mofa.gov.np/press-release-on-bilateral-talks-between-the-foreign-ministers-of-nepal-and-china/>. (Accessed on 5 January, 2023)

97 RSS. 27 March, 2022. *Agreement on construction of Ratmate- Kerung Transmission line*. Nepal News. <https://nepalnews.com/s/nation/agreement-on-construction-of-ratmate-kerung-transmission-line>. (Accessed on 5 January, 2023)

98 <https://kathmandupost.com/national/2023/09/27/building-nepal-china-power-line-will-take-time>

northern India and beyond by both road and rail, and even later on by energy grids.”<sup>99</sup> The idea is, however, not new. Even in 2005, the then King Gyanendra raised the idea of Nepal as a “transit economy” when he proposed this at the South Summit in Doha in 2005.<sup>100</sup> PM Prachanda had coined the concept of “trilateral strategic relations” involving India, Nepal and China in 2010 and had proposed to build connectivity networks that would enable three countries to deepen their economic ties and share prosperity.<sup>101</sup> It is also proposed by some that Nepal should link it with Uttarakhand and Sikkim to create the Great Himalayan Economic Corridor by extending the Bangladesh, China, India and Myanmar Economic Corridor (BCIM) to Bhutan and Nepal.<sup>102</sup>

## 4.2 Development Projects

With the promulgation of the constitution in 2015, the phase of decade-long political transition was over - and imaginations of development took over the nation. Almost all political parties adopted the rhetoric of development with utmost priority, framing big infrastructure projects, besides connectivity ones. Once China proposed to collaborate under the BRI framework through investments and assistance in development projects, Nepal saw this as an opportune moment. This is evident from the fact that in the trimmed down list of nine projects to China, two hydropower projects, and one university are proposed by Nepal. The proposed projects were Phukot Karnali Hydro Electric Project (426 MW), Tamor Hydroelectricity Project (762 MW), and Madan Bhandari Science and Technology University.

A brief overview of these projects:

### 4.2.1 Tamor Hydropower Project

The Tamor Hydropower Project was first proposed by Japan International Cooperation Agency (JICA) for construction in 1985 to generate 696 MW electricity.<sup>103</sup> In 2013, the Department of Electricity Development (DoED) granted Nepal Electricity Authority (NEA) a survey license to carry out

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99 Rana, Madhukar SJB. 10 February, 2017. *Trans- Himalayan economic corridor: Nepal as a gateway*. ORF. <https://www.orfonline.org/research/trans-himalayan-economic-corridor-nepal-as-a-gateway/>. (Accessed on 5 January, 2023)

100 Ibid.

101 Ibid.

102 Ibid.

103 IBN Dispatch. February, 2020. *MoU for Development of Tamor Storage Hydropower project signed*. <https://ibn.gov.np/wp-content/uploads/2020/04/IBN-Dispatch-42.pdf>. (Accessed on 5 January, 2023)

assessments for developing a 200 MW project in Tamor River. The later studies revealed that the project's capacity could be increased to 762 MW.<sup>104</sup>

In January 2020, an agreement was signed between the Investment Board Nepal (IBN) and a joint venture between the Nepalese Hydroelectricity Investment and Development Company Ltd (HIDCL) and the state-owned Power Construction Corporation of China (Power China) to conduct a detailed feasibility study of the proposed project and begin development of the reservoir hydropower project within the following two years.<sup>105</sup> The Tamor Hydropower Project was to be built with a 46:54 share structure, with the Nepali company contributing 46% and Power China investing 54% of the project cost, according to a project development plan that HIDCL and Power China jointly filed to the IBN earlier. However, the project witnessed no progress even after three years of the MoU. The IBN sent a letter on June 2023 to the Chinese contractor asking explanation for lack of progress as per the MoU, signaling its intention to cancel the contract. The HIDCL had already proposed IBN to cancel the agreement, given the difficulty to sell electricity in Indian market generated from the plants constructed by the Chinese contractors. Of late, Indian state-owned company Satlej Jal Vidhyut Nigam (SJVN) has expressed interest in Tamor Reservoir Hydropower Project and sought permission with the government for its development.<sup>106</sup>

#### 4.2.2 Madan Bhandari Science and Technology University

In 2018, the then sitting cabinet authorised Ministry of Education, Science and Technology to draft a bill to set up a new university to be named after a well-known communist leader, Madan Bhandari, focusing exclusively on Science and Technology.<sup>107</sup>

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104 Rai, Shahiman. 19 March, 2017. *NEA mulls building 762 MW project on Tamor River*. The Kathmandu Post. <https://kathmandupost.com/money/2017/03/19/nea-mulls-building-762mw-project-on-tamor-river>. (Accessed on 5 January, 2023)

105 Himalayan News Service. 20 January, 2020. *IBN, Power China ink pact to build 762- MW Tamor hydel*. The Himalayan Times. <https://thehimalayantimes.com/business/ibn-power-china-ink-pact-to-build-762-mw-tamor-hydel>. (Accessed on 5 January, 2023)

106 The Annapurna Express. 14 June, 2023. *Tamor Reservoir Project: IBN seeks explanation from Power China over delay in project*. <https://theannapurnaexpress.com/news/tamor-reservoir-project-ibn-seeks-explanation-from-power-china-over-delay-in-project-43796/> (Accessed on 12 November, 2023)

107 Ghimire, Binod. 26 October, 2018. *Go-ahead for Madan Bhandari University*. The Kathmandu Post. <https://kathmandupost.com/national/2018/10/26/go-ahead-for-madan-bhandari-university>. (Accessed on 5 January, 2023)

By 2019, the cabinet approved the directive to create a committee to lay the groundwork for the Madan Bhandari University to be established at Chitlang in the Makwanpur district.<sup>108</sup> As the project was proposed under the BRI, the government of Nepal anticipated support from China for both infrastructure construction and logistics.

During President Xi Jinping's visit in October 2019, Nepal presented the project proposal of the university asking for a grant of almost NPR 43 billion.<sup>109</sup> Since the Chinese felt that Chitlang would not be an appropriate location for the university, they urged the government to select another area inside the Valley.<sup>110</sup> The government of Nepal managed 11,000 *ropanis* of land on Namobuddha and Panchkhal, Kavrepalanchok, after considering the suggestion.<sup>111</sup> The land was handed to the University's Infrastructure Development Committee when the land acquisition process was completed.

The university's engineering branch is being built at Chitlang. An international bidding procedure was initiated to develop Detailed Project Report of the Panchkhal campus of the University.<sup>112</sup> Originally, the government had intended to build a technical university, however, the proposal indicates that it will instead be a general university.<sup>113</sup> President Bidhya Devi Bhandari authenticated the

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108 Ghimire, Binod. 13 February, 2019. *Government nod for tech university after prominent communist leader Madan Bhandari*. The Kathmandu Post. <https://kathmandupost.com/valley/2019/02/13/government-nod-for-tech-university>. (Accessed on 5 January, 2023)

109 Ghimire, Binod. 14 December, 2019. *Construction of the building for Madan Bhandari University starts before Parliament endorses its bill*. The Kathmandu Post. <https://kathmandupost.com/province-no-3/2019/12/14/construction-of-building-for-madan-bhandari-university-starts-before-parliament-endorses-its-bill>. (Accessed on 5 January, 2023).

110 Bista, Pratap. 2 October, 2019. *Field study conducted to establish Madan Bhandari University of Science and Technology in Chitlang*. Hetauda. The Kathmandu Post. <https://kathmandupost.com/province-no-3/2019/10/02/field-study-conducted-to-establish-madan-bhandari-university-of-science-and-technology-in-chitlang>. (Accessed on 5 January, 2023)

111 The Nepali Post. 6 November, 2022. *Madan Bhandari University has prepared for 'Master Plan'*. <https://thenepalipost.com/details/26645>. (Accessed on 5 January, 2023)

112 Rastriya Samachar Samiti. 20 July, 2021. *Global bidding called for DPR of Madan Bhandari University*. The Himalayan Times. <https://thehimalayantimes.com/nepal/global-bidding-called-for-dpr-of-madan-bhandari-university>. (Accessed on 5 January, 2023)

113 RSS. 12 February, 2020. *Lawmakers for renaming proposed Madan Bhandari University of Science and Technology*. My Republica. <https://myrepublica.nagariknetwork.com/news/lawmakers-for-renaming-proposed-madan-bhandari-university-of-science-and-technology/>. (Accessed on 5 January, 2023)

Madan Bhandari Science and Technology University bill on August 3, 2022.<sup>114</sup> Currently, the university is in developmental phase and was inaugurated in August 2023. Although the university is in developmental phase, the university is facing financial constraint since China showed reluctance for the assistance to the project.

### 4.2.3 Phukot-Karnali Hydropower (480 MW)

Phukot-Karnali Hydropower Project is estimated to generate 480 MW of electricity.<sup>115</sup> The project is located in the Sannitriveni Rural Municipality of Kalikot district in western Nepal, initially executed by Vidyut Utpadan Company Limited (VUCL), a company under the Nepal government with an estimated cost of USD 1 billion.<sup>116</sup> The Detailed Project Report (DPR) of the project was completed on 2022.<sup>117</sup> However, the source of funding for the project remained undecided for a long period.<sup>118</sup> As one of the projects proposed under the BRI, China was expected to fund the project. However, the Chinese side expressed little interest in constructing the Phukot Karnali Hydro Project.<sup>119</sup> Finally in June 2023, an MoU was signed between NHPC, an Indian government enterprise and VUCL for the development of Phukot-Karnali Hydropower Project.<sup>120</sup>

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114 Republica. 3 August, 2022. *Madan Bhandari Science and Technology University bill authenticated*. My Republica. <https://myrepublica.nagariknetwork.com/news/madan-bhandari-science-and-technology-university-bill-authenticated/>. (Accessed on 5 January, 2023)

115 Pandey, Tularam. 10 January, 2021. *Locals upbeat as work starts on Phukot- Karnali hydel project*. The Kathmandu Post. <https://kathmandupost.com/money/2021/01/10/locals-upbeat-as-work-starts-on-phukot-karnali-hydro-project>. (Accessed on 5 January, 2023)

116 Vidhyut Utpadan Company Limited. *Phukot Karnali PROR HEP*. <https://www.vucl.org/projects/phukot-karnali-pror-hep>. (Accessed on 5 January, 2023)

117 Bista, Lalit. 27 November, 2023. *Most projects on hold: Hydropower hub Karnali lacks*. My Republica. <https://myrepublica.nagariknetwork.com/news/most-projects-on-hold-energy-hub-karnali-lacks-energy/> (Accessed on 25 December, 2023)

118 Pandey, Tularam. 10 January, 2021. *Locals upbeat as work starts on Phukot- Karnali hydel project*. The Kathmandu Post. <https://kathmandupost.com/money/2021/01/10/locals-upbeat-as-work-starts-on-phukot-karnali-hydro-project#:~:text=Work%20has%20started%20on%20the,region%20marked%20by%20rugged%20mountains>. (Accessed on 5 January, 2023)

119 Timalisina, Krishna. 1 June, 2022. *China's Policy: to occupy Nepal's major projects and keep them in limbo*. Khabarhub. <https://english.khabarhub.com/2022/01/255080/>. (Accessed on 5 January, 2023)

120 MoFA. 2023. *Statement by Rt. Hon. Prime Minister Mr. Pushpa Kamal Dahal 'Prachanda' At the Joint Press Meet between the Prime Ministers of Nepal and India*. <https://mofa.gov.np/statement-by-the-rt-hon-prime-minister-at-the-joint-press-meet/> (Accessed on 8 December, 2023)

## CHAPTER V

# Free Trade Agreement and Policy Exchange in Nepal-China BRI MoU

## 5.1 Free Trade Agreement

Free Trade Area is a major agenda in the Belt and Road Initiative. As mentioned by President Xi Jinping, in his speech at the opening ceremony of first Belt and Road Forum for International Cooperation in 2017, the Free Trade Zones were to be an integral part of the BRI. President Xi stressed on “upholding the multilateral trading regime and advancing the building of free trade areas to promote liberalization and facilitation of trade.”<sup>121</sup> The intention of expanding Free Trade Areas (FTA) is also stated thoroughly in China’s 13<sup>th</sup> Five-Year Plan. It mentions ‘free trade area strategy’ to develop and maintain ‘high-standard free trade areas.’ The document also speaks about actively engaging in negotiations with nations and regions falling in the routes of BRI to establish free trade areas.

FTA is an agreement between two or more nations to eliminate or reduce tariff barriers on imports and exports. Beside eliminating and/or reducing tariff and non-tariff barriers in trade, such agreements may also include the component of trade in services, investment, standards, certifications and intellectual property rights, depending upon the level of integration among the participating economies. According to the General Agreement on Tariffs and Trade (GATT) provision, such arrangements should cover substantial trade and should be notified to the World Trade Organisation (WTO).

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121 Chinadaily.14 May, 2017. Full text of President Xi Jinping’s keynote speech. [https://www.chinadaily.com.cn/beltandroadinitiative/2017-05/14/content\\_29341195\\_4.htm](https://www.chinadaily.com.cn/beltandroadinitiative/2017-05/14/content_29341195_4.htm). (Accessed on 29 December, 2022)

In the MoU signed between Nepal and China for BRI, there is also a provision under Article II, wherein it states *“to conclude the joint feasibility study of China-Nepal Free Trade Agreement within 2017 and if viable, will start negotiations on the Free Trade Agreement (FTA) to further open up markets and expand two-way trade, with a view to achieving a win-win outcome.”*

Before entering into a full-fledged free trade, nations often initiate free trade provisions on early harvest or low hanging fruit items. All products to be traded would not be included in the zero-tariff line, but rather those products that contributed least to the imports and exports would first be traded under zero-tariff. Upon judging the viability of such an arrangement, the FTA would then be taken forward.

Nepal has been incurring an excessively high trade deficit with China over the past several years. As of late, trade between the two neighbors can be labeled as one-way, majorly due to Nepal’s low competitiveness to strive in the Chinese markets. The paltry volume of exports to China via Nepal is also obstructed due to several non-tariff barriers, and connectivity constraints posed by difficult geographical terrains.

### **5.1.1 FTA & its Consequences on Nepal’s Terms of Trade**

The Belt and Road MoU mention that ‘The two sides shall conclude the joint feasibility study of China-Nepal Free Trade Agreement within 2017...’ The joint feasibility study for the FTA has not been conducted yet, however, a Study Committee from the Chinese side was formed which conducted an economic analysis regarding the FTA with Nepal, as confirmed by two bureaucrats who were interviewed during the course of this study.<sup>122</sup> The Chinese provided an economic analysis using the Global Trade Analysis Program (GTAP) Modelling, concluding that Nepal will benefit by a 4.8% increase in GDP if it moves forward with the FTA. The analysis was provided to Nepal, and upon review, the Ministry of Industry, Commerce and Supplies (MoICS) decided to confirm the number by conducting an economic analysis themselves. MoICS then conducted an economic analysis predicting the outcome of the FTA with China, using the Computable General Equilibrium (CGE) modeling. The result showed a decline in Nepal’s GDP by 0.24% if Nepal is to move forward with the FTA. The said report was forwarded to China suggesting to discuss further, however, there has been no response from the Chinese counterpart as of yet.

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<sup>122</sup> The bureaucrats were among the negotiating team for the Ministry of Industries, Commerce and Supplies, for FTA and TTA under the BRI MoU.

China is an important trading partner of Nepal as it is Nepal's second largest import partner after India. However, export to China has been declining over the years; for the year 2021-22, the export to China slipped to the 12<sup>th</sup> position. In fact, Nepal has exported more to distant economies like Italy, France, Canada and Japan in comparison to its export to China, its neighboring country. The table below illustrates the trend of increasing trade deficit between the two.

### Nepal's Export to and Import from China (in million NPR)

Years	2017-18	2018-19	2019-20	2020-21	2021-22
Export	2,438	2,110	1,191	1,016	809
Import	159,987	205,519	181,920	233,923	264,784
Total	162,425	207,629	183,111	234,939	265,593
Share in export (%)	3	2	1.2	0.7	0.4
Share in import (%)	12	14	15	15	14

*Source: Department of Customs*

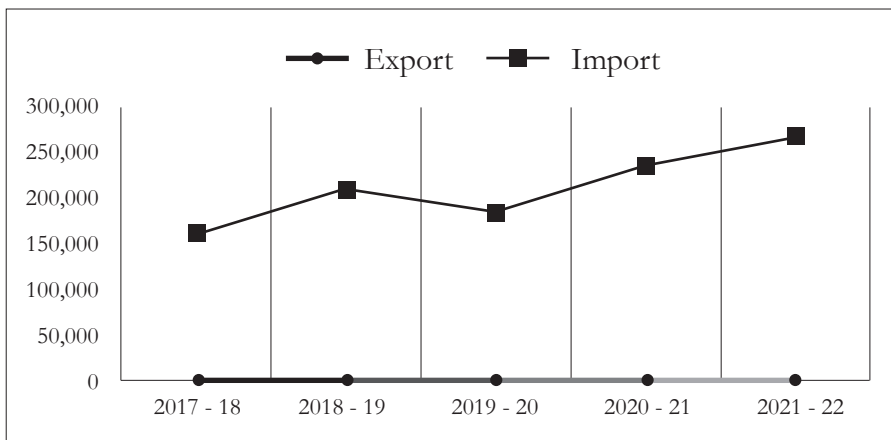
The major cause of such a high trade deficit with China is due to Nepal's lack of competitiveness for exportable products. There has been a low investment in the productive sector, particularly in manufacturing, which has resulted in a low volume of exportable surplus. FTA will propel to further opening of markets on both sides, which will invite galloping import from China and cause further displacement of domestic goods by the Chinese products. Similarly other bilateral agreements with China, such as Transit Transport Agreement (TTA), has also shown minimal to no effectiveness on ground. Therefore, if Nepal is to move forward with the FTA, it is likely to benefit little since Nepal's export is unlikely to increase. However, once the barrier to trade is eliminated, it will propel Nepal's imports to subsequently escalate, flooding the Nepali market with cheaper Chinese products and resulting in a decline in demand for Nepali products at home.

MoICS's report brought forth how the Chinese analysis largely contradicted with that of Nepal. While studying the impact with the FTA, Chinese version of study showed favorable effects on crops and grains, mining and extraction,

food processing, textile and garments, heavy manufacturing and transportation and communication, and other services, which in turn will lead to a positive effect on Nepal's exports. Nepali exports may rise to some extent due to decreased tariffs and access to cheaper raw materials imported from China, however, the manifold rise will also take place in the imports of Chinese goods, causing little benefit for Nepal.

The following diagram depicts the trend of bilateral trade flow between Nepal and China.

**Export to and Import from China (in million NPR)**



*Source: Department of Customs*

The figure above shows Nepal's import and export ratio with China over the years. As can be seen from the figure, exports have been significantly low compared to imports with China in all the years. In the years 2020 and 2021, particularly, exports have been negligible.

The paltry amount of goods that are exported to China mainly goes to the TAR while import mostly comes from the mainland. The exported products are few- leather, dried meat, medicinal herbs, handicraft, statue, carpets, and food items while imports comprise a variety of goods, ranging from electronic and electrical equipment, transport vehicle, industrial raw materials, shoes and garment, and consumer goods.

There seems to be no plausible reason for entering into a free trade agreement between Nepal and China as it is likely to aggravate the trade imbalance of Nepal in the wake of reduced tariff barriers for Chinese goods entering into the Nepalese market.

### **5.1.2 Nepal's Inability to Capitalize China's DFQF Access**

As part of its commitment to the World Trade Organization (WTO), China has already extended Duty-Free Quota-Free (DFQF) access for up to 97% of its tariff lines to products being imported from the LDC.<sup>123</sup> Under the two subsequent MoU, China has offered duty free tariff preferences to almost 8,000 product lines under six-digit Harmonized System (HS) Classifications for Nepal. However, Nepal has not been able to utilize them to the fullest due to the low supply capacity of exportable products at home, poor infrastructural development in the business ecosystem, and stringent Non-Tariff Barriers (NTB). Since China has extended DFQF to all other LDCs, Nepali products are less likely to compete with other cheaper and more competent products from other LDCs in the Chinese market.

Non-Tariff Barriers (NTB) are a bigger impediment in Nepal's international trade. Without dealing with the crux of it, it is difficult for Nepal to benefit from any trade deals with bilateral partners. Non-tariff barriers are major concerns affecting Nepal's export to China. Lack of harmonization of test and standards, truncated transportation linkages through land routes, border delays and language barriers are the main constraining factors for export to China. Out of the six border posts officially announced as the trade route between Nepal and TAR of China, only two (Tatopani and Rasuwagarhi) are connected by the road and border disruptions are common.

Nepal's Central Food Laboratory has five regional food laboratories and four food test laboratories in other parts of the country. Only the Central Food Laboratory in Kathmandu provides sophisticated and has international accreditation of some parameters of food test certifications. The regional and other field level branches provide inspection, test and certification services. But these laboratories need upgradation with the provision of adequate number of trained human resources, equipment and chemicals for carrying out reliable

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123 Koirala, Kosh Raj. 15 June, 2022. *China proposes Global Development Initiative to help LDCs through debt relief and development assistance*. My Republica. <https://myrepublica.nagariknetwork.com/news/china-proposes-global-development-initiative-to-help-lDCs-through-debt-relief-and-development-assistance/>. (Accessed on 5 January, 2023)

testing and certification services. It is also equally important to enhance mutual cooperation with the partnering countries for upgrading the existing facilities in order to achieve the mutual recognition of the test and certification services. Lack of laboratory tests and accreditation is a major impediment when it comes to trading internationally, which also applies to China.<sup>124</sup>

### 5.1.3 Lessons from China's FTA with Regional Neighbours

China has entered into FTA with 17 economic partners as of yet, they are namely: Association of Southeast Asian Nations (ASEAN), Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Maldives, Mauritius, Georgia, Korea, Australia, Cambodia, Hong Kong, and Macao. While with Pakistan, the FTA is still existing and functioning, Maldives on the other hand has stalled the FTA implementation with China citing various issues of concerns.

China and Pakistan entered into a free trade agreement in 2006. Pakistan was granted zero tariffs on 6,418 items and China was granted concessions on 5,686 products. Pakistan ended up utilizing 5% of the concessions during 2006 to 2016, while China used 59% of the given tariff lines.<sup>125</sup> While Pakistan's trade reliance on China increased over the years, China's trade reliance on Pakistan remained minimal. In 2016, Pakistan's export to China out of the total was 7.7% while the share of imports to Pakistan from China was 29% of the total imports.<sup>126</sup>

In 2019, Maldives decided to stall the implementation of FTA with China. The then new government deemed the FTA with China signed during the tenure of former President Abdulla Yameen in 2017 would further deteriorate the trade imbalances as Maldives is heavily depended on China for imports, and exports to China is negligible. Mohamed Nasheed, the chief of the Maldivian Democratic Party said, that the trade imbalance between China and the Maldives is so huge that an FTA between such parties couldn't be even thought of. It has

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124 SASEC & ADB. May, 2019. *Potential Exports and Nontariff Barriers to Trade Nepal National study*. <https://www.adb.org/sites/default/files/publication/507016/nepal-exports-nontariff-barriers-trade-study.pdf>. (Accessed on 5 January, 2023)

125 Chaudhry, T., Jamil, N., & Chaudhry, A. September 2017. *Pakistan's experience with the Pakistan-China FTA: Lessons for CPEC*. The Lahore Journal of Economics. <https://lahoreschoolofeconomics.edu.pk/EconomicsJournal/Journals/Volume%2022/Issue%20SP/01%20Chaudhry.pdf>. (Accessed on 26 December, 2022)

126 Shah, Syed H., Kamal, Muhammad A. & Yu, Da L. 2020. Did China- Pakistan free trade agreement promote trade and development in Pakistan? *International Journal of Finance and Economics*, 27 (3), 3459-3474, <https://doi.org/10.1002/ijfe.2331>

now become a one-way treaty.<sup>127</sup> As of 2023, FTA has neither been scrapped nor been implemented in Maldives. It is being put on hold.<sup>128</sup>

There seems to be a broad consensus among Nepal's political leadership that the FTA isn't in Nepal's interests. The former Foreign Minister Prakash Sharan Mahat who was intricately involved in signing of the BRI MoU revealed that the provision of feasibility study for FTA was pushed by China while arguing that Nepal shouldn't sign up for it as the provision isn't in Nepal's interest.<sup>129</sup> Likewise, another former Minister Pradeep K. Gyawali too reiterated that Nepal would sign up for the FTA, if and only if Nepal could benefit out of it. Qualifying his statement, he added that since it isn't possible for Nepal to benefit out of an FTA with China in the foreseeable future, Nepal wouldn't do so.<sup>130</sup>

## 5.2 Policy Exchange

Nepal has seen an increase in Chinese influence in both political and bureaucratic levels in the past years. The implementation of the BRI in Nepal may signify China's increased presence in Nepal's economy and politics. With the signing of the MoU of BRI, Nepal also agreed to a provision of Policy Exchange cited under *Article II: Areas of Cooperation, I. Policy Exchanges*, wherein it states, 'Carry out dialogues and exchanges in areas of major development strategies, plans, and policies.' There is considerable ambiguity regarding what carrying out exchanges in areas of major development strategies, plans and policies actually entails. Given the authoritarian nature of governance in China, such an arrangement may mean intrusive politics and bureaucracy in Nepal.

As mentioned by multiple key informants involved in BRI negotiation, China had initially sent the draft of BRI MoU with the provision of 'Policy Harmonization' in place of 'Policy Exchange.' Nepal remained skeptical on this ambiguous provision and upon negotiation with the Chinese by erstwhile Nepali counterpart, the term was subsequently altered to Policy Exchange.

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127 Miglani, Sanjeev & Junayd, Mohamed. 19 November, 2018. *Exclusive: Maldives set to pull out of China free trade deal, says senior lawmaker*. Reuters. <https://www.reuters.com/article/us-maldives-politics-china-exclusive-idUSKCN1NO0ZC>. (Accessed on 27 December, 2022)

128 Maldives Financial Review. 3 February, 2022. *The Belt and Road and the Maldives' position on the globe*. <https://mfr.mv/international-sector/the-belt-and-road-and-the-maldives-position-on-the-globe>. (Accessed on 27 December, 2022)

129 Prakash Sharan Mahat in an event "International Seminar on Geopolitics and BRI in South Asia" organized by CESIF Nepal in December 2022.

130 Pradeep K. Gyawali in an event "International Seminar on Geopolitics and BRI in South Asia" organized by CESIF Nepal in December 2022.

However, there is no consensus on Nepal's part on the interpretation of this provision and what it actually entails.

While addressing his visit to Nepal in October 2019, Xi Jinping highlighted the need to 'maintain high-level exchanges, enhance political mutual trust, and continue to render mutual support on issues concerning each other's core interests.' He further added, to '... have more exchanges and experience sharing on governance and development to deliver greater benefits to our two peoples.'<sup>131</sup> Xi's mention of 'experience sharing on governance' coincides with provision of policy Exchange underlined in the MoU together with China's consistent efforts to build friendly ties with the communist parties of Nepal. With 'high-level exchanges and enhanced political mutual trust,' China is trying to bring Nepal to its sphere of influence.

In the past years, China has conducted several affairs in regards to 'high-level exchanges' as well as 'experience sharing on governance' that can be brought under the light of policy exchange. A prominent one is a two-day symposium on Xi Jinping Thoughts conducted during the reign of the Communist government in 2019 in Nepal. The symposium brought a 50-member team consisting of officials from the CPC who imparted training on 'Xi's Thought' to around 200 Nepal Communist Party (NCP) leaders.<sup>132,133</sup>

Then again in June 2020, Nepal and China's ruling communist parties held a virtual workshop to share experience on running the party and government. Leaders from all seven provinces joined the workshop together with CPC's leaders from the TAR.<sup>134</sup> China's consistent need to build friendly ties with the left parties of Nepal further emphasizes its determination to export its

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131 Xinhua. 11 October, 2019. *Full text of Xi's signed article on Nepali newspapers*. China Daily. <https://www.chinadaily.com.cn/a/201910/11/WS5da026bba310cf3e3556ff60.html>. (Accessed on 27<sup>th</sup> December, 2022)

132 Pradhan, Tika R. 25 September, 2019. *Nepal Communist Party and the Communist Party of China formalize relations*. The Kathmandu Post. <https://kathmandupost.com/1/2019/09/25/nepal-communist-party-and-the-communist-party-of-china-formalise-relations>. (Accessed on 28 December, 2022)

133 IANS. 26 September, 2019. *Nepal's Ruling Communist Party organizes training program on 'Xi Jinping Thought' with 50 instructors from China*. Swarajya. <https://swarajyamag.com/insta/nepals-ruling-communist-party-organises-training-program-on-xi-jinping-thought-with-50-instructors-from-china>. (Accessed on 28 December, 2022)

134 The Kathmandu Post. 19 June, 2020. *Nepal Communist Party holding a virtual workshop with Chinese Communist Party*. <https://kathmandupost.com/politics/2020/06/19/nepal-communist-party-holding-a-virtual-workshop-with-chinese-communist-party>. (Accessed on 28 December, 2022)

ideology<sup>135</sup> with the intention of flexing economic and political muscle in Nepal. The doctrine, officially known as ‘Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era,’ is also laid out in the party and state documents. It is perceived as Xi’s vision for contemporary China, outlining the course for the upcoming 30 years. ‘Xi’s Thought’ continues to be omnipresent in schools, newspapers, television, and mobile apps. There’s even a game show on it<sup>136</sup>.

In the last 15 years, the number of scholarships and training programs for Nepali civil servants, political leaders, journalists, and public provided by China has increased exponentially. In 2004, Beijing offered just 20 seats under the Chinese Government Scholarship Programme, while for the academic year 2019-20 alone, 850 training programs and scholarships for Nepali civil servants were approved.<sup>137</sup> Furthermore, in March 2016, during PM K.P. Sharma Oli’s visit to China, China pledged approximately 400 training opportunities in human resource development and an increase in government scholarships for Nepali citizens.<sup>138</sup> Through Confucius Institute, established at Kathmandu University in 2017 and expanded to Tribhuvan University in 2022, China has been imparting cultural and linguistic exchange activities to over 20,000 students to date.<sup>139,140</sup> Through the Confucius Institute, scholarships and training programs for civil servants and others, China has been growing its soft power. Civil servants and students experiencing Chinese culture and engaging in people-to-people exchanges largely help to build a pro-China opinion.<sup>141</sup> With the implementation of BRI, Nepal will witness more exchanges with China.

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135 Kaphle, Anup. 24 September, 2019. *A blueprint for consolidating power: China exports Xi Jinping thought to Nepal*. The Kathmandu Post. <https://kathmandupost.com/2/2019/09/24/a-blueprint-for-consolidating-power-china-exports-xi-jinping-thought-to-nepal>. (Accessed on 28 December, 2022)

136 Huang, Echo. 3 October, 2018. *A new Chinese game show is promoting the Communist Party’s agenda*. QUARTZ. <https://qz.com/1409974/what-is-xi-jinping-thought-a-chinese-game-show-is-promoting-the-partys-agenda>. (Accessed on 28 December, 2022)

137 Giri, Anil. 25 June, 2019. *China offers a record number of training programmes and scholarships to Nepali civil servants*. The Kathmandu Post. <https://kathmandupost.com/politics/2019/06/25/china-offers-a-record-number-of-training-programmes-and-scholarships-to-nepali-civil-servants>. (Accessed on 28 December, 2022)

138 Rana, Sahitya Ratna. 13 July, 2021. *Dragon’s soft power through higher education in Nepal*. FINS. <https://finsindia.org/dragons-soft-power-through-higher-education-in-nepal/>. (Accessed on 28 December, 2022)

139 Ibid.

140 Huaxia. 16 August, 2022. *2<sup>nd</sup> Confucius Institute inaugurated in Nepal*. <https://english.news.cn/20220816/5218e495d7d143009c0f4c29cb93ba8a/c.html>. (Accessed on 28 December, 2022)

141 Rana, Sahitya Ratna. 13 July, 2021. *Dragon’s soft power through higher education in Nepal*. FINS. <https://finsindia.org/dragons-soft-power-through-higher-education-in-nepal/>. (Accessed on 28 December, 2022)

## CHAPTER VI

## Geopolitics of BRI

The BRI is the central component of Xi's 'major country diplomacy'- a foreign policy doctrine which has replaced Deng Xiaoping's 24-character-dictum, "hide our strength, bide our time" - and calls for China to "assume a greater leadership role for global affairs in accordance with its rising power and status."<sup>142</sup> China has portrayed BRI as merely an initiative that would create a win-win scenario for all participant nations and the initiative isn't guided by any strategic motives.<sup>143,144</sup> However, the US-led west views BRI as China's strategy under the guise of four main components- connectivity, unimpeded trade, policy coordination and financial integration, to extend its sphere of influence starting from its immediate neighborhood to far beyond. BRI aims to create a China-centric economic ecosystem under its own leadership through those four components. When seen from this perspective, BRI is an initiative with an ulterior strategic motive and is instrumental in reshaping and redefining the current world order which largely operates within the framework of the Washington consensus.

BRI's strategic implications can be analyzed from three different angles. First, BRI is envisioned with geopolitical goals to break perceived US's "encirclement"

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142 Smith, S. N. 2021. China's "Major country diplomacy": Legitimation and foreign policy change. *Foreign Policy Analysis*, 17(2), orab002. <https://academic.oup.com/fpa/article-abstract/17/2/orab002/6139347>. (Accessed on 12 November, 2022)

143 Ding Gang. 22 January, 2020. *Why isn't the BRI a strategy of China?* Global Times. <https://www.globaltimes.cn/content/1177706.shtml>. (Accessed on 26 December, 2022)

144 Shahi, Dipesh. 21 April, 2022. *Warned by MCC hullabaloo in Nepal, China clarifies BRI isn't a geopolitical strategy*. Online Khabar. <https://english.onlinekhabar.com/china-bri-no-geopolitical-strategy.html>. (Accessed on 26 December, 2022)

in the Asia-Pacific and contain the rise of the US.<sup>145,146</sup> Second, geopolitical implications of the initiative as secondary one while viewing BRI as purely an initiative envisioned with a primary goal of redressing economic imbalances between its coastal and interior provinces and to find outlets for its excess production capacity.<sup>147</sup> Further, BRI can be viewed as an initiative to augment its growing economic and strategic influence with a soft power narrative that presents China as an alternative order to the global hegemony of the US.<sup>148,149</sup> China's strategic motive attached to the BRI can also be viewed from Halford Mackinder's heartland theory which predicted that a challenger from Eurasian heartland would threaten the hegemony of the west and would have potentiality to control the world. While Mackinder had argued that it would be Russia which could benefit from its geographic position, scholars now have also viewed the BRI as the Chinese initiative guided partly in its motive to further integrate with Eurasia and Africa and, in doing so, exercise greater influence over the region.<sup>150</sup>

Despite China's denial of the strategic motive to extend its sphere of influence, the BRI carries geopolitical and strategic implications for the rest of the world. Like any powerful nation-state, China seeks to advance strategic interests through its regional and global endeavors. This is even more true in the case of the BRI which is essentially the largest connectivity and infrastructure projects in history alongside provisions for unimpeded trade, financial integration

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145 Tellis, Ashley J. 25 April, 2017. *Protecting American Primacy in the Indo-Pacific*. Carnegie Endowment for International Peace. <https://carnegieendowment.org/2017/04/25/protecting-american-primacy-in-indo-pacific-pub-68754>. (Accessed on 29 December, 2022)

146 Prasad, Jayant. September, 2015. *One Belt and Many Roads: China's Initiative and India's Response*. Delhi Policy Group. [http://www.delhipolicygroup.com/uploads/publication\\_file/1093\\_OBOR\\_Prasad.pdf](http://www.delhipolicygroup.com/uploads/publication_file/1093_OBOR_Prasad.pdf). (Accessed on 28 December, 2022)

147 Cai, Peter. 22 March, 2017. *Understanding China's Belt and Road Initiative*. Lowy Institute. <https://www.lowyinstitute.org/publications/understanding-china-s-belt-road-initiative>. (Accessed on 26 December, 2022)

148 Fukuyama, Francis. January 4, 2016. *One Belt, One Road: Exporting the Chinese Model to Eurasia*. The Australian. [https://www.theaustralian.com.au/subscribe/news/1/?sourceCode=TAWEB\\_WRE170\\_a&dest=https%3A%2F%2Fwww.theaustralian.com.au%2Fnews%2Fworld%2Fone-belt-one-road-exporting-the-chinese-model-to-eurasia%2F-news-story%2F269016e0dd63ccca4da306b5869b9e1c&memtype=anonymous&mode=premium&v21=dynamic-groupb-test-noscore&V21spcbehaviour=append](https://www.theaustralian.com.au/subscribe/news/1/?sourceCode=TAWEB_WRE170_a&dest=https%3A%2F%2Fwww.theaustralian.com.au%2Fnews%2Fworld%2Fone-belt-one-road-exporting-the-chinese-model-to-eurasia%2F-news-story%2F269016e0dd63ccca4da306b5869b9e1c&memtype=anonymous&mode=premium&v21=dynamic-groupb-test-noscore&V21spcbehaviour=append). (Accessed on 29 December, 2022)

149 Shambaugh, David. August, 2015. *China's Soft-Power Push: The Search for Respect*. Council on Foreign Relations. <https://www.jstor.org/stable/24483821?type=AccessWorkflow=login>. (Accessed on 29 December, 2022)

150 Harper, Tom. 14 October, 2019. *China's Eurasia: the Belt and Road Initiative and the creation of a New Eurasian Power*. BRILL. [https://brill.com/view/journals/cjgg/5/2/article-p99\\_1.xml?language=en](https://brill.com/view/journals/cjgg/5/2/article-p99_1.xml?language=en). (Accessed on 26 December, 2022)

and policy coordination. All these would facilitate China in creating a global economic framework to rival the Washington Consensus - and ultimately realize its hegemonic ambitions. To the same end, in 2022, China has launched other initiatives - namely Global Security Initiative (GSI) to establish and deepen strategic and security partnership with other nations, Global Development Initiative (GDI) with the main goal of helping poor countries alleviate poverty, and Global Civilization Initiative (GCI) in 2023 aimed to foster cultural exchanges and uphold inclusiveness among civilizations. While some view these initiatives as complementary to the BRI in China's attempt to extend its sphere of influence, others have viewed these initiatives as possible alternatives to the BRI. Nepal hasn't joined China's GSI and GCI but, in September 2022, despite government suggestions to not participate in the GSI event, President Bidya Devi Bhandari sent a recorded message to be aired.<sup>151</sup>

## 6.1 The US's Opposition and its Implications for Nepal

Ever since its inception, the US-led West has viewed the BRI as China's initiative with an ulterior strategic motive of extending its sphere of influence.<sup>152,153,154</sup> The unprecedented rise of China in the last few decades has challenged the US's reign as the sole hegemon, and the US now perceives China as its primary adversary.<sup>155</sup> There has been a significant shift in China's conduct of foreign affairs in its immediate neighborhood and beyond. The Trump administration had approached with a containment policy of China which is continued by the succeeding Biden administration. Recently built-up alliances between the

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151 Giri, Anil. 22 September, 2022. *President's message aired at China's GSI event despite government's reservations*. The Kathmandu Post. <https://kathmandupost.com/national/2022/09/22/president-s-message-aired-at-china-s-gsi-event-despite-government-s-reservations>. (Accessed on 5 January, 2023)

152 Monyae, David. 9 August 2022. *US secretary of State Antony Blinken blind to China's positive influence in Africa*. IOL. <https://www.iol.co.za/opinion/us-secretary-of-state-antony-blinken-blind-to-chinas-positive-influence-in-africa-cda142df-31fa-45e4-9d70-65136919d9ea>. (Accessed on 26 December, 2022)

153 PTI. 7 May, 2019. *China using BRI to achieve its national security objectives: Mike Pompeo*. The Indian Express. <https://indianexpress.com/article/world/china-using-bri-to-achieve-its-national-security-objectives-mike-pompeo-5715150/>. (Accessed on 26 December, 2022)

154 Chaudhuri, Pramit Pal. 2017. *Why India sees China's Belt Road as a geopolitical threat*. Rhodium Group. <https://rhg.com/research/india-sees-chinas-belt-road-geopolitical-threat/>. (Accessed on 26 December, 2022)

155 Lopez, C. Todd. 27 October, 2022. *DOD releases National Defense strategy, missile defense, Nuclear Posture Reviews*. U.S. Department of Defense. <https://www.defense.gov/News/News-Stories/Article/Article/3202438/dod-releases-national-defense-strategy-missile-defense-nuclear-posture-reviews/#:~:text=The%202022%20National%20Defense%20Strategy,and%20partners%20on%20shared%20objectives>. (Accessed on 5 January, 2023)

like-minded democracies with similar strategic interests in dealing with China including Quadrilateral Security Dialogue, commonly referred to as QUAD; a trilateral security pact signed between the US, the UK and Australia (AUKUS) are testament to the containment policy of the US. The US has approached with its “Indo-Pacific Strategy (IPS)” in the region to counter China’s growing influence. In essence, the US-China relationship has undergone a paradigm shift over the years which is now characterized by the great power rivalry.

In this context, an initiative that has incorporated one hundred and fifty nations, that spans across South Asia, Central Asia, Europe and Africa - and has connectivity routes and infrastructure projects which would essentially change world’s trade and connectivity landscape has become a major irritant to the US. China’s BRI poses challenges to the US-led west on different accounts. BRI could further enable China to grow economically, expanding its trade in Asia, Europe and Africa. With a growing economy, and accelerated trade ties, China could extend its sphere of influence even to the democratic west and Africa. In Asia, China might even elevate itself as an Asian hegemon.

In response to the BRI, the US-led west has also launched similar infrastructure and investment initiatives- the major one being Build Back Better World (B3W) undertaken by the Group of Seven (G7) countries in a joint effort. Launched in 2021, initiative complies with the standard promoted by the Blue Dot Network, a co-opted collaboration that aims to build a global infrastructure network through lending-based financing to build roads, bridges, airports, ports, and power plants from Latin America and Caribbean to Africa and the Indo Pacific. In doing so, B3W seeks to build USD 40 trillion worth of infrastructure particularly in low- and middle-income countries by 2035.<sup>156</sup> Through investment in infrastructure, health, education, climate among middle- and low-income countries, the US-led west has attempted to rival BRI projects and contain its geopolitical influence. Similarly, in May 2022, US President Joe Biden unveiled Indo-Pacific Economic Framework (IPEF) together with fourteen countries with an open invitation for other countries to join and claimed that this initiative was for “writing the new rules for 21<sup>st</sup> century economy”. Similarly, the Commerce Secretary Gina Raimondo stated that the framework constituted “the most significant economic engagement that the US has ever had in the

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156 The white house. 12 June, 2021. *Fact Sheet: President Biden and G7 leaders launch build back better world (B3w) partnership*. <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership/>. (Accessed on 26 December, 2022)

region (Indo-Pacific).<sup>157</sup> The G7 countries have also launched Partnership for Global Infrastructure Investment (PGII)<sup>158</sup> in June 2022, in response to the BRI.<sup>159</sup> It aims to fund infrastructure projects in developing countries with a pledge of investing USD 600 billion in partnership with private sectors over the period of next five years.<sup>160</sup> The BRI has now become a focus of the China-US strategic competition, and is bound to remain so for the foreseeable future.<sup>161</sup>

After Nepal signed the BRI MoU with China, a few months later in September 2017, Nepal signed a USD 500 million infrastructure grant pact with US Government's Millennium Challenge Corporation (MCC).<sup>162</sup> On the part of Nepal, accepting this grant immediately after signing the BRI agreement with China was perceived as an attempt to maintain amicable relationships between two rival superpowers, although the move wasn't intended for the same. China crossed all diplomatic lines in lobbying with political leaders of Nepal to not undertake its parliamentary ratification while labeling the pact as "Pandora's Box". China went on to lengths to criticize the US's pressure to ratify the pact from the parliament stating- "gifts don't come with warnings."<sup>163</sup> The MCC compact however gathered much public scrutiny and became a topic of great controversy in Nepal. The US had taken intense diplomatic efforts in pushing Nepal to accept the compact.<sup>164</sup> China viewed parliamentary ratification of the

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157 Baker, Peter & Kanno-Youngs, Zolan. 23 May, 2022. Biden to begin new Asia-Pacific Economic Bloc with a Dozen Allies. The New York Times. <https://www.nytimes.com/2022/05/23/world/asia/biden-asian-pacific-bloc.html#:~:text=In%20addition%20to%20the%20United,%2C%20Singapore%2C%20Thailand%20and%20Vietnam.> (Accessed on 24 May, 2022)

158 Monyae, David. 9 August, 2022. *US secretary of state Antony Blinken blind to China's positive influence in Africa*. IOL. <https://www.iol.co.za/opinion/us-secretary-of-state-antony-blinken-blind-to-chinas-positive-influence-in-africa-cda142df-31fa-45e4-9d70-65136919d9ea>. (Accessed on 26 December, 2022).

159 Tan, Su-Lin. 28 June, 2022. *G-7's infrastructure plan offers an alternative to China's Belt and Road initiative in a 'deliberate way'*. CNBC. <https://www.cnbc.com/2022/06/28/new-g-7-infrastructure-plan-offers-alternative-to-china-belt-road-.html>. (Accessed on 26 December, 2022)

160 Keith, Tamara. 26 June, 2022. *Biden announced a \$600 billion global infrastructure program to counter China's clout*. NPR. <https://www.npr.org/2022/06/26/1107701371/biden-announced-a-600-billion-global-infrastructure-program-to-counter-chinas-cl>. (Accessed on 2 July, 2022)

161 Zhao, Minghao. 9 November, 2021. *The belt and road initiative and China-US strategic competition*. National Library of Medicine. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8576310/#CR2>. (Accessed on 26 December, 2022)

162 Millennium Challenge Corporation. *Nepal Compact*. <https://www.mcc.gov/where-we-work/program/nepal-compact>. (Accessed on 26 December, 2022)

163 Giri, Anil. 24 February, 2022. *Why a deadline if it's a 'gift'? China taunts at US over MCC*. The Kathmandu Post. <https://kathmandupost.com/national/2022/02/24/why-a-deadline-if-it-s-a-gift-china-taunts-at-us-over-mcc>. (Accessed on 26 December, 2022)

164 Giri, Anil. 10 February, 2022. *Top American official says US will review Nepal ties if MCC compact is not ratified*. The Kathmandu Post. <https://kathmandupost.com/national/2022/02/10/top-american-official-says-us-will-review-nepal-ties-if-mcc-compact-is-not-ratified>. (Accessed on 26 December, 2022)

pact as Nepal slipping away from its sphere of influence and then has been making continuous attempts to restore its lost influence in Kathmandu.<sup>165</sup> Further, In May 2022, Nepal and the US signed a USD 659 million development assistance agreement through the US Agency for International Development.<sup>166</sup>

Both the US and China are expected to further escalate their engagements in Nepal in coming days, entangling Nepal more into the geopolitical rivalry. If and when the projects under the BRI agreement were to materialize, and provisions under it implemented, it could then be further difficult for Nepal to tread the thin line of geopolitical balance. The engagement of the US and China in Nepal should be managed carefully under the framework of International Development Cooperation Policy, 2019. As such, investment cooperation from both the countries should be utilized for economic development and social wellbeing of the people, avoiding any terms and conditions that contravenes with the principles of non-aligned foreign policy.

## 6.2 India's Opposition and its Implications for Nepal

Not just the United States but India too has remained firmly opposed to the BRI being a regional rival of China.<sup>167</sup> China and India have had difficult relationships throughout despite having intricate economic, financial and trade ties. Like the US, India too views BRI from a geopolitical lens and its opposition to the initiative was evident right from the start.<sup>168</sup> Such was India's opposition to the BRI Forum that it had urged all scholars to get prior permissions before attending the first Belt and Road Forum for International Cooperation.<sup>169</sup> The official position of India remains that India is opposed to the BRI since BRI projects are undertaken in Indian territory that is illegally held by Pakistan.<sup>170</sup> However, there is no doubt India's opposition to the BRI stems from the fact

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165 Dahal, Sourav. 15 July, 2022. China Pushes for Communist Coalition in the Upcoming Elections. CESIF. <http://cesifnepal.org/detail/China-Pushes-for-Communist-Coalition-in-the-Upcoming-Elections>. (Accessed on 26 December, 2022)

166 The Kathmandu Post. 5 May, 2022. Nepal and the US sign \$659 million development assistance agreement. <https://kathmandupost.com/national/2022/05/05/nepal-and-us-sign-659-million-development-assistance-agreement>. (Accessed on 26th December, 2022)

167 Pant, Harsh V. & Passi, Ritika. 2017. *India's Response to China's Belt and Road Initiative*. National Bureau of Research. <https://www.jstor.org/stable/26403206?typeAccessWorkflow=login>. (Accessed 14 December, 2022)

168 Ibid.

169 Baruah, Darshana M. 15 May, 2017. *Nepal joined the Belt and Road. What does that mean for India?* The Diplomat. <https://thediplomat.com/2017/05/nepal-joined-the-belt-and-road-what-does-that-mean-for-india/>. (Accessed on 5 January, 2023)

170 The Indian Express. 2 November, 2022. *On China's Belt and Road, how Jaishankar reiterated India's longstanding, consistent position*. The Indian Express. <https://indianexpress.com/article/explained/china-belt-and-road-initiative-india-position-explained-8244276/>. (Accessed on 5 January, 2023)

that New Delhi views BRI as China's strategic initiative - and that security and strategic concerns lurk beneath India's opposition.<sup>171</sup> India's current Foreign Minister S. Jaishankar while he was a foreign secretary had remarked BRI as "strategic initiative of China under the guise of connectivity" and added:

*"The interactive dynamic between strategic interests and connectivity initiatives - a universal proposition - is on particular display on our continent... we (India) cannot be impervious to the reality that others may see connectivity as an exercise in hard-wiring those influences choices."*<sup>172</sup>

The strategic concerns of India stem primarily from two reasons. Firstly, India views BRI as a strategic tool to step into India's sphere of influence. While India might have economic interests in joining hands with China; India fears that BRI could further bolster China's presence and leverage within South Asia at its cost. Secondly, India is concerned about Pakistan's ties with China. India's arch-rival Pakistan is now an all-weather friend, as well as a strategic ally of China.<sup>173</sup> China has been investing heavily in Pakistan under the BRI framework. Under the BRI, China-Pakistan have jointly undertaken a massive infrastructure project, named as China Pakistan Economic Corridor (CPEC), to improve infrastructure within Pakistan and improve trade ties with China by modernizing Pakistan's roads, rails, air and energy transportation system, and by connecting the deep-sea Pakistani ports of Gwadar and Karachi to China's Xinjiang province and beyond by overland routes.<sup>174</sup> The project runs through disputed territories that India claims to be of its own. India's territorial concerns attached to the CPEC are further exacerbated by security and strategic implications of the project.

Sino-India and India-Pakistan rivalry put Nepal in a tricky position. Over the years, these regional rivalries have made it difficult for Nepal to maintain a delicate geopolitical balance. India's opposition to the BRI has only added to this. India had some apprehensions right from the start about Nepal signing

171 Baruah, Darshana M. 15 May, 2017. *Nepal joined the Belt and Road. What does that mean for India?* The Diplomat. <https://thediplomat.com/2017/05/nepal-joined-the-belt-and-road-what-does-that-mean-for-india/>. (Accessed on 5 January, 2023)

172 Ministry of External Affairs. 2 March, 2016. *Speech by Foreign Secretary at Raisina Dialogue in New Delhi*. [https://www.mea.gov.in/Speeches-Statements.htm?dtl/26433/Speech\\_by\\_Foreign\\_Secretary\\_at\\_Raisina\\_Dialogue\\_in\\_New\\_Delhi\\_March\\_2\\_2015](https://www.mea.gov.in/Speeches-Statements.htm?dtl/26433/Speech_by_Foreign_Secretary_at_Raisina_Dialogue_in_New_Delhi_March_2_2015). (Accessed on 5 January, 2023)

173 Sajid, Islamuddin & Latif, Aamir. 5 March, 2021. *Sino: Pakistan ties: Diplomacy to strategic partnership*. Islamabad. AA. <https://www.aa.com.tr/en/asia-pacific/sino-pakistan-ties-diplomacy-to-strategic-partnership/2165669>. (Accessed on 5 January, 2023)

174 Rauf, Shayan & Zeidan, Adam. 22 September, 2023. *China-Pakistan Economic Corridor (CPEC) international trade project*. Britannica. <https://www.britannica.com/topic/China-Pakistan-Economic-Corridor>. (Accessed on 5th January, 2023)

up to China's initiative, however, India didn't put much effort to push Nepal against it. And once Nepal joined the initiative, the move was read by the Indian political establishment as well as the political commentators in both Nepal and India as Kathmandu's willingness to move away from the Indian sphere of influence.<sup>175</sup> In recent years, Sino-Indian rivalry has further intensified on multiple fronts, along with episodic border skirmishes starting from 2020<sup>176</sup> which have continued to late 2022.<sup>177</sup>

It appears as if India is now pulling off some leverages to reduce China's engagements in Nepal. This is evident in India's newly-introduced policy to not import electricity from projects of other countries which have investments from a third country with which India shares its borders.<sup>178</sup> The provision is clearly aimed at discouraging Chinese investment in the electricity sector of India's neighbors. Of the trimmed-down nine projects proposed by Nepal to China under BRI, three projects are related to electricity: Phukot Karnali Hydro-Electric Project (480 MW), Tamor Hydroelectricity Project (762 MW), and Galchhi-Rasuwadadi-Kerung 400kv transmission line. In 2021, India had introduced provision to buy Nepal's electricity after persistent lobbying of Nepal and for the consecutive second year, Nepal sold surplus electricity to India.<sup>179</sup> However, with the new condition in place, Nepal won't be able to sell all its surplus electricity to India from these proposed BRI projects.

As of late, Nepal has signed an MoU with NHPC Limited, an Indian government enterprise for the construction of 480 MW Phukot Karnali Hydroelectric Project during Prime Minister Puspa Kamal Dahal's official visit to India on June 2023. Although Phukot Karnali Hydro-Electric Project was earlier proposed to China to be constructed under the BRI, handing over the project to Indian company is testament of Nepal's priority to south in the hydropower sector of Nepal and its losing interest in BRI implementation.

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175 Mulmi, Amish Raj. 25 July, 2017. *In Kathmandu's support for BRI, an old story of India Losing Ground in Nepal*. The wire. <https://thewire.in/diplomacy/india-china-nepal-obor-bri-doklam>. (Accessed on 6 January, 2023)

176 Chhina, Man Aman Singh & Kaushik, Krishn. 11 May, 2020. *Indian and Chinese troops clash in Sikkim, Ladakh*. The Indian Express. <https://indianexpress.com/article/india/indian-chinese-troops-clash-sikkim-ladakh-6403854/>. (Accessed on 5 January, 2023)

177 BBC. 13 December, 2022. *India and China troops clash on Arunachal Pradesh Mountain border*. <https://www.bbc.com/news/world-asia-63953400>. (Accessed on 5 January, 2023)

178 Shrestha, Prithvi Man. 28 February, 2021. *India introduces a procedure that will allow Nepal to export power to it*. The Kathmandu Post. <https://kathmandupost.com/national/2021/02/28/india-introduces-procedure-that-will-allow-nepal-to-export-power-to-it>. (Accessed on 5 January, 2023)

179 The Economic Times. 3 June, 2022. *For second consecutive year, Nepal exports surplus electricity to India*. <https://economictimes.indiatimes.com/industry/energy/power/for-second-consecutive-year-nepal-exports-surplus-electricity-to-india/articleshow/91985276.cms>. (Accessed on 5 January, 2023)

## CHAPTER VII

## From Dragon's Dream to Stalled Engine: Explaining the BRI's Uncertain Path

It has already been more than seven years since Nepal and China signed an MoU on BRI, but the progress has been negligible. Over the years, BRI implementation has lost its momentum in Nepal and the Chinese side doesn't seem eager either. For much of 2020, and the first half of 2021, BRI implementation couldn't make any progress which is attributed to Covid-19 pandemic. However, even as the pandemic slowed down, and the world has returned to the semblance of normalcy with high-level diplomatic engagements resuming, no progress has been made so far. China's State Councilor and Foreign Minister Wang Yi visited Nepal in March 2022, which marked the high-profile visit from China after Xi Jinping's visit in 2019, however, no substantive agreement was reached during the visit. Even in the subsequent high-profile visits from China, International Liaison Department Head Liu Zianchao's visit in July 2022, and Chinese Speaker Li Zhanshu's visit in September 2022, BRI implementation wasn't placed in priority by the Chinese side. After the two main communist parties – CPN-UML and CPN (Maoist Center) joint hands to form a government in 2022, a renewed interest was expected on both sides to push for the BRI implementation, however, it was not the case to be. CPN-UML soon withdrew from the government, while Nepali Congress entered the cabinet. During Prime Minister Prachanda's official visit to China in September, 2023, concrete development in BRI implementation plan was anticipated, however, no progress has been made on the execution of BRI projects in Nepal. BRI implementation is unlikely to gain traction in Nepal any time soon and is bound to get prolonged for long. There are a couple of factors behind this:

## 7.1 Lack of preparation on Nepal's part

The BRI implementation has been plagued by Nepal's chronic issue in its conduct of foreign affairs - lack of preparedness. Right from the start, Nepal lacked enough preparation to negotiate with China. Nepal lacked a basic readiness to conduct a thorough analysis of prospects and impact of signing up an initiative of such a scale. While the financing modality of BRI projects in other countries including its loan component and shorter payback period were known before signing the MoU, Nepal didn't consider an assessment about the same. It was only after Nepali Congress led government came into being, Nepal took a clear stance that the BRI couldn't be further undertaken under the current financing modality in 2022.

Nepal's lack of preparedness is also reflective in the selection of connectivity and other infrastructure projects. Nepal Government had formed two committees - one led by the foreign secretary and the next one by a finance secretary- to identify projects for negotiations with China.<sup>180</sup> The finance secretary led committee identified thirty-five different projects which were then proposed during KP Sharma Oli's visit to China. According to the KIs, the finance ministry came up with as many as thirty-five projects under the influence of political leadership. The Nepal Communist Party (NCP) led government was tilted towards China, and Beijing had even facilitated the merger of two communist parties CPN-UML and CPN (Maoist Center) to form NCP. China, however, repeatedly insisted to reduce the number of projects, Nepal then proposed 15 projects; and upon China's further insistence to reduce down the number to a single digit, nine projects were proposed.<sup>181</sup>

Incumbent Nepal government secretaries, under the condition of anonymity, revealed that no expert consultation or studies are yet carried out to assess the impacts of joining BRI. They added, *"we simply don't have the culture of doing so, nor do we have obligatory provisions for it. China proposed us the BRI, there were some discussions and deliberations, particularly at the political leadership level - and then we signed the MoU. Some pre-feasibility studies are carried out for infrastructure projects but none on the overall BRI agreement."* Till date, not a single ministry, apart from the Ministry of Industries, Commerce and Supplies (MoICS) has carried out any studies pertaining to the BRI projects.

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180 Giri, Anil. 18 January, 2018. *Nepal trims projects under BRI from 35 to 9 at Chinese call*. The Kathmandu Post. <https://kathmandupost.com/national/2019/01/18/nepal-trims-projects-under-bri-from-35-to-9-at-chinese-call>. (Accessed on 21<sup>st</sup> December, 2022)

181 Ibid.

Before signing up for the BRI, there should have been enough study on the government's part, and independent researchers, experts and think tanks should have been consulted to assess its provisions and possible implications; which wasn't to be. Lack of preparedness has made it difficult to negotiate with China and has slowed down the progress.

## **7.2 Lack of Dedicated Institutionalization to Look After BRI**

Those countries which have made substantial progress in BRI implementation have formed an institutional body dedicated solely for the same purpose, under the leadership of either the executive head or a minister. The Chinese government has set up an office in Kathmandu, named Commercial Counselor's Office, with representatives from its Commerce Ministry to deal with Nepal on Beijing-funded projects.<sup>182</sup> Nepal, however, hasn't formed any institutional body dedicated solely to the BRI implementation. Given the scope and scale of the BRI projects, an institutional body headed by top level executives is essential to expedite negotiations with China, and effectively facilitate coordination between domestic institutions. An ex-secretary of GoN claimed that had there been a BRI implementation body headed by the top-level executive, the process could have gained some traction long back. If not anything, such initiative could have sent a signal to Beijing that the BRI implementation was of priority to Nepal. The failure to institutionalize BRI implementation could partly have to do with legal complications while lack of consensus among major political parties could be next. However, the failure of CPEC body- an institution that was envisioned to undertake CPEC projects in Pakistan but got embroiled in endless controversies and then got scrapped, raises some doubts over efficacies of such institutions. Regardless, almost all the key stakeholders interviewed for this research pointed out that failure of Nepal to institutionalize BRI agreement has been one factor behind stalled BRI implementation.

## **7.3 Shift in Internal Political Dynamics of Nepal**

Initially there remained a broad consensus among all major political parties for signing up to the BRI. However, right from the start, owing to their ideological proximity with the CCP, the communist parties of Nepal had put more efforts to open up connectivity links and trade ties with China, and also for the BRI agreement. On the other side, China too had gone to length in

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182 Giri, Anil. 18 January, 2019. *Nepal trims projects under BRI from 35 to 9 at Chinese call*. The Kathmandu Post. <https://kathmandupost.com/national/2019/01/18/nepal-trims-projects-under-bri-from-35-to-9-at-chinese-call>. (Accessed on 28 December, 2022)

facilitating communist coalition in Nepal for the 2017 polls leading to the subsequent merger of the CPN-UML and CPN (Maoist Center) to form the NCP. Afterwards in the verse of NCP split, China made attempts to cross all diplomatic lines to avert the split of the unified communist party NCP.

When the NCP was heading the government, China had upped its influence and interference in internal affairs of Nepal. The communist leaders were trained on Xi's Thoughts- a political doctrine of President Xi Jinping in a two-day symposium just a month before his arrival to Kathmandu in 2019.<sup>183</sup> The NCP had worked a lot to ensure President Xi's visit to Nepal. The joint communique issued by both sides, during his visit, had stated that Nepal-China's "everlasting friendship" was elevated to "strategic partnership."<sup>184</sup> The phrase "strategic partnership" was used for the first time to describe Nepal-China relationship. Five years down the lane, it is yet to be known what that "strategic partnership" actually means and entails.

In 2017 polls, the communist coalition had made BRI projects one of its major electoral agenda employing the narrative of BRI as the "geopolitical and economic gamechanger" for Nepal. The communist parties employed this narrative so much so that Nepali Congress too went on to adopt the same rhetoric. The Trans-Himalayan Railway joining Kathmandu to Kerung and other projects under BRI were emphasized by leaders in electoral speeches, rallies, and manifestos.<sup>185</sup> The communist parties framed Kathmandu Kerung Railway as a project of national importance to the extent and so often that, according to one of our interviewees who is a chief editor of a national daily, China had to reluctantly agreed to include the railway project in the communique of the Second Belt and Road Forum which was held in April 2019.

In 2020, intra-party feuds within the NCP intensified. KP Sharma Oli, then NCP Chief and PM, unconstitutionally dissolved the lower house twice. The

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183 Kaphle, Anup. 24 September, 2019. *A blueprint for consolidating power: China exports Xi Jinping Thought to Nepal*. The Kathmandu Post. <https://kathmandupost.com/national/2019/09/24/a-blueprint-for-consolidating-power-china-exports-xi-jinping-thought-to-nepal>. (Accessed on 21 December, 2022)

184 Giri, Anil. 19 October, 2021. *Two years since Xi's visit, Nepal- China 'strategic partnership' remains an enigma*. The Kathmandu Post. <https://kathmandupost.com/national/2021/10/19/two-years-since-xi-s-visit-nepal-china-strategic-partnership-remains-an-enigma>. (Accessed on 5 January, 2023)

185 Subedi, Ritu Raj. 21 November, 2017. *'Chinese rail,' a common poll agenda of Nepalese politicians*. China.org.cn. [http://www.china.org.cn/opinion/2017-11/21/content\\_41921875.html](http://www.china.org.cn/opinion/2017-11/21/content_41921875.html). (Accessed on 28 December, 2022)

house was reinstated both times by the Supreme Court. In 2021, the NCP splitted into three factions leading to the formation of three communist parties – CPN-UML, CPN (Maoist Center) and CPN (Unified Socialist). Beijing went to lengths to prevent the communist coalition from collapsing, but to no avail. Chinese Ambassador Hu Yanqi had lobbied and pushed the communist leaders crossing all diplomatic lines to remain united.<sup>186,187,188</sup>

The split of the NCP became an impediment to China's penchant for directly interfering in Nepal's internal affairs through communist parties of Nepal. A coalition of Nepali Congress (NC), CPN (Maoist Center), CPN (Unified Socialist), Janata Samajwadi Party and Rastriya Janamorchha was formed and the NC's leader Sher Bahadur Deuba got appointed as the new prime minister succeeding KP Sharma Oli. All these developments were read by Beijing as its influence over Kathmadu slipping away. To China's further dismay, Nepal ratified the US's MCC compact in February 2022. The Nepali Congress, a major democratic force of Nepal, despite having an amicable relationship with China, is not as close to the Chinese establishment as communist parties of Nepal. Deuba government took a clear stand that the BRI projects can't be undertaken or proceeded further with the proposed funding modality under commercial loans. China's newfound approach of interfering over Nepal's internal politics using communist parties as its instruments, in the last decade, couldn't last long and went on to be counterproductive for China itself. China then has sought to improve its ties with the Nepali Congress as well.<sup>189</sup>

In December 2022, the CPN (Maoist Centre) formed a coalition government in collaboration with the CPN-UML. This was a welcome development for china<sup>190</sup>

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186 Giri, Anil. 2 May, 2020. *In a series of meetings, Chinese envoy calls for unity among ruling party members*. The Kathmandu Post. <https://kathmandupost.com/politics/2020/05/02/in-a-series-of-meetings-chinese-envoy-calls-for-unity-among-ruling-party-members>. (Accessed on 28 December, 2022)

187 Gupta, Shishir. 23 December, 2020. *Chinese ambassador steps up as Nepal's communist party stares at a split*. The Hindustan Times. <https://www.hindustantimes.com/world-news/chinese-envoy-meets-president-as-nepal-s-communist-party-is-headed-for-a-split/story-foF1MunNgzorJHVN-RtmuRL.html>. (Accessed on 28 December, 2022)

188 The Kathmandu Post. 24 December, 2020. *Chinese ambassador meets Dahal, two days after calling on President Bhandari*. <https://kathmandupost.com/national/2020/12/24/chinese-ambassador-meets-dahal-two-days-after-calling-on-president-bhandari>. (Accessed on 28 December, 2022)

189 Poudel, Santosh Sharma. 13 July, 2022. *What lies behind Chinese delegation's visit to Nepal?* The Diplomat. <https://thediplomat.com/2022/07/what-lies-behind-chinese-delegations-visit-to-nepal/>. (Accessed on 28 December, 2022)

190 Ghimire, Pratik. 27 December, 2022. *Beijing upbeat as Dahal becomes PM*. The Annapurna Express. <https://theannapurnaexpress.com/news/beijing-upbeat-as-dahal-becomes-pm-36212/>. (Accessed on 11 October, 2023)

which had been pushing for the communist collaboration in Nepal ever since the split of the NCP in 2021. Just two months later, there was a reshuffle in coalition partners - the CPN-UML exited the Dahal led government while the Nepali Congress joined the cabinet. For China, which had been pushing for communist collaboration ever since the split of the NCP in 2021, this was not something that it desired for. Chinese enthusiasm that was seen during the short-lived collaboration between two major communist parties of Nepal couldn't last long.

During Prime Minister Dahal's visit to China from September 23 to 30, 2023, the BRI Implementation Agreement was not signed, contrary to expectations.<sup>191</sup> This is because the coalition parties have yet to reach an understanding on the financing modality of the BRI projects. Until and unless an agreement is reached between the political parties on this matter, the BRI cannot be implemented. The shifting internal political dynamics in Nepal has impacted the implementation of the BRI, and is likely to continue to be so in the foreseeable future. If a government were to be formed in collaboration with the two main communist parties, the government would be more flexible towards China and it could be expected that China would also be more flexible in addressing Nepal's concerns. However, this doesn't imply that the position of the Nepali Congress has been an impediment to the implementation of the BRI agreement, but that China has a proclivity to favor the communist parties of Nepal.

China is a one-party state, and the CPC is directly involved in China's bilateral engagements. However, using the CPC's party ties with its ideological counterparts in Nepal to advance China's interests is a challenge for a fledgling democracy like Nepal, which has yet to institutionalize democratic institutions, norms, and procedures. China's emphasis on ties with communist parties at the expense of other parties does not bode well for Sino-Nepalese relations, as the communist and democratic forces command almost equal support from Nepal's voting population.<sup>192</sup>

## 7.4 Difficulty in Negotiating with China

Those who were directly involved in negotiations with Chinese delegations on behalf of Nepal government emphasize difficulty to negotiate with Chinese, unlike delegations from other countries. This has to do with two major reasons.

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191 Giri, Anil. 26 September, 2023. *Nepal, China sign 12 agreements, but none under BRI*. The Kathmandu Post. <https://kathmandupost.com/national/2023/09/26/nepal-china-sign-12-agreements-but-none-under-bri>. (Accessed on 11 October, 2023)

192 Dahal, Sourav. 11 September, 2023. *China's engagements in Nepal and challenges*. The Annapurna Express. <https://theannapurnaexpress.com/story/45772/>. (Accessed on 11 October, 2023)

First, China's bureaucracy is quite different to that of Nepal. In China, the same individual serves as both the state minister and Secretary for a ministry, unlike Nepal, and in general, they themselves head the Chinese delegations in most bilateral meetings and negotiations. In contrast, from Nepal, the Secretary leads the team and the lack of an active participation of the incumbent minister complicates the negotiation process. This has weakened Nepal's negotiations and bargaining capacity in bilateral meetings and dialogues with the Chinese. Second, Chinese delegations aren't equipped with the authority to make any impromptu decisions, let alone make significant changes in their stance during the negotiation process on their own. They have to report to the higher level even for making slightest of changes which prolongs the process, making negotiation difficult. According to KIs, the negotiation process is much simpler with other countries, for instance India or the US. Delegations from these countries can make some impromptu changes and show flexibility. Even in the case of BRI implementation, difficulties to negotiate with China have been a major challenge.

## **7.5 Funding Modality of the BRI and the Fear of Perceived Debt Trap**

While Nepal signed the MoU for the BRI in 2017, quite a few countries had already signed for the Chinese initiative. According to KIs, although the political leadership was then cognizant of the fact that China's BRI investments were loans, and not grants, there were not much discussions and deliberations on it prior to signing the BRI MoU. Once the news of China's supposedly debt trap (or strategic trap) diplomacy started making rounds, Nepal's political establishment started getting wary of the financing modality. When the Nepali Congress-led government came into existence after the dissolution of the unified communist party- NCP, the government took an unequivocal position that the BRI couldn't be undertaken further with a loan component with high interest rates, and a shorter payback period. It is reported that the government had conveyed the same to the CCP International Liaison Department's Head Liu Jianchao in his visit to Nepal in July 2022.<sup>193</sup>

According to a former secretary of GoN, some communist leaders along with the former Finance Minister, Yubaraj Khatiwada of the CPN-UML, had a similar position to the Nepali Congress. However, the NCP government hadn't

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193 Ghimire, Santosh. 12 July, 2022. *Nepal avoids debt trap- says it only wants grants not loans from China under BRI*. India Narrative. <https://www.indianarrative.com/world-news/nepal-avoids-debt-trap-says-it-only-wants-grants-not-loans-from-china-under-bri-37801.html>. (Accessed on 5 January, 2023)

come forth with a strong stance as that of the Deuba administration. The communist parties are yet to take a firm stance but the current government under CPN (Maoist Center) chairman Prachanda too is unlikely to undertake the BRI projects, if Beijing refuses to provide grant or concessional loans.

As a nation classified under the LDC status, Nepal has been enjoying soft and concessional loans. Given its economic status, Nepal simply can't afford to carry out big tickets infrastructure projects, like those proposed under the BRI framework, with commercial loans of high interest rate. For a country with a fragile economy and muddled spending pattern, such financial modality would significantly increase debt load.<sup>194</sup> To add to this, while loans that Nepal has been receiving from other bilateral and multilateral partners have longer payback periods, the average payback period for BRI loans is comparatively shorter.

BRI projects are usually funded through the AIIB, China Development Bank or the Export Import (EXIM) Bank of China as loans, grants and assistance programs.<sup>195</sup> The average interest rate of Chinese loans globally is 4%, and the average estimated interest rate of China's loans for BRI-related projects is 4.2% with a grace period of less than two years, and maturity length of less than 10 years.<sup>196</sup> The maximum interest rate of soft loans that multilateral donors such as the WB and the ADB provide is around 1.3% and such soft loans have a more extended repayment period.<sup>197</sup> For Comparison, in the case of Nepal, the Japanese government is providing loan assistance for the construction of the Naghdhunga Tunnel Marg, with an interest rate of 0.1% with payback period of 40 years along with a 10 years grace period. In this comparison, interest rates on Chinese loans are around 150 times higher.<sup>198,199</sup> Furthermore, in some

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194 Shrestha, Prithvi Man. 29 March, 2022. Loans on commercial terms could greatly increase Nepal's debt burden. The Kathmandu Post. <https://kathmandupost.com/national/2022/03/29/loans-on-commercial-terms-could-greatly-increase-nepal-s-debt-burden>. (Accessed on 28 December, 2022)

195 Timalisina, Krishna. 18 July, 2022. *Unexplained story of BRI*. Khabarhub. <https://english.khabarhub.com/2022/18/263254/>. (Accessed on 28 December, 2022)

196 Malik, A. et al. 29 September, 2021. *Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*. Aiddata. <https://www.aiddata.org/publications/banking-on-the-belt-and-road>. (Accessed on 28 December, 2022)

197 Giri, Anil. 20 May, 2022. *Five years on, BRI projects are nowhere on the horizon*. The Kathmandu Post. <https://kathmandupost.com/national/2022/05/20/five-years-on-bri-projects-are-nowhere-on-the-horizon>. (Accessed on 28 December, 2022)

198 New Business Age. 9 May, 2022. *Growing borrowing power*. <https://www.newbusinessage.com/MagazineArticles/view/3427>. (Accessed on 28 December, 2022)

199 The Print. 10 August, 2022. *"China encourages Nepal to live luxuriously with it on loan", "alarm bell" for another debt trap*. Beijing. <https://theprint.in/world/china-encourages-nepal-to-live-luxuriously-with-it-on-loan-alarm-bell-for-another-debt-trap/1077555/>. (Accessed on 28 December, 2022)

cases, feasibility studies and DPR for the BRI projects are to be done by the recipient country itself, whereas multilateral agencies conduct these activities before lending the amount.<sup>200</sup>

China's high interest rate, as evidenced by experiences in nations like Sri Lanka has led to the popular belief that China is guided by debt trap or strategic trap diplomacy. This is also reflected in the narrative adopted by the western countries. For instance, John Bolton, the US National Security Advisor in the Trump administration had remarked that China is making "strategic use of debt to hold states captive to China's wishes and demands."<sup>201</sup>

### ***BRI and Sri Lanka's Financial Crisis: A Cautionary Tale***

Sri Lanka's economic crisis, which began in the year 2019 and got further exacerbated over the years, is often linked to China's loans, as one of the contributing factors. As many as 70% of the infrastructure projects of Sri Lanka were built through commercial borrowings from China at high interest rates and no transparency.<sup>202</sup> Using Chinese loans, Sri Lanka had undertaken construction of ports, airports, expressways, electricity plants, water supply schemes, railways, highways among other big infrastructure undertakings. Some of them are: Southern Expressway, Outer Circular Highway Project, Colombo Katunayake Expressway, Hambantota International Airport project, Hambantota Port Development Project, Colombo International Container Terminals, Norocholai power station, Colombo Port City, Lotus Tower, which were financed using loans with an interest rate ranging from 2% to 6.5%.<sup>203</sup> Of all, the failure of Hambantota Port has remained a glaring example of challenges associated with Chinese loans under the BRI framework.

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200 Bhattarai, Kamal Dev. 23 March, 2022. *What kind of financial help are we getting from China?* The Annapurna Express. <https://theannapurnaexpress.com/news/what-kind-of-financial-help-are-we-getting-from-china-5004/>. (Accessed on 28 December, 2022)

201 Brautigam, Deborah. 26 April, 2019. *Is China the world's loan Shark?* The New York Times. <https://www.nytimes.com/2019/04/26/opinion/china-belt-road-initiative.html>. (Accessed on 28 December, 2022)

202 Abeyagoonasekera, Asanga. 26 April, 2022. *Sri Lankan crisis between debt- trap and strategic-trap: the Chinese stake*. Institute for Security and Development Policy. <https://isdsp.eu/sri-lankan-crisis-between-debt-trap-and-strategic-trap-the-chinese-stake/>. (Accessed on 28 December, 2022)

203 Chatham House. 24 March, 2020. *Chinese Investment and the BRI in Sri Lanka*. <https://www.chathamhouse.org/2020/03/chinese-investment-and-bri-sri-lanka-0/2-economy>. (Accessed on 28 December, 2022)

Construction of the Hambantota Port began in 2007<sup>204</sup>, and later it was brought under the BRI framework. Phase one of the project was funded by a 15-year commercial loan at an interest rate of 6.3%<sup>205</sup> from the EXIM Bank of China, which covered 85% of the expected total cost, while the Sri Lanka Ports Authority covered the remaining.<sup>206</sup> The project constructor was a Chinese state-owned company named China Harbor Engineering Company.<sup>207</sup> After receiving a loan extension with an interest rate of 2% from the Exim Bank of China, the second phase of the construction was initiated in 2012.<sup>208</sup> Overtime, Chinese loans grew and Sri Lanka was unable to pay back. By 2017, Sri Lanka owed USD 8 billion to state-controlled Chinese firms.<sup>209</sup> And on December 2017, Sri Lanka formally handed over the strategic port of Hambantota to China on a 99-year lease<sup>210</sup> together with 15,000 adjacent acres for an investment zone.<sup>211</sup> Of late, a new controversy over the Hambantota port surfaced when Sri Lanka's former Foreign Minister Dines Gunawardena, revealed that the former Maithripaala Sirisena administration, who granted China a 99-year lease on the Hambantota Port, also granted an additional 99-years after the end of the first term. However, Sirisena has refuted Gunawardena's claims.<sup>212</sup>

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204 Kannangara, Pabasara. 24 May, 2019. *Sri Lanka's port development and the role of the BRI*. The Asia Dialogue. <https://theasiadialogue.com/2019/05/24/sri-lankas-port-development-and-the-role-of-the-bri>. (Accessed on 28 December, 2022)

205 Chatham House. 24 March, 2020. *Chinese Investment and the BRI in Sri Lanka*. <https://www.chathamhouse.org/2020/03/chinese-investment-and-bri-sri-lanka-0/2-economy>. (Accessed on 28 December, 2022)

206 Department of External Resources. 2007. *Foreign Financing of Budget*. Sri Lanka. [https://web.archive.org/web/20190712032054/http://www.erd.gov.lk/images/pdf/performance\\_report\\_2007.pdf](https://web.archive.org/web/20190712032054/http://www.erd.gov.lk/images/pdf/performance_report_2007.pdf). (Accessed on 6 January, 2023)

207 BJYU'S. *Hambantota Port*. <https://byjus.com/current-affairs/hambantota-port/>. (Accessed on 28 December, 2022)

208 Ship Technology. 14 March, 2012. *Port of Hambantota*. <https://www.ship-technology.com/projects/port-of-hambantota/>. (Accessed on 28 December, 2022)

209 Schultz, Kai. 12 December, 2017. *Sri Lanka, struggling with debt, hands a major port to China*. *New Delhi*. The New York Times. <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>. (Accessed on 28 December, 2022)

210 Ibid.

211 Ramachandran, Sudha. 27 May, 2022. *China and Sri Lanka's debt crisis: Belt and Road Initiative blowback*. The Jamestown Foundation. <https://jamestown.org/program/china-and-sri-lankas-debt-crisis-belt-and-road-initiative-blowback/>. (Accessed on 28 December, 2022)

212 The Economic Times. 24 February, 2021. *Report that Hambantota port deal has second 99-year lease extension runs counter to facts: China*. <https://economictimes.indiatimes.com/news/international/world-news/report-that-hambantota-port-deal-has-second-99-year-lease-extension-runs-counter-to-facts-china/articleshow/81194141.cms?from=mdr>. (Accessed on 28 December, 2022)

China now accounts for 19% of Sri Lanka's total foreign debt, which according to some experts is also an underestimate.<sup>213</sup> Sri Lanka requested to restructure the debts, to which China has rejected, proposing instead to provide a USD 1 Billion as loan, which in turn would be used to pay off prior debts to Chinese banks.<sup>214</sup> And once the pandemic further had crippled Sri Lanka's economy, China had given four more large loans between March 2020 to August 2021 to help keep Sri Lanka solvent.<sup>215</sup> This is termed as a practice of “evergreening” in which a lender, in this case China, is lending more loans to help old debtors pay their prior loans. The approach of evergreening has been used by China in other recipient nations, like Argentina, Ecuador and Pakistan.<sup>216</sup>

### *Chinese Loans, BRI and the Fear of Systemic Debt Distress for Nepal*

Just like in Sri Lanka, Chinese debts are mounting in other countries.<sup>217</sup> Whether or not China's lending patterns are motivated with a “debt trap” strategy is contentious, but China's relative inexperience in handling systemic issues of debt distress, and that China's imprudent lending has raised the odds of systemic debt distress.<sup>218</sup> Furthermore, China is not a part of the Paris Club, a group of 22 creditor nations that coordinate debt relief programs, and has not adhered to best practices in making its loans prudent, “often keeping loan terms secret while turning a blind eye to corruption”.<sup>219</sup>

China's lending surge escalated beginning from 2008, making it the biggest bilateral lender to poor and middle-income nations.<sup>220</sup> The report by AidData, an international development research lab at the college of William and Mary,

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213 China Africa Research Initiative. 29 November, 2022. *Evolution of Chinese Lending to Sri Lanka since the mid- 2000s: separating myth from reality*. John Hopkins school of Advanced International Studies. <http://www.sais-cari.org/>. (Accessed on 21 December, 2022)

214 Abeyagoonasekera, Asanga. 26 April, 2022. Sri Lankan crisis between debt-trap and strategic- trap: The Chinese Stake. Institute for security & development policy. <https://isdpeu.org/sri-lankan-crisis-between-debt-trap-and-strategic-trap-the-chinese-stake/>. (Accessed on 21 December, 2022)

215 Bradsher, Keith. 6 October, 2022. *In Global Slowdown, China holds sway over countries' fates*. The New York Times. <https://www.nytimes.com/2022/10/06/business/china-debt-economy-global-slowdown.html>. (Accessed on 21 December, 2022)

216 Ibid.

217 Brautigam, Deborah. 26 April, 2019. *Is China the world's loan Shark?*. The New York Times. <https://www.nytimes.com/2019/04/26/opinion/china-belt-road-initiative.html>. (Accessed on 28 December, 2022)

218 Coy, Peter. 22 July, 2022. *China is playing hardball with troubled debtors. That's dangerous for all of us*. The New York Times. <https://www.nytimes.com/2022/07/22/opinion/china-debt-belt-road.html>. (Accessed on 28 December, 2022)

219 Ibid.

220 Ibid.

claims that now China outspends the US and other major powers on a 2-to-1 basis or more as a bilateral lender. The report further adds that China has predominantly used debt rather than aid to establish a dominant position in the international development finance market with a 31-to-1 ratio of loans to grants.<sup>221</sup>

While 60% of low income and 30% of slightly better off emerging markets are in or near debt crisis,<sup>222</sup> China's lending spree for the BRI has induced fear of systemic debt crisis across the globe. In the past decade, Kenya's and Pakistan's overall public debts increased by ninefold and more than doubled respectively, with Chinese loans growing the fastest in both the countries.<sup>223</sup> Those countries with high Chinese loans are found to be in financial trouble, as seen in Sri Lanka, Kenya, Angola among others. Chinese loan distress is seen in many regions including Africa, where China has forgiven 0.3% of the loans as of August 2022<sup>224</sup>, which is albeit minimal, and doesn't provide the much-needed relief to those nations in debt distress. In Kenya and Angola, major electoral agendas for the past presidential polls were about Chinese loans and how to repay them.<sup>225</sup> China playing hardball in some other cases adds to the doubts if China is guided with some ulterior motives. When Suriname, a nation in South America could not make its debt payments, the Chinese State Bank seized the money from the country's account.<sup>226</sup> If hidden debt pertaining to the BRI is taken into account, the situation is even more precarious. The report by AidData has also provided an analysis regarding China's hidden debts. The report studied more than China's 13,000 aid and debt-financed projects across 165 countries over 18 years, and found that lower- and middle-income countries were entangled in hidden debts on China's Belt and Road Initiative, and the hidden debt is estimated to be around USD 385 billion.<sup>227</sup>

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221 Malik, A. et al. 29 September, 2021. *Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*. Aiddata. <https://www.aiddata.org/publications/banking-on-the-belt-and-road>. (Accessed on 28 December, 2022)

222 Coy, Peter. 22 July, 2022. *China is playing hardball with troubled debtors. That's dangerous for all of us*. The New York Times. <https://www.nytimes.com/2022/07/22/opinion/china-debt-belt-road.html>. (Accessed on 28 December, 2022)

223 Bradsher, Keith. 6 October, 2022. *In the global slowdown, China holds sway over countries' fates*. The New York Times. <https://www.nytimes.com/2022/10/06/business/china-debt-economy-global-slowdown.html>. (Accessed on 28 December, 2022)

224 Ibid.

225 Ibid.

226 Ibid.

227 White, Edward. 29 September, 2021. *Hidden Debt on China's Belt and Road Tops \$385b, says New Study*. Financial Times. <https://www.ft.com/content/297beae8-7243-4d93-9fac-09e515e82972>. (Accessed on 5 December 2022)

Nepal's total outstanding debt as a percentage of GDP for 2023 had crossed 43 percent<sup>228</sup> while it was just 25.30 in 2015.<sup>229</sup> The debt to GDP ratio of 40 percent is quite high for a remittance-driven economy and any increase in this number could pose financial challenges.<sup>230</sup> Therefore, if Nepal were to borrow more from China with a high interest rate under BRI, that would further worsen Nepal's outstanding debt to GDP ratio. The fear of debt trap, risk of systemic debt distress as a consequence of China's imprudent lending pattern, and the role of China's loans in further exacerbating Sri Lanka's economic crisis have become cautious tale for Nepal. The case of Sri Lanka, a South Asian nation, has increased fear among political leadership in Nepal, and has in turn pushed them to take a firm stance against the high interest rate, and a shorter payback period of BRI's loan component.

Almost all interviewees for this research agreed on the point that the loan component of the BRI is problematic and that Nepal should instead push China to provide grants. They were of the opinion that Nepal can't and shouldn't undertake any BRI projects with high interest rates, and shorter payback period. Some of them claimed that China is unlikely to change its financing modality just to accommodate Nepal's concerns, and the best that Nepal could do is push for concessional loans to the extreme. Regarding the concessional loans, the experts and stakeholders were divided. Some were of the belief that Nepal could negotiate for concessional loans with China while others were skeptical. Two foreign ministers, Mr. Prakash Sharan Mahat and Mr. Pradeep Gyawali who represent the Nepali Congress and the CPN-UML respectively, unequivocally claimed that the BRI wouldn't be undertaken further with the same financing modality in place.<sup>231</sup> How BRI implementation unfolds in the coming days will now primarily depend on China's response to Nepal's position on financing modality of the BRI projects.

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228 Kathmandu Post. 12 November 2023. Nepal's debt grows by Rs41 billion in the first quarter. <https://kathmandupost.com/columns/2022/11/02/challenges-of-managing-fiscal-risks-in-nepal#:~:text=Up%20until%201976%2C%20Nepal%20was,for%202021%20crossed%2040%20percent>. (Accessed on 21 December, 2022)

229 Trading economics. *Nepal Government Debt to GDP*. <https://tradingeconomics.com/nepal/government-debt-to-gdp>. (Accessed on 21 December, 2022)

230 Khanal, Gopi K. 2 November, 2022. *Managing Nepal's fiscal risks*. The Kathmandu Post. <https://kathmandupost.com/columns/2022/11/02/challenges-of-managing-fiscal-risks-in-nepal#:~:text=Up%20until%201976%2C%20Nepal%20was,for%202021%20crossed%2040%20percent>. (Accessed on 28 December, 2022)

231 Prakash Sharan Mahat and Pradeep Gyawali in an event "International Seminar on Geopolitics and BRI in South Asia" organized by CESIF Nepal. [https://www.youtube.com/watch?v=dfK1FTQn5O-Q&t=1055s&ab\\_channel=CESIFNepal](https://www.youtube.com/watch?v=dfK1FTQn5O-Q&t=1055s&ab_channel=CESIFNepal). (Accessed on 24 January, 2023)

## 7.6 China's Declining Interest in the Kathmandu-Kerung Railway

Hou Yanqi, former China's ambassador to Nepal, in May 2019 said "the Nepal-China cross border railways can't be constructed overnight just because there was a political consensus on it. It requires extensive and multiple scientific studies before starting its construction."<sup>232</sup> Perhaps, this is an admission by a diplomat, in an euphemized tone, that the construction of the railway is a daunting task and it can't be expected to materialize anytime soon. In the same press meet, ambassador Yanqi had expressed satisfaction over Nepal's positive steps to further proceed with the railway. However, her statement reflected challenges of the projects and China's reluctance regarding the same. Our KIs confirm that China isn't as eager about the trans-Himalayan railway, and some even claimed that it was reluctantly included in the communique of the second International Belt and Road Forum, held in April 2019 in Beijing, as Nepali leaders persistently pushed for it. This ambitious project was framed by political parties, particularly communist parties, as an economic and geopolitical gamechanger for Nepal and is now considered to be a flagship project under the BRI in Nepal.

China is skeptical regarding the trans-Himalayan railway due to the myriad of challenges associated with it. In late 2018, a pre-feasibility study of the railway conducted by the Chinese Railway Administration concluded that 'it was an extremely hard project but not impossible.'<sup>233</sup> The major challenges of this project are high cost, difficult topography, extreme weather conditions, earthquake prone region, and level of impact on environment, local residents, and biodiversity among others. This claim was corroborated by Paribesh Parajuli, the only railway engineer at Nepal's railway department who had to say the project as "Technically the world's toughest railway project to construct."<sup>234</sup>

The major challenge of the railway project is its expensive cost. The Department of Railways (DoR) of Nepal had estimated the cost of 72.25 km railway

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232 Nepal Foreign Affairs. 24 May, 2019. *China firm to build Kerung – Kathmandu railway*. <https://nepalforeignaffairs.com/china-firm-to-build-kerung-kathmandu-railway/>. (Accessed on 28 December, 2022)

233 Bhusal, Ramesh. 18 June, 2019. *Nepal- China railway project: fantasy or reality?* The Third Pole. <https://www.thethirdpole.net/en/nature/nepal-china-railway/>. (Accessed on 28 December, 2022)

234 Ibid.

at around NPR 257 billion in August 2018<sup>235</sup>, around NPR 3.55 billion per kilometer<sup>236</sup> and completing the project within estimated nine years would mean NPR 28.55 billion each year.<sup>237</sup> The operational costs and maintenance costs after construction adds to the financial challenges. It is reported that the costs are likely to increase when additional factors are taken into consideration.<sup>238</sup> Difficult topography adds to the cost apart from engineering challenges, as 98% of the railway project will be tunnels and bridges. Tracks will need to be built on steep terrains ranging from 1400 meters in Kathmandu to 4000 meters in Tibet. According to the Chinese report, to overcome the difference in elevation between the south and north, ramps would also have to be built along Lake Paiku, near Kerung connecting to Kathmandu. Furthermore, Nepal being in the cusp of two tectonic plates is susceptible to earthquakes, bringing further complications to the matter. The Chinese study, however, isn't available in the public domain.<sup>239,240</sup> The financial modality of the project is equally concerning as consensus has to be reached regarding loan or grant. China is prepared to loan the project; however, Nepal insists upon grant.<sup>241</sup> China has reportedly begun conducting a DPR from Sigatse to Nepal border on its own.

Owing to all of these challenges, China's interest in construction of the railway has decreased over the years even though it could serve China's need to get connected to the South Asian market via Nepal. On Nepal's part, negotiations with China regarding financing modality of the projects is essential, as investing huge in this railway could be detrimental to the economy. Furthermore, it would

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235 The Kathmandu Post. 20 August, 2018. *Kathmandu- Kerung railway: Project to cost Rs 257 billion*. <https://kathmandupost.com/national/2018/08/20/project-to-cost-rs257-billion>. (Accessed on 28 December, 2022)

236 Bhattarai, Gaurav. 10 August, 2022. *The Gridlock of the Trans-Himalayan Railway: China's Strategic Calculations about Nepal. Version 2*. Stoslinki Miedzynarodowe. <https://internationalrelations-publishing.org/articles/2-17>. (Accessed on 28 December, 2022)

237 The Kathmandu Post. 20 August, 2018. *Kathmandu- Kerung railway: Project to cost Rs 257 billion*. <https://kathmandupost.com/national/2018/08/20/project-to-cost-rs257-billion>. (Accessed on 28 December, 2022)

238 Tarar, Aditya. 1 October, 2022. *Rail line from Lhasa to Kathmandu, after this plan of China, will there be big trouble on Nepal?* Hindustan News Hub. <https://hindustannewshub.com/world-news/rail-line-from-lhasa-to-kathmandu-after-this-plan-of-china-will-there-be-big-trouble-on-nepal/>. (Accessed on 28 December, 2022)

239 Bhushal, Ramesh. 18 June, 2019. *Nepal- China railway project: fantasy or reality?* The Third Pole. <https://www.thirdpole.net/en/nature/nepal-china-railway/>. (Accessed on 21 December, 2022)

240 Ibid.

241 Bhattarai, Gaurav. 22 April, 2022. *The gridlock of the Trans- Himalayan railway: China's strategic calculations about Nepal*. SM-IR. <https://internationalrelations-publishing.org/articles/2-17>. (Accessed on 21 December, 2022)

be difficult for Nepal to benefit out of this project if Nepal ends up spending a large sum on it. Nepal doesn't yet have enough products to sell to China which raises questions about how Nepal could benefit out of the trans-Himalayan railway even if it were to materialize.

Of late, in December 2022, a six-member Chinese delegation arrived in Kathmandu to initiate a feasibility study of the cross-border railway.<sup>242</sup> The total expense for the study is estimated to be around NPR 3.4 billion (180.47 million RMB). According to media reports, Beijing has agreed to provide grant assistance for the same, however modality of funding for construction has not yet been agreed upon.<sup>243</sup> Regardless, the trans-Himalayan railway is bound to remain in limbo for the foreseeable future.

## 7.7 From Booming Vision to Stagnation: Changing BRI Narrative

President Xi's announcement for BRI (then One Belt One Road (OBOR)) was met with great enthusiasm across regions<sup>244</sup>, barring the western world. The prospects of connectivity and trade links with China, which since early 2000s had integrated with the Western economy, and had seen unprecedented growth for decades, and until then hadn't clearly approached with an aggressive foreign policy was of interest to the majority of countries. However, the global narrative of BRI swiftly changed over the next few years for the worse.<sup>245</sup> China's increasing geopolitical and economic tension with its neighbors and the US-led west, its aggressive approach in the conduct of foreign affairs and hawkish attitude in issues surrounding the South China Sea complicated the geopolitical environment. The loan component with high interest rate and shorter payback period, and countries being unable to pay back loans on time due to its haphazard lending practices were met with criticisms. China's supposedly "debt trap diplomacy" also started making rounds. Even within

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242 Giri, Anil. 27 December, 2022. *Chinese Team Arrives for Feasibility Study of Cross-Border Rail*. The Kathmandu Post. <https://kathmandupost.com/national/2022/12/27/chinese-team-arrives-for-feasibility-study-of-cross-border-rail>. (Accessed on 19 January, 2023)

243 Giri, Anil. 18 December, 2022. *Kerung-Kathmandu Rail: China Offers Feasibility deal, Nepal Stalls*. The Kathmandu Post. <https://kathmandupost.com/national/2022/12/18/kerung-kathmandu-rail-china-offers-feasibility-deal-nepal-stalls>. (Accessed on 18 December, 2022)

244 Ghiretti, Francesca. 22 June, 2021. *B3W: Building an Alternative to the BRI or Falling into the same trap?* The Diplomat. <https://thediplomat.com/2021/06/b3w-building-an-alternative-to-the-bri-or-falling-into-the-same-trap/>. (Accessed on 28 December, 2022)

245 Ibid.

China, questions were raised by officials regarding projects being undertaken in Sri Lanka, Pakistan, Argentina, Kenya, Montenegro, Tanzania and Malaysia over financial viability of those projects, and the economic stress that the initiative could induce within China.<sup>246</sup> Now, there is a fear that countries taking loans from China to undertake BRI projects would be so dangerously indebted that they would turn to the International Monetary Fund (IMF) and other Western-backed international financial institutions to repay back Chinese loans. And this is already the case.<sup>247</sup>

The BRI narrative in Nepal follows a similar trajectory. When the BRI MoU was signed, the initiative was met with welcome remarks from across the spectrum. Enhanced connectivity links with China, trade diversification, prospects of reduced reliance on India, and the promise of large-scale infrastructure projects with China's investments and assistance had caught the mood of the nation. The mainstream political parties, particularly the leftists adopted bullish rhetoric on BRI projects.<sup>248</sup> Majority of intellectuals too fell into this bandwagon. This had partly to do with the timing and circumstances in Nepal. Nepal was desperately looking to diversify its trade and connectivity after the constraints in the southern border, and the end of decades-long political transition phase meant that talks of development were all around. None of the documents pertaining to Nepal-China BRI agreement were made available in the public domain which too helped the agreement evade public scrutiny for long. For comparison, the MCC compact agreement between Nepal and the US was scrutinized to the extent that its clauses were debated from parliament to local tea shops and was dragged into endless controversy. Unlike MCC which is a grant, BRI entails loan component with interest rate higher than standard concessional loans, but still BRI enjoyed a favorable public opinion. However, the narrative slowly shifted once its loan component with high interest rate and experiences of other countries started getting scrutinized.

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246 Bradsher, Keith. 15 January, 2020. *China Renews Its 'Belt and Road' push for Global sway*. The New York Times. <https://www.nytimes.com/2020/01/15/business/china-belt-and-road.html>. (Accessed on 21 December, 2022)

247 Fukuyama, Francis & Bennon, Michael. August, 2023. *China's Road to Ruin: The Real Toll of Beijing's Belt and Road*. Foreign Affairs. <https://www.foreignaffairs.com/china/belt-road-initiative-imf>. (Accessed on 11 October, 2023)

248 Paudyal, Mahabir. 28 July, 2021. *Is Nepal giving up on the Belt and Road Initiative?* Nepal Live Today. <https://www.nepallivetoday.com/2021/07/28/is-nepal-giving-up-on-the-belt-and-road-initiative/>. (Accessed on 5 January, 2023)

## 7.8 China's slowing BRI momentum

Beginning from 2018, there had been a decline in China's lending spree<sup>249</sup> as doubts surfaced upon foreign countries' ability to repay their debts coupled with Beijing's struggle to manage its own domestic debt problems.<sup>250</sup> China began reassessing its investments in foreign countries as it showed signs of "slowing economy" in the middle of a trade war with the United States. The important concern for China are the "wasteful white elephants" overseas that risked profits of Chinese partners and companies alike.<sup>251</sup> Secondly, it seemed wary of not lending frivolously anymore, like it did in Sri Lanka and Malaysia where new governments questioned their predecessors' decision of borrowing from Beijing.<sup>252</sup> In China itself, a 'public pull back by Chinese officials' was witnessed post criticisms regarding projects in Malaysia, Sri Lanka and Pakistan in relation to their bloated expenses.<sup>253</sup> Often such lending worsened rather than helped its relations with foreign nations, and thus, China felt the need to hold itself back.<sup>254</sup> By 2020, Covid-19 pandemic had crippled the Chinese economy and its direct impact was seen in financing of BRI projects. China had then begun to reapproach its terms of lending and selection of projects cautiously; however, the BRI couldn't gain the momentum of its formative years.<sup>255</sup> By 2022, one of China's closest allies, Russia, invaded Ukraine, creating a geopolitical ripple which has further posed geopolitical challenges to China.

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249 Bradsher, Keith. 29 June, 2018. *China Taps the Brakes on its Global Push for Influence*. The New York Times. <https://www.nytimes.com/2018/06/29/business/china-belt-and-road-slows.html>. (Accessed on 21 December, 2022)

250 Bradsher, Keith. 24 January, 2018. *China will tame its growing debt load in 3 years, Top Xi adviser says*. The New York Times. <https://www.nytimes.com/2018/01/24/business/china-debt-liu-he.html>. (Accessed on 28 December, 2022)

251 Bradsher, Keith. 29 June, 2018. *China Taps the Brakes on its Global Push for Influence*. The New York Times. <https://www.nytimes.com/2018/06/29/business/china-belt-and-road-slows.html>. (Accessed on 21 December, 2022)

252 Ibid.

253 Bradsher, Keith. 15 January, 2020. *China Renews Its 'Belt and Road' push for Global sway*. The New York Times. <https://www.nytimes.com/2020/01/15/business/china-belt-and-road.html>. (Accessed on 21 December, 2022)

254 Bradsher, Keith. 29 June, 2018. *China Taps the Brakes on its Global Push for Influence*. The New York Times. <https://www.nytimes.com/2018/06/29/business/china-belt-and-road-slows.html>. (Accessed on 21 December, 2022)

255 Bradsher, Keith. 15 January, 2020. *China Renews Its 'Belt and Road' push for Global sway*. The New York Times. <https://www.nytimes.com/2020/01/15/business/china-belt-and-road.html>. (Accessed on 21 December, 2022)

Like that in the global arena, China has lost its BRI momentum in Nepal. China had put significant efforts to rope in Nepal for the BRI implementation but lately, BRI hasn't been at the top of Beijing's priority in dealing with Nepal. When Xi Jinping visited Nepal in October 2019, a verbal agreement was reached on proceeding with the implementation of the MoU on Cooperation under the BRI.<sup>256</sup> However, with the split of the NCP, and subsequent takeover of the Kathmandu administration by the Nepali Congress, Beijing has lost its influence over Kathmandu. Beijing's former relationship with the Kathmandu administration which it enjoyed during the NCP period hasn't regained even on the current premiership of Prachanda. The parliamentary ratification of the US's MCC compact in February 2022 has added to China's woes. Now it seems as if China is only seeking to restore its lost influence over Nepal, and attempting to expand its relationship with non-communist parties like the Nepali Congress.<sup>257</sup> On March 2022, State Councilor and Foreign Minister Wang Yi's visit was another high profile visit from Beijing after President Xi's visit in 2019; during the time, nine agreements were signed but none were related to BRI.<sup>258</sup> Then again in June 2022, CCP's International Liaison Department Head Liu Zianchao paid the visit to Nepal bringing no significant progress to the BRI projects or agreement. In September 2022, China's speaker Li Zhansu held a bilateral meeting with his Nepali counterpart Agni Sapkota in Nepal again leading to no significant progress on the BRI.

The lack of implementation of BRI projects is not just a result of Nepal's lack of political will brought forth by economic caution, but also due to BRI's lost momentum in the global arena. With China reimagining BRI, drawing lessons from its past mistakes, and Xi Jinping's third term, it is yet to be seen as to how that will impact the future of BRI in Nepal.

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256 Ministry of Foreign Affairs. 13 October, 2019. *Joint statement between Nepal and the People's Republic of China*. <https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>. (Accessed on 27 December, 2022)

257 Gelal, Arpan. 7 March, 2023. China Loses Ground in Nepal. *The Diplomat*. <https://thediplomat.com/2023/03/china-loses-ground-in-nepal/> (Accessed on 14 November, 2023)

258 Giri, Anil. 27 March, 2022. *Wang visit: Nepal, China sign nine agreements, none on BRI*. *The Kathmandu Post*. <https://kathmandupost.com/national/2022/03/27/wang-visit-nepal-china-sign-nine-agreements-none-on-bri>. (Accessed on 28 December, 2022)

## 7.9 China's Strategic Shift to New Initiatives and Micro Interventions

Over the last decade, China has transformed its BRI investment strategy, shifting its focus from large infrastructures towards smaller and refined, but strategic projects.<sup>259</sup> Given the stalled progress of proposed BRI projects in Nepal, China has increasingly prioritized soft and micro intervention programs to broaden its strategic engagements. While negotiations on proposed BRI projects remain deadlocked, and no consensus has been reached on implementation plan, China has made Nepal a key focus of its newly proposed initiatives, particularly on Global Development Initiative (GDI). Notably, two small scale community projects were announced under GDI for Nepal in 2022. Furthermore, China launched 'Silk Roadster' platform in Nepal in 2023, supposedly under BRI, with a stated emphasis on practical cooperation and enhancement of people-to-people linkages.<sup>260</sup>

On September 2021, Chinese President Xi Jinping announced the Global Development Initiative (GDI) during his address at the 76th session of the United Nations General Assembly. The stated aim of GDI is to aid the achievement of Sustainable Development Goals (SDGs) by 2030. More than 100 countries and organizations have joined the GDI, with 50 cooperation projects under GDI released in 2022.<sup>261</sup> The first list of projects released under GDI includes two small scale projects in Nepal to be implemented by Chinese NGOs and UNDP in collaboration with the Nepal government.

The first project- 'Nepal Smiling Children Project' is being implemented by China Foundation for Rural Development, and is jointly funded by Ministry of Commerce of China, China International Development Cooperation Agency (CIDCA) and China Foundation for Rural Development. The second project aims to support schools in remote areas for pandemic prevention and green recovery, to be implemented by CIDCA, Ministry of Commerce of China and United Nations Development Programme (UNDP).

On April 2022, President Xi announced the Global Security Initiative (GSI) at the Boao Forum for Asia Annual Conference, and the concept paper and

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259 Nedopil Wang, Cristoph. 2023. Ten years of China's Belt and Road Initiative (BRI): Evolution and the road ahead. Regional Outlook Paper No. 76. Griffith Asia Institute and Green Finance and Development Center. [https://greenfdc.org/wp-content/uploads/2023/10/Nedopil-2023\\_Ten-years-China-Belt-Road-Initiative-BRI.pdf](https://greenfdc.org/wp-content/uploads/2023/10/Nedopil-2023_Ten-years-China-Belt-Road-Initiative-BRI.pdf). (Accessed on 18 September, 2023).

260 Giri, Anil. 19 July, 2023. China launches 'Silk Roadster' projects under BRI in Nepal. The Kathmandu Post. <https://kathmandupost.com/national/2023/07/19/china-launches-silk-roadster-projects-under-bri-in-nepal>. (Accessed on 18 September, 2023).

261 Giri, Anil. 23 September, 2023. Two Nepal projects selected under China's GDI. The Kathmandu Post. <https://kathmandupost.com/national/2022/09/23/two-nepal-projects-selected-under-china-s-gdi>. (Accessed on 23 October, 2023).

outline for GSI was released on February, 2023. GSI is taunted as a new global security strategy intended to build an alternative ‘security architecture’ to set its prioritized norms globally.<sup>262</sup> China has repeatedly called Nepal to endorse its new security initiative, and even went to lengths to claim Nepal supports China led GSI,<sup>263</sup> but the Kathmandu administration is firm not to join any strategic, security or military alliances, given its policy of non-alignment. However, the participation of Nepal’s president in a GSI forum on September 2022, despite the reservation of the Nepal government has raised concerns.

President Xi announced the Global Civilization Initiative (GCI) on March 2023 at the Communist Party of China (CPC) in dialogue with World Political Parties high level meeting. GCI is reportedly launched to promote tolerance, co-existence, exchange and learning among different civilizations to advance humanity’s modernization process. GCI seems to counter the replication of the western model as a modernization trajectory for developing countries, and advocates for alternative growth models with prioritization on national conditions and unique features.<sup>264</sup> As the comprehensive outline and implementation modality of GCI isn’t disclosed as of now, China organized a dragon boat race festival in Pokhara in June 2023 and claimed the event to be under GCI.<sup>265</sup>

On June 2023, on the tenth anniversary of Belt and Road (BRI) initiative, China announced ‘Silk Roadster’ program under BRI in Nepal in the presence of two leaders of Communist Party of China (CCP). Silk Roadster includes five projects, namely- Silk Road Embarkment, Silk Road Empowerment, Silk Road Engagement, Silk Road Enlightenment and Silk Road Enhancement. Silk Roadster is to be implemented through political parties and social organizations. This program under BRI includes micro intervention programs including technical skills training, overseas study project, short term exchanges, cooperation among enterprises, cultural exhibition and exchanges among others. While it is yet to see how ‘Silk Roadster’ materializes in length, this announcement signals China’s strategic shift to include micro projects under the BRI in Nepal.

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262 Gelal, Arpan. 07 March, 2023. China Loses Ground in Nepal. *The Diplomat*. <https://thediplomat.com/2023/03/china-loses-ground-in-nepal/>. (Accessed on 20 September, 2023).

263 Giri, Anil. 21 September, 2023. Bhandari attending Beijing’s GSI event after foreign ministry’s bungles. *The Kathmandu Post*. <https://kathmandupost.com/national/2022/09/21/bhandari-attending-beijing-s-gsi-event-after-foreign-ministry-s-bungle>. (Accessed on 23 September, 2023).

264 PTI. 16 March, 2023. President Xi Moots Global Civilisation Initiative At World Political Parties Meet Held By CPC. *Outlook India*. <https://www.outlookindia.com/international/president-xi-moots-global-civilisation-initiative-at-world-political-parties-meet-held-by-cpc-news-270457>. (Accessed on 23 September, 2023).

265 Khabarhub. 29 June, 2023. Chinese Ambassador Song spearheading propaganda campaign. *Khabarhub.com*. <https://english.khabarhub.com/2023/29/308904/>. (Accessed on 23 September, 2023).

## CHAPTER VIII

# Conclusion & Recommendations

Nepal signed up for the BRI in 2017 which was a culmination of China's push coupled with Nepal's desire to diversify its trade and open up its connectivity links in the northern frontier of Nepal after the unofficial border blockade in southern border points. Seven years have passed since the agreement, and now the BRI is in limbo. The mainstream political parties, particularly the communist ones, were bullish on BRI in the first few years. Chinese initiative then gradually started losing momentum; and over the years, issues surrounding it made headlines across the globe. China's lending pattern got scrutinized, and cases of corruption, irregularities and implementation model attracted criticisms. Sri Lanka's economic crisis and the role that Chinese loans in further exacerbating it added to the fear of China's perceived debt trap or strategic trap diplomacy. Even in the case of Nepal-China BRI Agreement, with the shift in internal political dynamics, particularly after the split of the NCP, the narrative has changed for the worse. The BRI managed to evade scrutiny for years as the MoU was kept undisclosed by both parties. However, once the MoU was available in the public domain, contentious provisions like that of the free trade agreement, policy exchange, and use of Chinese currency for trade drew flak from experts. Above all, the loan component of the BRI with a high interest rate, and shorter payback period raises questions if the BRI implementation will ever see the light of the day.

On Nepal's part, lack of preparation, lack of efficient institutional mechanisms and partisan proclivities of the political parties are the major constraints to move forward with BRI implementation. There has been a brazen lack in preparation starting right from signing the MoU. This was further reflected in project

selections, and in negotiations with China for the funding modality of the BRI projects. The geopolitical and strategic implications of China's BRI have added to Nepal's challenges. Both the US and India, China's two major rivals, have remained opposed to the BRI, and this makes it even more tricky for Nepal to tread the thin line of geopolitical balance.

In essence, there are a myriad of challenges pertaining to the BRI implementation. The only way out is taking a firm stance on Nepal's interests. While there still remains a room to negotiate with China on all those contentious provisions, and on the implementation model, it is yet to be seen if China would be ready to accommodate Nepal's concerns. Whether or not the BRI will undergo further implementation is now contingent on China's flexibility to address Nepal's concerns.

While Nepal could gain from better connectivity ties and financial integration with China, it is possible, if and only if, Nepal has a clear roadmap to do so. In the absence of proper study, and a clear vision on ways to reap benefits from China's BRI, challenges and costs of its implementation would outweigh opportunities and benefits.

We recommend the following measures for BRI implementation in Nepal so as to benefit from China's initiative that meets Nepal's interests-

- The BRI projects can't be undertaken with high interest rates, and a shorter payback period. Nepal should remain firm on the stance that Nepal won't accept commercial loans, and therefore, should further push and negotiate with China for grants. Concessional loans with a reasonable interest rate could be the last resort.
- Further, if Nepal is to receive a loan nonetheless, projects that serve Nepal's national interest as well as those that could easily recover costs should be identified and prioritized.
- Nepal should push China to make the projects under the BRI open for international competitive bidding.
- Rather than aiming for big infrastructure like the much-hyped trans-boundary railway, BRI could prove more beneficial to Nepal if other smaller projects

are prioritized. Projects such as railways aren't just expensive and difficult to construct but are equally costly to maintain.

- Nepal shouldn't move ahead with the FTA, instead it could go with the concept of 'early harvest' or 'low hanging fruit' wherein a list is drawn in order to form a win-win situation for both nations.
- The provision for policy exchange, as mentioned in the MoU is vague, and therefore, Nepal should seek further clarification so as to qualify the provision to obviate any possibilities of Chinese interference over Nepal's internal affairs.
- Nepal should undertake further studies on other contentious provisions of the MoU, like that of use of Chinese currency in bilateral trade, by consulting experts, think tanks and stakeholders.
- Nepal should remain cautious of the geopolitical implications of the BRI projects and provisions, and should actively seek to maintain amicable ties with all regional and global powers.
- Nepal should be better prepared to negotiate with China. For this, the negotiation team should be headed by a cabinet minister, and the government should consult researchers, think tanks, and stakeholders to be better prepared for the same.
- Political parties should once and for all give up their proclivity to conduct affairs being guided with their own vested interests. Nepal's foreign policy and the conduct of foreign affairs shouldn't be influenced by ideological inclination of political parties.
- The Government of Nepal should undertake a comprehensive study to assess overall impacts: political, economic and geopolitical implications of the BRI implementation, if BRI is to move forward.

## Annex A: Timeline of the BRI and Nepal-China Engagements

Date	Event
18 April 2013	Pushpa Kamal Dahal (Prachanda) met President Xi Jinping in Beijing. Among many things, Dahal urged the President to increase investment in Nepal which in turn would improve Nepal-China ties.
1 September 2013	The 'Silk Road Economic Belt' was unveiled by President Xi during his visit to Kazakhstan.
October 2013	President Xi proposed to establish a China-ASEAN community and provided guidance on the '21st Century Maritime Silk Road.'
October 2014	Deputy Prime minister Bam Dev Gautam visited China. Chinese authorities told the Deputy PM that a bilateral investment promotion and protection agreement (BIPPA) would encourage China to invest more, and with confidence, in Nepal.
December 2014	Chinese Foreign Minister Wang Yi visited Kathmandu, and requested Nepal to conduct a feasibility study for the proposed railway extension project from the Tibetan city of Shigatse to Kathmandu and beyond.
February 2015	In the global arena, China sketched priorities for the BRI, highlighting transportation infrastructure, easier trade and investment, financial cooperation and cultural exchanges.
March 2015	China disclosed its action plan on the principles, framework, and cooperation priorities and the mechanisms of the BRI.
23- 28 March 2015	Prachanda embarked on a five-day visit to Kunming, China on the invitation of the CCP.
January 2016	The AIIB began its operation.
February 2016	Senior CCP official, Xiao Wunan visited Nepal and met with PM Oli and Finance Minister Bishnu Paudel, among others. He briefed about the Lumbini Recovery Plan.

<p>20-27 March 2016</p>	<p>PM KP Oli visited China, along with Deputy PM and Minister for Foreign Affairs, Kamal Thapa. PM Oli held talks with his Chinese counterpart, Premier Le Keqiang and President Xi Jinping regarding Nepal-China bilateral ties. He attended the Boao Forum for Asia on the theme ‘Asia’s New Future: New Dynamics, New Vision’ on 24th March 2016.</p>
<p>12 May 2016</p>	<p>Beijing sent the first ever combined transport service to Nepal with goods cargo departing from Lanzhou and reaching Shigatse via train, and then via road to Kathmandu.</p>
<p>10-16 June, 2016</p>	<p>Vice President, Nanda Bahadur Pun visited Kunming, Yunnan Province of the People’s Republic of China. He attended the 4<sup>th</sup> China-South Asia Exposition 2016 and 24<sup>th</sup> China Kunming Import and Export Fair.</p>
<p>15 - 20 August, 2016</p>	<p>Deputy PM Krishna Bahadur Mahara, embarked on an official visit to China, as special envoy of PM Pushpa Kamal Dahal, to convey continuity on a range of issues that had been discussed during the premiership of former PM KP Oli.</p>
<p>18 October 2016</p>	<p>CPN (Maoist Center) leader Narayan Kaji Shrestha flew to China at the invitation of the Communist Party of China.</p>
<p>28 February 2017</p>	<p>Chinese Ambassador to Nepal Yu Hong met with the PM Pushpa Kamal Dahal at his official residence. Dahal reiterated at the meeting that Nepal and China will carry out bilateral development cooperation projects under the framework of the BRI.</p>
<p>23 -26 March, 2017</p>	<p>PM Pushpa Kamal Dahal, Prachanda visited China. He led a 12-member Nepali delegation to participate in the Annual Conference of Boao Forum and expressed his commitment to participate in the ‘OBOR’ project of China.</p>
<p>9 May 2017</p>	<p>MoU on the construction of Nepal-China Cross-Border Economic Cooperation Zone was signed by Deputy PM Mr. Krishna Bahadur Mahara and Mr. Zhong Shan, Minister of Commerce of China.</p>
<p>12 May 2017</p>	<p>Nepal and China signed the MoU on Cooperation under the BRI in Kathmandu. Foreign Secretary Shanker Das Bairagi and Ambassador of China to Nepal Yu Hong signed the MoU on behalf of their respective governments at the Ministry of Foreign Affairs.</p>

23 - 26 March, 2017	PM Pushpa Kumar Dahal, Prachanda met President Xi Jinping in Beijing. Nepal and China announced an agreement to expand cooperation under the BRI and promote FTAs. However, the chief purpose of his visit was to attend the Boao forum for Asia Annual Conference 2017, held in China's Hainan province.
4 - 10 July, 2017	Vice President, Nanda Bahadur Pun visited the People's Republic of China. He attended the 23rd China-Lanzhou Investment and Trade Fair being held. He also addressed the high-profile forum for Cooperation and Development along the Silk Road on 6th July, 2017.
15 May 2017	<p>During a bilateral meeting in Beijing, Chinese Vice Premier Wang Yang told Nepal's Deputy PM and Foreign Minister Krishna Bahadur Mahara that China was willing to push for the steady development of basic infrastructure projects between the two countries, such as road and railway construction.</p> <p>According to IBN, China agreed in principle to provide financial support to Nepal for the construction of a cross-border railway link that would link Kerung with Kathmandu, Pokhara and Lumbini, according to Minister for Information, Surendra Kumar Karki.</p>
16 August 2017	<p>Vice-Premier Wang Yang visited Nepal.</p> <p>The highest level visit from the northern neighbor in the last five years, according to the Ministry of Foreign Affairs. Former premier of China, Wen Jiabao had visited Nepal in 2012.</p> <p>A USD 1 million humanitarian aid package and an agreement to explore oil and gas resources were among the deals signed during his visit.</p>
7 September 2017	Krishna Bahadur Mahara visited China. Despite Nepal's repeated commitments to China's BRI, a sense of uncertainty and skepticism towards Nepal's commitment persisted among Chinese officials.

<p>13 November 2017</p>	<p>Nepal scrapped a USD 2.5 billion deal with China Gezhouba Group Corporation to build the 1200 MW Budhigandaki project, citing lapses in the award process.</p>
<p>17 - 21 April 2018</p>	<p>Foreign Minister Pradeep Gyawali visited to China</p> <p>The two sides agreed to establish a coordination and implementation mechanism for facilitating the effective implementation of the Chinese government-aided projects. They held discussions on achieving an enhanced level of bilateral co-operation in the development of infrastructure, transportation networks, trade, tourism and people-to-people relations under the Belt and Road Initiative, and agreed to identify projects for cooperation under the Initiative.</p>
<p>19-24 June 2018</p>	<p>PM KP Oli visited China. Nepal and China signed various deals including a MoU for Railway Connectivity. Private sector investors signed MoUs for eight different projects. A total of 14 different agreements were signed including railway construction in Nepal based on the Transit Transport Agreement between Nepal and China in 2016. The signing of MoU on Cooperation in Railway Projects was a significant milestone.</p>
<p>7 September 2018</p>	<p>Two years after signing the TTA, Nepal and China agreed on the text of the protocol to the agreement that will allow Nepali traders and businessmen to use Chinese sea and land ports for third country trade.</p>
<p>8 September 2018</p>	<p>Nepal and China concluded the protocol of TTA.</p>
<p>14 - 20 September 2018</p>	<p>Spokesperson of NCP, Narayan Kaji Shrestha visited China. Spokesperson Shrestha held interactions with office-bearers of the Schooling Department of Communist Party of China in Beijing.</p>
<p>15 September 2018</p>	<p>CPN Chairperson Pushpa Kamal Dahal (Prachanda) left for a visit to China upon the invitation of the CPC. He cited the reason for his visit was to extend and strengthen the relations between CPN and CPC.</p>

19 - 24 September 2018	The vice president of Nepal, Nanda Bahadur Pun led a delegation to China. He delivered keynote speeches at the 17th Western China International Fair (WCIF) and the Belt and Road Cooperation Development Conference on Business Community of Shared Future. He requested the Chinese and Foreign investors to invest in Nepal.
23-30 October, 2018	Deputy PM and Defense Minister Ishwar Pokhrel visited China. He held bilateral talks with China's State Councilor and Defense Minister Gen. Wei Fenghe in Beijing. Deputy PM further mentioned the importance of military co-operation in military training, hardware in humanitarian and disaster management, and medical equipment and peace-keeping operations, and requested for Chinese support in establishing Defense University in Nepal.
25 April - 4 May 2019	President Bidya Devi Bhandari embarked on a 9-day visit to China to attend the BRF.
23 - 25 September 2019	Chief of the International Department of CPP Central Committee Song Tao arrived in Kathmandu on a three-day visit.
12 - 13 October 2019	<p>Chinese President Xi Jinping arrived in Kathmandu</p> <p>PM Oli and President Xi witnessed exchanges of different Agreements, MoUs and Letters of Exchange during Xi's visit to Nepal in 2019. Following are the major agreements:</p> <ul style="list-style-type: none"> <li>● MoU between the Governments of Nepal and the People's Republic of China on the Exchanges and Cooperation on Governance Capacity Building</li> <li>● MoU on Promoting Key Projects of Investment and Cooperation on Productive Capacity between the National Planning Commission of Nepal and the National Development and Reform Commission of the People's Republic of China.</li> <li>● MoU between the Ministry of Physical Infrastructure and Transport of Nepal and the Ministry of Transport of the People's Republic of China on Feasibility Study of China-Nepal Cross-Border Railway Project.</li> </ul>

	<ul style="list-style-type: none"> <li>• Agreement between Tribhuvan University of Nepal and Confucius Institute Headquarters of China on the Establishment of Confucius Institute at Tribhuvan University.</li> <li>• MoU between the Ministry of Industry, Commerce and Supplies of the Government of Nepal and the Ministry of Commerce of the People’s Republic of China on the Establishment of Joint Working Group on Trade</li> <li>• MoU on Establishment of Investment Cooperation Working Group between the Ministry of Finance of Nepal and the Ministry of Commerce of the People’s Republic of China</li> </ul>
1 December 2019	A Chinese delegation from Yunnan Academy of Social Sciences (YASS) held an interaction with the representatives of China Study Center in Kathmandu. A five-member delegation was led by YASS Vice-President Professor Huang Xiaojun.
5 - 10 January 2020	Minister for Home Affairs Ram Bahadur Thapa visited China. He held delegation-level talks with the State Councilor and Minister of Public Security of the PRC, Zhao Kezhi in Beijing. Matters pertaining to mutual interests and promotion of bilateral cooperation were discussed, while Minister Thapa assured that Nepal was steadfast in its one-China policy.
28 November 2020	Chinese Defence Minister, Wei Fenghe arrived in Kathmandu on a day-long visit. Wei paid a courtesy call on President Bidya Devi Bhandari and held talks with the Chief of the Nepal Army, General Purna Chandra Thapa.
27 - 30 December 2020	A Chinese delegation led by Guo Yenzhou, vice-minister of the International Department of the CPC came to Nepal. The visit came at a time when the ruling NCP had split vertically and Beijing was concerned over political stability in Nepal and the unity of the ruling party.
March 25 - 27, 2022	Chinese State Councilor and Foreign Minister Wang Yi visited Nepal. Wang Yi’s visit came a few weeks after Nepal ratified the MCC. He came to push for the implementation of China’s BRI.

10 - 13 July 2022	Minister of International Department of the Central Committee of the CPC, Liu Jianchao visited Nepal. He paid a courtesy call to PM Sher Bahadur Deuba and President Bidya Devi Bhandari; while matters of mutual interest and strengthening bilateral ties were discussed.
9 - 11 August 2022	Minister for Foreign Affairs, Narayan Khadka visited China upon the invitation of State Councilor and Minister of Foreign Affairs of PRC, Wang Yi. The Foreign Minister held bilateral talks with his Chinese counterpart in strengthening ties.
12 - 15 September 2022	Chinese Speaker Li Zhanshu arrived in Kathmandu for a four-day visit. He held bilateral talks with Speaker Agni Sapkota, PM Deuba and President Bhandari. While also holding separate meetings with CPN-UML Chairman KP Sharma Oli and CPN (Maoist Center) Chairman Pushpa Kamal Dahal.
11 - 15 November 2022	Chinese Vice Minister for Culture Li Qun visited Nepal before the Nepalese election. He visited Nepal on a 'personal' visit. Li had requested for informal meetings with PM Sher Bahadur Deuba and Foreign Minister Narayan Khadka, as both were busy in election campaigns, the said meetings could not take place.
23 - 30 September 2023	PM Puspa Kamal Dahal made an official visit to China at an invitation of Premier of the State Council of PRC.

## Annex B: Nepal-China BRI MoU

Memorandum of Understanding (MoU) between the Government of Nepal and the Government of the People's Republic of China on Cooperation under the Belt and Road Initiative. (As acquired from khabarhub.com)



**Memorandum of Understanding (MOU)  
between the Government of Nepal and  
the Government of the People's Republic of China  
on Cooperation under the Belt and Road Initiative**

Being cognizant of importance of cooperation between the Government of Nepal and the Government of the People's Republic of China (hereinafter collectively referred to as "the two sides") to promote mutually beneficial cooperation with full respect to each other's sovereignty and laws;

Being desirous to promote cooperation on mutually beneficial areas between the two countries under the principles of proposed framework of the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road Initiative (hereinafter referred to as "the Belt and Road Initiative") to realize equitable sharing of benefits from integration of goods, technology, capital and human resources;

Realizing that sharing of experiences between the two sides in formulating development strategies, enhanced policy dialogue for mutually beneficial cooperation on fields such as economy, environment, technology and culture will help contribute to rapid development and economic prosperity of both countries;

Hereby the consensus has been reached as follows:

**Article I: Objectives of Cooperation and Guiding Principles**

- I. The two sides shall, taking advantage of good neighbourly ties, promote mutually beneficial cooperation, under the Belt and Road Initiative as per mutually agreed terms and conditions, to realize economic growth and sustainable development; thereby enabling the two sides to further develop friendly relationship, enhance economic ties, deepen cooperation and promote people-to-people exchanges. Cooperation between the two countries under this framework will result in strengthened connectivity and transit-transport facilities, enhanced economic partnership characterized by openness, inclusiveness, balanced development, shared benefits and environmental sustainability between the two countries and other benefits. The two sides shall ensure the sustainability of the programs and projects by taking into account of the economic, social and environmental dimensions, and enhance cooperation in areas of climate change and disaster management, among others.

- II. The two sides shall adhere to the following principles in their cooperation:

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A handwritten mark or signature in black ink, appearing to be a stylized '3' or similar character.



- (i) respecting each other's core interests and major concerns, enhance mutual trust and promote win-win cooperation to realize prosperity and development;
- (ii) cooperation to inject new vigor in economic and social development in accordance with each other's applicable laws and international obligations;
- (iii) strengthening connectivity and mutual support, draw on each other's strength and best practices by making full use of the existing bilateral mechanisms, regional cooperation mechanisms and multilateral forums where applicable.

#### Article II: Areas of Cooperation

The two sides agreed to facilitate cooperation in the following areas:

- I. **Policy Exchanges:** Carry out dialogues and exchanges in areas of major development strategies, plans and policies.
- II. **Facilities Connectivity:** Strengthen cooperation for connectivity by enhancing cooperation on transit transport, logistic systems, transport network security and related infrastructures development through joint studying and promoting cross border infrastructure projects, including railway, road, civil aviation, power grid, information and communication. Also push for the development of major projects beneficial to both sides and strengthen mutual recognition of standards and information sharing.
- III. **Trade Connectivity:** The two sides shall conclude the joint feasibility study of China-Nepal Free Trade Agreement within 2017 and if viable, will start negotiations on the Free Trade Agreement (FTA) to further open up markets and expand two-way trade, with a view to achieving a win-win outcome; establish cross-border economic cooperation zone at the existing ports; improve investment landscape with a view to developing mega projects in the areas of power generation, water conservancy, road, railway line, cross-border transmission line, information and communication technology infrastructures etc., strengthen bilateral cooperation on customs, entry and exit control, inspection and quarantine and mutual recognition of standards as well as certification and accreditation.
- IV. **Financial Integration:** The two sides shall endeavor to expand the use of national currencies in bilateral trade transactions and investment according to practical situation. The two sides shall encourage financing support and service for investment and trade cooperation, and provide facilitation and



and technological support for these programs through mutually agreed sources of funds; and strengthening of exchanges and cooperation to ensure program's sustainability and safety.

- II. For cooperation in any specific field, the two sides shall sign agreements or other cooperation documents based on mutually agreed terms and conditions.

#### Article IV: Settlement of Differences

The two sides shall settle the differences in the interpretation and implementation of this MOU through friendly consultation.

#### Article V: Commencement, Amendment and Termination

- I. The MOU shall enter into effect on the date of signing and shall remain valid for three years.
- II. The two sides shall modify and supplement the MOU, when necessary, and any agreed revision in writing shall be considered as an integral part of this MOU.
- III. Either side intending to terminate this MOU shall give written notice to the other side through diplomatic channel at least three months prior to the expiration of this MOU. Termination of the MOU will not affect any ongoing projects.
- IV. This MOU shall be automatically renewed for another three years thereafter unless and until terminated by either side by giving written notice at least three months in advance to the other side prior to the expiration of the present MOU.

Done at Kathmandu on May 12, 2017, in duplicate, in Nepali, Chinese and English languages. Each version is equally valid. In the case of any divergence of interpretation, the English text shall prevail.

Representative  
Government of Nepal

Handwritten signature of Shanker Das Bairagi in black ink.

Shanker Das Bairagi  
Secretary  
Ministry of Foreign Affairs

Representative  
Government of the People's Republic of China

Handwritten signature of Yu Hong in black ink.

Yu Hong  
Ambassador Extraordinary and Plenipotentiary  
of the People's Republic of China to Nepal



## About CESIF

CESIF Nepal is a not-for profit, autonomous and independent private research think tank serving in the public interest, with significant independence from any donor or interest group and autonomy from government. Our mission is to help the government and the society create a democratic, secure and just society by making informed and transparent decisions about policies and practices.



📍 Kumaripati, Lalitpur, 44700, Nepal.

☎ +977-1-5008814/05, 5537508

✉ info@cesifnepal.org

🌐 www.cesifnepal.org

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