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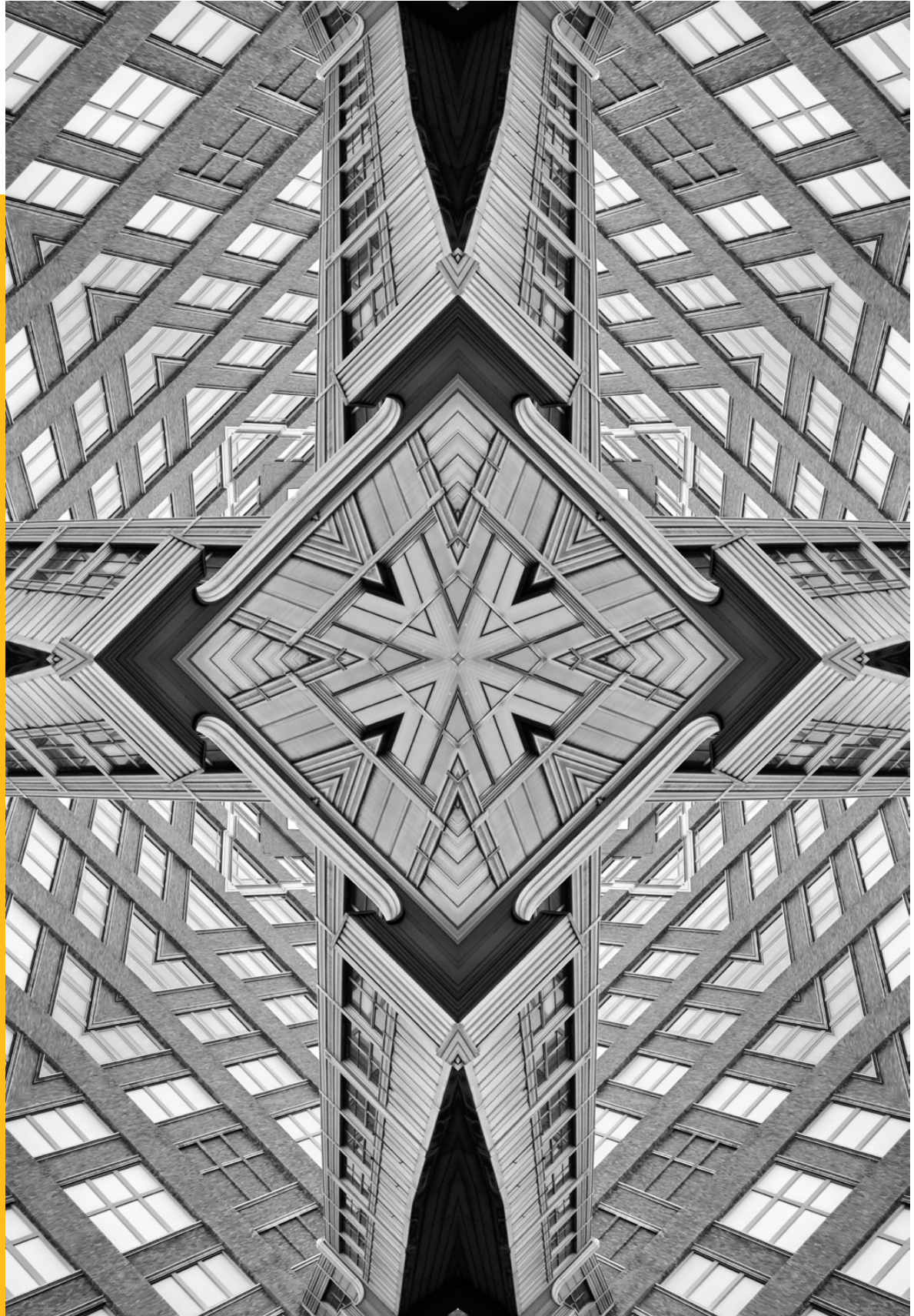
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BRI in Nepal: An Appraisal

Shivam Shekhawat

Abstract

Nepal signed the framework agreement of the Belt and Road Initiative (BRI) with China in May 2017. Of the initial 35 projects that Nepal had proposed, the final number eventually came down to nine. Seven years later, none of the BRI projects have been completed. In 2023, the tenth year of the BRI, controversies surrounding China's attempt to co-opt even 'non-BRI' projects under the framework, and Nepal's efforts to secure more grants instead of loans for big-ticket infrastructure projects, started clouding the relationship, although there is progress in certain other domains. This paper analyses the status of the BRI projects in Nepal, the impediments to the completion of the projects, and how delays are affecting China's clout in the country, if at all.

In September 2023, during Nepali Prime Minister Pushpa Kumar Dahal's visit to Beijing to meet with the Chinese President and Premier, the two countries signed 12 agreements on connectivity, security, and sovereignty.¹ Both Kathmandu and Beijing vowed to expedite the signing of the implementation plan for the Belt and Road Initiative (BRI). Many contentious issues that Nepal wanted to raise, however, did not find any mention in the discussions with China. These include the reservations around the funding that Nepal was receiving from China, which included more loans and not grants (which is what Nepal would have preferred), and recent Chinese actions of unilaterally co-opting 'non-BRI' projects under the framework.

The year 2023 marked a decade since the conceptualisation of China's flagship BRI. While proposing its formation, Xi Jinping outlined two aspects of the initiative: the Silk Road Economic Belt, and the Maritime Silk Road. The initiative is now viewed in parallel with Beijing's overall growing economic footprint in different parts of the world. In South Asia, barring India and Bhutan, all other countries have joined the BRI, albeit achieving varying levels of implementation. There are multiple reasons why certain BRI projects are off-track: concerns surrounding unsustainable debts, like in the experience of Sri Lanka; fear of strategic encroachment by China; protests from local populations because of the environmental risks that many projects pose; and China's opaque lending conditions and exorbitant interest rates. For countries in South Asia, their decision to proceed with the BRI or oppose it is also hinged on a myriad of local factors.²

Nepal, compared to its South Asian neighbours, in absolute terms has received less financial assistance and investments from China. The exceptions would be India, Bhutan, and the Maldives, which have received even less than Nepal. Nepal received US\$4.5 billion between 2000-2017 in Chinese investments, grants, and loan packages, including the pledges made by Beijing, not all of which have materialised.³ Moreover, the Foreign Direct Investment (FDI) that Nepal has received from China mostly comprises loans, rather than paid-up capital.

It was in May 2017 that Nepal signed a Memorandum of Understanding (MoU) on the framework agreement of the BRI; at the time, it had hoped to cash in on much needed investments for connectivity and infrastructure. A total of 35 projects were listed to be covered under the initiative. By 2019, the number had fallen to nine, and at the time of writing this paper, none of the projects under the initiative has come to fruition.

Introduction

Perhaps the question, to begin with, is defining “success” (or “failure”) in the context of the BRI: Does such an appraisal consider China’s gains in terms of furthering its security objectives in the host country? Speculations on whether the conceptualisation of the BRI marked a new turn in China’s foreign policy or whether it was an alternative way of ‘(re)packaging’ what it was already doing have also now gained more importance.⁴ With slow progress under the hard infrastructure aspect of the framework, these speculations warrant further discussion to understand how the BRI has progressed in the country.

This paper outlines Nepal’s and China’s respective objectives in signing the BRI agreement and examines the impediments to the completion of the projects. It explores how the delays are affecting China especially in terms of expanding its influence in the host country.

“The question, to begin with, is defining ‘success’ in the context of the BRI: Does it consider China’s gains in furthering its security objectives in the host country?”

Foreign Assistance as Tool of Influence

The 2015 earthquake in Nepal wreaked devastation in the country, killing close to 9,000 people and causing damages valued at US\$7.1 billion. Both India and China stepped in with aid and assistance, employing their “political tools of persuasion” to increase their influence in the country.⁵ The behaviour of states in using disaster aid as a political tool is a subject that has been studied by scholars, who see an intersection of foreign assistance and strategic interests.⁶

Indeed, the 2015 earthquake in Nepal and the socio-political changes that it brought about, with the new Constitution being promulgated and the subsequent unofficial Indian blockade,^a are regarded as an inflection point in the Nepal-China relationship. In the aftermath of the earthquake and the adverse impact of the blockade, China increased its humanitarian and disaster relief assistance to Nepal. It deployed a disaster relief team, promised an emergency relief fund of US\$3.3 million, sent dozens of Army personnel with a rescue team sent by the military as well, and pledged the formation of a 500-member road repair brigade under the People’s Police. Its post-reconstruction commitment was pegged at US\$483 million. It assisted the country in the removal of debris by providing equipment, evacuated stuck labourers, and deployed its security forces to open overland routes impacted by the debris from the earthquake.^{7,8}

To be sure, the Nepal-China relationship had already been in an upswing even before the earthquake. China’s forays into Nepal’s infrastructure sector began in 1961 when it committed to develop the Lhasa-Kathmandu highway, finishing it in 1967. It also funded the highway from Pokhara to Naubise in 1974 and the ring road around Kathmandu in 1973. Its assistance during this period, until the late 1980s, was concentrated in the hilly and mountainous regions.

For Nepal, such assistance was welcome as its infrastructure was scant. Indeed, in its first Five-Year Plan (1956-61), Nepal explicitly mentioned the country’s need for bilateral and multilateral assistance in fulfilling its infrastructural needs. Even then, however, it was careful not to be completely dependent on foreign aid and maintaining control over its domestic affairs.⁹

a After the adoption of a new Constitution in Nepal in 2015, Madhesis, who were dissatisfied with the provisions of the Constitution launched protests, blocking the border between India and Nepal. This blocked the flow of goods between the two countries. Nepal accused India of tacitly supporting the blockade, which ended after almost four months.

Foreign Assistance as Tool of Influence

The progress in infrastructure development that it achieved between 1950 and 1990 would later pave the way for the subsequent competitions between states for influence in Nepal.¹⁰ During the ‘People’s war’,^b a significant portion of the country’s resources had to be diverted for the war, and development finance fell from 56.6 percent of GDP in 1996-97 to 40.86 percent in 2003-04. But the question of *bikas*’ or development has been a deeply entrenched feature of the country’s domestic and foreign affairs.¹¹

In the succeeding years, China heightened efforts to expand its presence in Nepal. In 2014, Beijing increased its FDI pledges for Nepal even as the highest FDI stock remained that of India.¹² It also signed an MoU in November 2014, earmarking 10 million RMB (US\$1.63 million) for 2014-2018 for the border districts in the areas of health, education, and road infrastructure. Beijing’s grants to Nepal increased fivefold in 2015, with Beijing pledging 800 million RMB (approx. US\$130 million) for infrastructure development, technical assistance, and enhancing cooperation between the two sides, a jump from the US\$150 million that it promised in its previous annual grant.¹³ Initially, Chinese assistance to Nepal was seen as being magnanimous and with no strings attached. This was true for other recipient countries as well. According to Chinese officials, between 2013 and 2018, the country spent US\$39.4 billion in total foreign assistance,¹⁴ which included grants of US\$18 billion and concessional loans amounting to US\$19.1 billion.

After 2015, however, Beijing began creating for itself a new role in the country.¹⁵ Following the blockade, China’s symbolic supply of 12 metric tons of fuel via the Kyirong-Rasuwa Pasang Lhamo Highway was seen as a significant turning point in both the India-Nepal and Nepal-China relationships. The act allowed Beijing to leverage the cleavages between New Delhi and Kathmandu. In October 2015, China National United Oil Corporation signed an MoU with Nepali Oil Corporation for the grant of 1.2 million litres of oil to Nepal. In December, China provided an additional 1.4 million litres¹⁶ and pledged the reconstruction of 25 projects damaged in the aftermath of the earthquake.

b Launched by the Maoists on 13 February 1996 to establish a secular republic state and to draw up a new Constitution. A peace deal was signed between the government and the rebels which eventually led to the end of the monarchy in the country and created a federal democratic republic in 2008. Around 13,000 people died throughout the duration of the war.

Foreign Assistance as Tool of Influence

Historically, the seeds of the relationship between China and Nepal were sown in the aftermath of the Chinese annexation of Tibet in 1950.¹⁷ For Beijing, the importance of connectivity and infrastructure is intrinsically linked to its security concerns with regard to the presence of Tibetan exiles in Nepal in the borderlands across the northern districts. China has used the positive momentum in its relationship with Kathmandu to assuage its security concerns in Tibet.¹⁸ Multiple intelligence sharing agreements have been signed between the two sides since 2008, when pro-Tibet protests erupted in Nepal, spearheaded by the Tibetan exiles in the country. It began investing in the Nepalese Police Force to bolster their ‘anti-riot capacity.’

When the King imposed a state of emergency in 2006 and all other countries stopped the delivery of lethal weapons to Nepal, China sent 18 trucks of weapons worth US\$1 million, following which there was a crackdown on Tibetan refugees in the country.¹⁹ It has also provided surveillance equipments to the police forces.²⁰ In 2013 it granted 200 million RMB for the construction of the Nepal National Armed Police Force Academy. It also donated security equipment worth US\$3,831,135 to the police forces in the country in 2010, principally to monitor the movements of the Tibetan community.

The 2015 blockade was not the first time that New Delhi had placed pressure on Nepal to wean it away from China’s growing influence. Years earlier, in 1989, India reduced the number of border checkpoints in the India-Nepal border from 22 to two, after Nepal bought anti-aircraft missiles from China.²¹ At that time too, Chinese transport aircraft ferried 300 tonnes of petroleum products to Nepal while the Chinese Premier asserted that Beijing would also protect Nepal’s independence. Decades before, during the 1962 war, New Delhi urged Nepal to not construct any roads in the southern border abutting India; Nepal complied.²² The earthquake is regarded as a historical ‘choice point’—an event that compels a country to change their trajectory and look for alternative routes.²³ The post-reconstruction requirements brought up by the earthquake and the subsequent adverse impact of the blockade also became an opportunity for the different parties in Nepal to come together against an entity, i.e., India in that case.²⁴ This collective stance in turn facilitated the country’s pivot towards China.

The Conceptualisation of BRI in Nepal

In a joint statement released after the visit of the then Nepali Prime Minister K.P. Sharma Oli to Beijing in 2016, China congratulated Nepal on the adoption of a new Constitution and termed it as a “historic milestone” in the country’s “political transition”.²⁵ The two sides also committed to developing “major projects” under the BRI framework. Beijing marketed the BRI as a means for stability, reducing India’s influence, and freeing the country from its dependency on Western NGOs.²⁶

On 12 May 2017, the framework agreement on BRI was signed under the prime ministership of Pushpa Kumar Dahal (popularly known as ‘Prachanda’) who succeeded Oli. Nepal set up two committees steered by the Finance Secretary and Foreign Secretary to identify the projects that would come under the initiative. The former recommended 35 projects, a list of which was presented by the prime minister on his visit to China in June 2019; the projects required investments of US\$10 billion.²⁷ Upon China’s request, the number was brought down to nine priority projects. It took two years for the two sides to reach a consensus on which projects should come under the framework,²⁸ and a Commercial Counsellor’s Office was set up in Kathmandu, with officials from China’s Commerce Ministry, to manage the projects.²⁹

During Xi’s visit to Nepal in 2019, the joint statement released after the conclusion of talks lumped all projects finalised under the BRI framework—‘ports, roads, railways, aviation and communications’—under the Trans-Himalayan Multi-Dimensional Connectivity Network.^{c,30} According to China, this was done to further Nepal’s development agenda, help it transition from ‘least developed country’ status, and achieve its 2030 SDGs.³¹ In July 2019, the then Foreign Minister Wang Yi agreed to make joint efforts with Nepal to boost the connectivity network within the BRI.³² It is pitched as a gateway to reduce Kathmandu’s dependence on India.

The then President Bidya Devi Bhandari signed a Protocol on Implementing the Agreement on Transit and Transportation at the forum. This was done to legally facilitate the cross-border trade along the north-south corridors of the two countries.³³ It allowed Nepal to use three Chinese land ports and four sea ports for trade with third countries. The agreement came into effect in February 2020.

c An economic corridor proposed by China under the BRI in Nepal to help Nepal become a “land-linked” country. It is an overarching term for the big-ticket infrastructure projects in Nepal, particularly the Kerung-Kathmandu railway and other communication networks.

The Conceptualisation of BRI in Nepal

From nine to seven

Table 1

BRI Projects in Nepal, as Finalised in 2019

Project Name	Status
Upgrade of Rasuwagadhi-Kathmandu Highway (Two stretches: Tokha-Chhahare and Mailung-Syaphrubesi) Funding Type: Grant Implementing Agency: Tibet Tianlu Company	MoU between China International Development Cooperation Agency (CIDCA) and the Ministry of Finance, Nepal signed on 13 October 2019 for the feasibility study. To ease connectivity between the Kerung-Rasuwigadhi border. Separate agreement for construction. Issues: Clearing of settlements
Kimanthake-Hilsa road construction	No progress till 2023.
Road from Dipayal to China	No progress till 2023.
Tokha-Bidur Road	No update.
Galchhi-Rasuwigadhi-Kerung 400kv transmission line Funding Type: US\$96.79 million	Agreement for cooperation between Nepal Electricity Authority and State Grid Corporation of China for feasibility study signed in 2018. Technical team formed between the two countries to fix the terms for development. Draft report of the feasibility study submitted in March 2019. As of August 2022, no meeting of the technical group has taken place and both Detailed Project Report and Environment Impact Assessment are incomplete. Issues: Commercial viability, Funding modality

The Conceptualisation of BRI in Nepal

<p>Kerung-Kathmandu rail (feasibility study)</p> <p>Funding Type: Grant for DPR (Estimates from Nepal – US\$313 million)</p>	<p>Starting from Kerung till Tokha in Kathmandu, the railway is expected with 98.9 percent of the route including tunnels and bridges. The total length of the line is 599.41 km, with 72.25 km falling in Nepal. From Kerung to Kathmandu, the length will be 170.41 km.</p> <p>The Government of China granted 2 billion (NPR) grant in 2018 with an MoU signed on 21 June 2018 during then PM Oli's visit to Beijing.</p> <p>Grant assistance of 180 million RMB for the DPR. NPR 3.88 billion allocated by the Nepalese Foreign Minister during the presentation of the 2024-25 budget.</p> <p>Issues: Delay due to the COVID-19 pandemic, technical and financial issues, and geological factors</p>
<p>Tamor Hydroelectricity Plant (762 MW)</p>	<p>Investment Board Nepal (IBN) and Power Construction Corporation of China (Power China) agreed to construct the 756-762-megawatt Tamor Storage Hydropower project on government-to-government basis. Joint statement released in 2020 that construction will start within two years.</p> <p>The project was handed over to India's Sutluj Jalvidyut Nigam Ltd. in 2023.</p>
<p>Phukot Karnali Hydroelectric Project (426 MW)</p>	<p>The Power Generation Company Ltd decided to award the project to India's National Hydropower Company (NHPC) on 27 March 2023. The board of directors decided to give 51 percent of shares to NHPC and form a joint company. MoU signed on 1 June 2023 between NHPC and Vidyut Udpatan Company Ltd.</p>
<p>Madan Bhandari University for Science and Technology</p> <p>Funding Type: 43 billion NPR in grant sought from China</p>	<p>China agreed to support construction once site is finalised in the joint statement after the 2019 visit of the Chinese President.</p> <p>During the 2019 visit, agreement to develop the university in Chitlang, Makwanpur. Field study conducted by a nine-member team from China in 2019 before Xi's visit.</p> <p>In a 2020 meeting between the Ministry of Finance, Nepal and CIDCA, Nepal raised the issue of initiation of work on the university. China did not find the site suitable.</p> <p>In 2021, there were reports that the DPR will be funded through an international bidding system. Solely funded by Nepal now and inaugurated in August 2023.</p> <p>The joint statement after Prachanda's 2023 visit mentioned that China will expand cooperation with the university for joint education.</p>

Sources: Centre for Social Inclusion and Federalism,³⁴ and various other open sources.

The Conceptualisation of BRI in Nepal

Multiple obstacles hamper the progress of these infrastructure projects. The political nature of all decisions relating to infrastructure, with the party in power deciding which projects must resume, causes delays in construction. Of the two hydropower projects mentioned in the list of BRI projects, both Phukot Karnali and Tamor have been handed over to Indian companies. These decisions were also politicised within the country, with the former PM Oli criticising the Dahal-led government for giving the project to India for ‘peanuts’ during Dahal’s trip to India in June 2023.³⁵ Certain big-ticket infrastructure projects, both BRI and non-BRI, have frequently shifted hands depending on who is in power. The Kathmandu/Terai Madhesh Fast Track Road, the construction of which is still in limbo, is a case in point.³⁶ The awarding of certain BRI and non-BRI hydropower projects to India is also linked to India’s 2018 decision to not import electricity from companies that have Chinese investments in any degree. This selective ban is for both companies having Chinese investments and using Chinese equipment or contractors.

China sees the Kerung-Kathmandu railway line as a means of expanding the transit agreement signed between the two countries into the multidimensional connectivity network.³⁷ For India, the success of the railway line in Nepal could increase the strategic space available to China—an event that will not be in New Delhi’s interests. Often seen as a response to the announcement of the cross-border railway, India also announced the building of the Raxaul-Kathmandu railway, connecting Raxaul in Bihar with the Himalayan nation’s capital.³⁸ The MoU for a traffic survey for the railway was signed in 2018 when the Indian prime minister was in Kathmandu for the BIMSTEC summit. At that time, it was agreed that Konkan Railway Ltd. will conduct a preliminary engineering and traffic survey. In October 2021, another MoU for India to conduct the final location survey was signed. In January this year, the company visited Nepal to discuss the final location survey of the rail line which was conducted with grant assistance from India.³⁹

In a country like Nepal, the physical terrain has a role in deciding whether it is financially feasible to continue a project.⁴⁰ The size of the project and the contracting agency also determine whether it could succeed. Indeed, these impediments are present in many other infrastructure projects in Nepal. Certain Nepali officials also blame China for not prioritising the projects. Of the nine projects in the initial list, apart from the two hydropower projects handed over to India, China’s commitment to help in the construction of the Madan Bhandari Science and Technology University also did not see fruition with the university constructed by Nepal’s own money. Other projects on road infrastructure have also not seen any progress since they were listed as under the BRI.

The joint statement after Prachanda's visit to Beijing in 2023 had only a bleak reference to the BRI, noting that the two sides will finalise the text of the BRI implementation plan at "an early date."⁴¹ After the visit of the Foreign Minister NK Shrestha to China in late March, some progress on the implementation plan was expected. The draft implementation plan is sitting with China's National Planning Commission, undergoing redrafting.⁴² During the then Chinese Foreign Minister and State Councillor, Wang Yi's visit in March 2022 which followed the ratification of the US-backed Millenium Challenge Corporation (MCC) Compact,^d talks were conducted on finalising the implementation,⁴³ but the funding modalities and identification of projects which come under the BRI's ambit still remain ambiguous. To begin with, the MoU was not made public for five years following the signing,⁴⁴ and the two sides differ over the investment terms.⁴⁵ Nepal has also demanded a competitive bidding process for deciding who would construct the projects.

Concerns about the type of funding have persisted since the signing of the agreement, i.e., whether China should disburse more loans or grants.⁴⁶ The BRI projects are funded through private and state-owned banks or state-owned funds.⁴⁷ Nepal has been requesting Beijing to either give soft loans at concessional rates of less than 2 percent with the repayment in line with terms set by other multilateral organisations, or else to switch to grants. In 2019, then PM Oli conveyed these issues to the Chinese Foreign Minister but received no response. This was also expected to be brought up in the last visit by Prachanda but was not. There were reports about the PM raising the issue of a waiver on the loan that the country had received for the Pokhara airport along with other loans taken as far back as 2012. None of these found a mention in the statement.⁴⁸

Nepal's outstanding external debt to China as of January 2024 was US\$261 million, which is less than that of other South Asian countries like Pakistan and Sri Lanka. Kathmandu has always been wary of taking big loans. In an interview with the *Global Times* in September 2022, the then Nepali envoy to China stated that the concerns surrounding debt trap was just "noise" and that the two countries decide on the financing of the project based on mutual benefit and "socio-economic viability".⁴⁹ In 2019, the then Prime Minister Oli also doubled down on its support for China by stating that the BRI is in line with the country's national interest and the possibility of falling into a 'debt trap' does not exist.⁵⁰ As per a report tracking China's projects in countries around the world, between 2000 and 2017, Nepal had no hidden debt exposure by China even as its sovereign debt exposure was pegged at just 1 percent of GDP.⁵¹ Despite this, concerns about the ambiguity on the funding for projects are prevalent in the country.

^d 'The ratification of the MCC compact would enable the US to invest US\$500 million in Nepal's power and transport infrastructure.'

Even before the visit of the prime minister last year, efforts were made by different committees responsible for the programme to come at a consensus vis-à-vis the wording of the plan. While the text of the plan is not available in the public domain, the references to increase law and security cooperation between the two sides are contested. Under ‘Cooperation Priorities’, for instance, the plan mentions “legal exchanges” and “capacity building” and that the security cooperation between the two sides will be strengthened through joint training, exchange of information and capacity building.⁵² These have raised suspicions about Beijing’s motives.

After the visit, Nepal joined the Group of Friends of the Global Development Initiative^e while refusing to take part in the Global Security Initiative.^f The two sides reiterated cooperation for joint-border inspection and law enforcement agencies and Nepal committed to the ‘One China Principle’—a shift from its previous commitment to the Once China Policy.^g This iteration, as opposed to the 2019 joint statement mentioned explicitly that Kathmandu is against “Taiwan independence”⁵³—a hardening of support from Nepal on China’s security concerns. On Tibet as well, the statement moved away from the words “anti-China activities” used in the previous statement to “separatist activities” (on Nepal’s soil). But the statements from the Nepal embassy in Beijing and the press note read by Prachanda upon his return mentioned “policy”. Thus, while Nepal has been cognisant of not fully catapulting to the pressure from Beijing, its space to do that has been fast narrowing. This could also explain why the implementation plan has been stalled.

After 2015, China combined its concerns about security with its ambitions about cross-border connectivity and infrastructure development in the region. In 2018, the two sides reaffirmed their commitment to increase cooperation between their law enforcement agencies on information exchanges, capacity

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- e Launched in 2021 during the 76th session of the UNGA, the initiative intended to work together to tackle the challenges of the post-COVID world and achieve the Sustainable Development Goals (SDGs) together. It supports small-scale projects.
 - f On 21 April 2022 at the Boao Forum for Asia, Chinese President Xi Jinping proposed the Global Security Initiative for common, cooperative, comprehensive and sustainable security and rejecting bloc politics—a “Chinese way of promoting peace in the world.”
 - g The ‘One China Principle’ states that Taiwan is an inalienable part of China and the PRC is the sole legitimate government of the whole of China. ‘One China Policy’ is relatively vague—articulated by the US and other governments, acknowledging China’s position that there is only one Chinese government while not endorsing the notion that Taiwan is an inalienable part of China.

building and training and border security.⁵⁴ In October 2019, Chinese President Xi Jinping paid a visit to Kathmandu, the first by a Chinese president in two decades. The List of Instruments signed and exchanged included commitments on security and surveillance, including new systems linked to BRI. There were also agreements on boundary management, mutual legal assistance, and border security equipment.⁵⁵ China promised to provide training to around 100 law enforcement officers from Nepal each year for the next three years and the relationship was elevated to a ‘strategic partnership’.

BRI’s progression in South Asia, however, also shows how countries may prefer to proceed with the projects if they are able to leverage those for furthering their own domestic agenda, particularly in countries like Nepal where there is a lag between people’s expectations and the resources available with the government to fulfil them. Political leaders, too, ride on the success of BRI projects to burnish their image. In 2016, for example, then PM Oli referred to the promised train from China in his own electoral promises.⁵⁶ Many leaders have received Chinese support in their campaigns as well as for local level work.⁵⁷ In the 2018 elections, the signing of the framework agreement was regarded as one of the factors that helped Oli score a victory.⁵⁸

Today certain government officials in Nepal are debating the necessity of signing an implementation plan in the first place. The plan is considered necessary for the selection of projects, budgeting and funding, supervision, and monitoring. With China’s push at expanding the scope of the BRI, however, and the stalemate on the points in the implementation plan, the incentive for both countries to await its finalisation has reduced. This warrants the question of whether Nepal and China would both be better placed shelving the implementation plan. For China, even in the absence of any progress on the nine projects, it has managed to accelerate its presence in the country with other projects and initiatives. The ambiguity and overarching nature of the BRI has allowed Beijing to separate ‘policy articulation and implementation’, giving it the space to manoeuvre⁵⁹ and increase its influence.

What Comes Under the BRI?

A White Paper released by China in 2021 redefined the BRI, describing it as an “international development cooperation” and thus implying a wider scope for the initiative.⁶⁰ In April 2022, the then Chinese ambassador to Nepal Hou Yanqi highlighted three financing modalities for BRI projects: where investments have come from the Asian Development Bank and Chinese contractors have worked on the projects; where Chinese loans and grants fund the project and the implementing company is also Chinese; and a third, where the responsibility is given to a Chinese company but the funding comes from the Nepali government.⁶¹ She also stated that the BRI has both grant and commercial loan components and is based on a ‘cooperative modality’.

A day before the inauguration of the Pokhara International Airport in January 2023, the Chinese Ambassador to Nepal described it as the country’s flagship project under the BRI.⁶² Six months later, when the first Chinese chartered flight landed at the airport, the Ambassador made a similar remark and said the Dragon Boat Festival was part of China’s public diplomacy under BRI.⁶³ In other words, China was subsuming projects signed before Nepal formally joined the BRI under the ambit of the initiative. Nepal has responded that no project under the BRI is yet functional as the implementation plan has not been signed.⁶⁴ Foreign Minister NP Saud responded in Parliament that not a single project under the BRI has come into operation in Nepal.⁶⁵

Early this year, civil society groups protested at the Pokhara airport⁶⁶ with the Rashtriya Ekta Abhiyan raising slogans of freeing it from debt trap and calling for converting BRI loans to grants.⁶⁷ They also highlighted how the project could become “another Hambantota”,^h with China acquiring it as a military base and deploying its army. While these examples are just a few, there are concerns about China’s increasing ideological influence and the snail-paced space at which its big-ticket projects are progressing in the country. China had hoped to see a traffic of 280,000 international passengers at the airport by 2025⁶⁸ but none of that has materialised. Kathmandu’s inability to make progress with India on the question of the opening of more air routes has further compounded the situation. Thus, Nepali politicians and the public would be sceptical of lumping non-BRI projects under BRI. The possibility of the airport being included under BRI will further complicate Nepal’s efforts to secure air routes from India, considering India’s principled stand against the BRI and any projects related to it.

^h Hambantota port in Sri Lanka was built with Chinese loans and leased to a Chinese-government linked company for 99 years in 2017. This is regarded by many as an example of China’s ‘debt trap diplomacy.’ Sri Lanka is still repaying the loans that it had received from the Exim Bank of China for the construction of this port.

What Comes Under the BRI?

For Nepal watchers, it appeared that China was making a last-ditch effort to show that the BRI was proceeding in Nepal. Over the last few years, many other projects that were originally under the ChinaAid programs have been linked with the BRI, such as the repair of the Friendship bridge, the Larcha dry port, the Kathmandu Ring Road, and the Budhi Gandaki hydropower project.⁶⁹ The projects undertaken by China since 2015 were all regarded as ‘core subjects’ of BRI.⁷⁰ While China has not officially deemed any of these as part of BRI, the ambiguity surrounding the initiative gave different stakeholders the leeway to expand its scope. In 2020, when Nepal redrew its political map and showed certain parts of Indian territory as part of theirs, it was seen as emerging out of the independence that the BRI gave the country⁷¹—perhaps a far stretch but still indicating how the initiative has been interpreted differently to suit parochial interests. The opening of the land port between Nepal and China in November 2023 was also described by the mayor of the province as part of the BRI.⁷²

Yet, from its inception, the BRI has been seen as a mix of both soft and hard infrastructure projects. In Xi’s first speech in 2013 followed by the Action Plan released by the Ministry of Foreign Affairs, China in 2015 highlighted a few key themes of BRI—increasing consultations on policy-related issues, improving infrastructure connectivity, facilitating trade, prioritising monetary exchange and settlement in local currencies, and enhancing people-to-people ties.⁷³ At the first BRI Forum in 2017, elements like “finance, infrastructure, innovation, trade, transportation, sustainability, and people-to-people connectivity” were highlighted, which gave ample space to Chinese groups and businesses to bring their projects under the BRI.⁷⁴ At the second BRI Forum in 2019, China included the Panda Pack for improving the standard of primary education, and Amity Living Water Projects as under the BRI.⁷⁵ The WeChat Pay cross-border payment service was also listed in the digital connectivity aspect of the BRI by the Chinese ambassador in 2022.

In July 2023, the liaison office of the Communist Party of China launched the Silk Roadster platform in Bhaktapur to expand the BRI’s scope by localising it and building up on the pre-existing people-to-people connectivity and political relations.⁷⁶ The five project areas included in the platform are the Silk Road Embarkment, the Silk Road Enjoyment, the Silk Road Enhancement, the Silk Road Enlightenment, and the Silk Road Empowerment. The activities under the platform included imparting technical education, increasing cultural cooperation, providing lessons on ‘Xi Jinping thought’,ⁱ and facilitating the

i ‘Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era’ is a collection of the Chinese leader’s writings and speeches about the course of China’s development for “the great rejuvenation of the Chinese nation”.

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provision of services like free-checkups. It also included aspects related to the training of Nepali political leaders in China in capacity building and development, the first instance of which could be traced as far back as the 1950s. A workshop on Xi Jinping thought for socialism was also organised for 200 Nepal Communist Party's leaders in 2019.⁷⁷

Since the unofficial Indian blockade, however, and even before that, China's focus has been on fostering ties with the political parties in Nepal. Between 2000 and 2017, there were 114 recorded political visits between the two sides and 15 party-to-party visits. When the two communist parties of Nepal merged in 2017, they signed a party-level six-point bilateral agreement with the CPC.⁷⁸ At the Chinese People's Political Consultative Conference, it aimed to build ideological closeness between the CPC and the now disbanded NCP. The Nepalese also discussed the deepening of the BRI partnership between the two countries by strengthening exchanges and mutual learnings between the CPC and Nepali political parties along with cooperation in domains such as agriculture and education.⁷⁹ Beijing has also provided support to the political campaign of certain Nepalese political leaders and the Chinese embassy also organised training courses for mayors from Nepal in 2019. The training involved lessons on China's economic reform, governance practices with inspections.⁸⁰ This was part of Beijing's attempts to have more practical cooperation with the country and create an enabling environment for relations to develop on the state-to-state front.⁸¹

The number of Nepalese students going to China for further studies also saw a jump after the cultural revolution, with the percentage increasing following the 2008 protests in the country. After the signing of the BRI framework agreement, the number of scholarships for students increased: as of 2019, there are some 172,571 foreign students in China, a number of whom have received scholarships under the Silk Road Programme.⁸² Chinese language is taught in many schools in Nepal, with China paying the salaries of the teachers.⁸³ Many Nepalese students also go to China on Confucius scholarships, returning to the country to teach Chinese. The latter are criticised for providing a highly biased outlook of China.⁸⁴

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China has deployed multiple methods to expand its influence in other countries in order to fulfil its own foreign policy objectives. For Beijing, gaining the space to influence public opinion and decision-making to pre-empt or block any anti-China sentiments has become an imperative as it becomes more powerful.⁸⁵ Whether these efforts are successful is a different matter. Beijing's public diplomacy vis-à-vis BRI has also expanded—from its earlier focus on Kathmandu and the northern districts to moving further south. Between 2000 and 2017, Beijing earmarked US\$985 million for financial diplomacy initiatives, 92 percent of which were in infrastructure.⁸⁶

Thus, the lack of progress in the hard infrastructure aspect of the BRI is only part of the picture. Scholars at AidData argue that using 2013 as the inception point for the formal promulgation of the BRI ignores the possibility that the country was already investing in them before that—as indicated in its efforts to lump pre-2017 projects under its ambit and rechristening its soft power initiatives under new platforms.

As the preceding section shows, while Beijing has now formally articulated a distinct platform for its soft power approaches under the BRI, its ideological and social penetration inside Nepal was already underway in the last decade, with the Silk Roadster platform only institutionalising it further. It serves Beijing well to utilise the progress in its soft power initiatives to strengthen its standing in the country. BRI is now perceived more as a brand than a “centralized narrative”.⁸⁷ The status of the projects is not relevant as long as it falls under its purview. This allows Beijing to have more discursive power as the technicalities of the projects remain shrouded in confusion.


While Beijing has had the upper hand in infrastructure projects in Nepal, Kathmandu has also been exercising its agency. For example, Nepal has cancelled certain projects, such as the contract for the first section of the Upper Tamakoshi-Kathmandu transmission line, due to lack of progress. It has also questioned the performance of Chinese companies in implementing the projects. While the hard infrastructure projects could only move when China agrees to become more flexible and when the multitude of issues are reconciled, the two sides have continued to engage, showing that the commercial and economic interests are secondary to the political and security motivations.⁸⁸

In Nepal, Tibetan refugees are often sent back and getting permits to reside has become much more difficult. With reference to China's security objectives in the country, the border crossing between Nepal and Tibet has reduced, and the pro-Tibetan mobilisation has been dented. For Beijing, utilising the presence of Tibetans in Nepal to gather intelligence while also finalising an extradition treaty with Nepal are important security objectives.⁸⁹ Its focus has also been on securing concessions from Kathmandu in language and discourse, an important objective, with Nepal's reiteration of the 'One China Principle' and its hardened policy stance against the Tibetan exiles in the country.⁹⁰ It leverages the incentive of BRI products to elicit support for the country's diplomatic priorities.⁹¹

In February this year, the Chinese ambassador in a meeting with the Nepali PM committed to expedite six projects.⁹² In meetings with leaders from different political parties, the Chinese ambassador has also blamed the investment climate in Nepal, asking why the same companies and projects which work in other countries are not working here.⁹³ Even as the BRI is not moving in hard infrastructure, however, China is still not on the backfoot. Beijing's pre-BRI projects in Nepal are viewed as based on 'development aid' and as a sign of 'bonhomie' between the two countries. The institutionalisation of relations, particularly related to infrastructure following the signing of the framework agreement, augments Nepal's strategic importance for China while further integrating Nepal within China's grand objectives.⁹⁴ Using BRI both as a hard infrastructure tool and a means to rebrand the work that the country is doing inside Nepal allows Beijing to consolidate its presence. It is now seen as intertwined with the idea of '*bikas*'.⁹⁵

Conclusion

As the world undergoes a geopolitical flux and the cleavages between China and the United States deepen—and with India-China relations strained since the Galwan Valley clash and the growing partnerships between India and the US—Nepal acquires greater significance.⁹⁶ For Nepal, the reticence to let other projects be co-opted under the BRI is not just because of the problems with the projects per se (even though funding concerns persist); it is also concerned about how that will affect their relationship with other countries, particularly India and the US. The ratification of the Millennium Challenge Corporation's compact has outlined the contestation between China and Nepal with the latter attempting to balance its relationship with China amid its concerns about the strategic and security considerations of the MCC. China is in a way expanding its presence in the country by situating itself in opposition to India. The India-Nepal relationship, however, has also gradually moved forward, with both sides prioritising pragmatic cooperation in the past decade.

Moving forward, while the chances of significant progress in the projects under the BRI framework are bleak, the engagement between China and Nepal will continue both in security and soft power engagements as Beijing refocuses attention on the other pillars of BRI. As some analysts argue, the country might also complement this initiative with other iterations like the GDI and the GSI, further institutionalising cooperation. Nepal will continue to balance its relationship with both India and China and push back on increasing Chinese influence whenever it can. For India, it will be imperative to continue its engagements with the country and sustain the positive momentum that the relationship has seen in the last year. 

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