

# China's Engagement in Nepal

Editors

Ajaya Bhadra Khanal

Vijay Kant Karna



**CESIF**  
Centre for Social Inclusion  
and Federalism



# **China's Engagement in Nepal**

## **China's Engagement in Nepal**

Copyright © 2022 CESIF

### **Published by**

Centre for Social Inclusion and Federalism (CESIF)

### **Editors**

Ajaya Bhadra Khanal

Vijay Kant Karna

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without the prior permission in writing of Centre for Social Inclusion and Federalism (CESIF)

Printed and bound by: Pentagram Pvt. Ltd., +977 1 5548180

ISBN 978 9937 0 9049 0

## ACKNOWLEDGEMENT

This book is a product of many minds and their dedication. Our special gratitude goes to the researchers at CESIF; namely, Mr. Milan Karki, Dr. Bijendra Man Shakya, Ms. Kunja Rai, Ms. Natasha Todi, Mr. Bhaskar Gautam, Mr. Aditya Adhikari and Ms. Shraddha More, who devoted their zeal and fervor for this book. Our gratitude extends to Former Minister and Ambassador, Dr. Bhekh Bahadur Thapa, Former Minister for Foreign Affairs and Nepali Congress leader, Dr. Prakash Sharan Mahat, Former Foreign Secretary, Amb. Madhu Raman Acharya, Amb. Sundar Nath Bhattarai, Amb. Hiranya Lal Shrestha and Editor for Annapurna Express, Mr. Biswas Baral for sharing their time and insights required for this book. We would like to thank all the individuals, who took care of the last-minute details and other nitty-gritties that was required to publish this book – they are Ms. Era Shrestha, Ms. Prashanti Poudyal, and Ms. Pooja Gautam. Our special acknowledgement to Mr. Arpan Gelal, Ms. Asmita Dudhraj and Mr. Sourav Dahal for copy editing the book. We are grateful to all other informants, including politicians, media personnel, activists, civil society members, academicians, business persons and respondents from various field researches who actively provided their time and input. Last but not least, our present and former colleagues at CESIF, who paved the way towards publishing this book and provided help in whatever ways they could, have our deepest appreciation.



# INTRODUCTION

In recent years, China is aggressively asserting its role in global affairs, disrupting past orders, generating new processes, and reconfiguring dynamics at the domestic, regional and global levels.<sup>1</sup> China's assertive politics since 2012 is being led by President Xi Jinping, who is credited with introducing new foreign policy concepts like the 'new type of Great Power relations'<sup>2</sup>, and 'an active neighbourhood policy'<sup>3</sup> coupled with ambitious global projects like the Belt and Road Initiative (BRI)<sup>4</sup>, and institutions like Asian Infrastructure Investment Bank (AIIB).

This marks a transition in China's foreign affairs policy – that from Deng Xiaoping's dictum, "hide our capacities and bide our time", which had laid out a strategic underpinning for 'maintaining low profile' and 'friendly coexistence' to the practice of assertive foreign policy.<sup>5</sup> China's assertive proclivity in the conduct of its foreign affairs have generated intense debates about impacts on international relations and global economy.<sup>6</sup> As China pursues its strategic, economic and cultural interests more aggressively, there is a risk that friendly relations between Nepal and China could get strained.

- 
- 1 <https://www.ft.com/content/ad0bda86-2be9-11e8-9b4b-bc4b9f08f381> (accessed November 24 2019).
  - 2 Jinghang Zeng and Shaun Breslin. 2016. 'China's "new type of Great Power relations": a G2 with Chinese characteristics?' *International Affairs* 92(4): 773–94.
  - 3 Xi Jinping. 2013. "Let the community consciousness of destiny take root in neighboring countries" *Xinhuanet*. <[http://news.xinhuanet.com/politics/2013-10/25/c\\_117878944.htm](http://news.xinhuanet.com/politics/2013-10/25/c_117878944.htm)>.
  - 4 Jie, You and Wallace, Jon. 2021. 'What is China's Belt and Road Initiative?' <https://www.chathamhouse.org/2021/09/what-chinas-belt-and-road-initiative-bri>
  - 5 Zhang Yunling. 2016. "China and its neighbourhood: transformation, challenges and grand strategy" *International Affairs* 92(4): 835–48.
  - 6 Li Xing eds 2019. "Mapping China's One Belt One Road Initiative." Palgrave Macmillan.

Although there exists extensive research on Nepal's contemporary relations with other countries like India, there are very few works that chart Nepal's changing dynamics in the relationship with China. Studies into the facets of Nepal-China relationships are often coloured by ideological orientations or preconceived notions, preventing dispassionate and factual analyses. One set of studies, based on the stated idealist principles in Nepal-China relations, ignore the realist strategic imperatives of China's growing engagement and their implications for Nepal's national interests.<sup>7</sup> Another set of studies and analyses, largely carried out by foreign researchers and journalists, portray China in a negative light.<sup>8</sup>

This book aims to fill this gap with comprehensive and nuanced analyses of Nepal-China relationship since the turn of the century and aims to study the implications of emerging trends in bilateral relations.

The first chapter, Factors shaping relations with China, outlines the historical, geopolitical and political context in which China is engaging with Nepal. Further, the chapter discusses in detail the factors shaping Nepal-China relationships.

The second chapter, Security and Strategic Engagements explores the pattern and general features of China's security engagements in Nepal after the turn of century, and also delves into the implications of those heightened engagements over Nepal's democracy and development.

The third chapter, Political Engagements examines the factors that have shaped Nepal's political relationship with China over the years. The chapter traces the ebbs and flows of political relations with China in the past two decades culminating in the dramatic dissolution of the parliament and the subsequent split

---

7 <https://www.orfonline.org/research/chinas-growing-footprint-in-nepal-challenges-and-opportunities-for-india/>

8 <https://www.cfr.org/in-brief/why-chinas-global-image-getting-worse>

of the Nepal Communist Party in December 2020. In doing so, the chapter studies the shift in the nature of China's political engagement and uncovers China's motivations and interests attached to Nepal's internal politics.

The fourth chapter, China's Public Diplomacy in Nepal looks into "strategic communication" and "people-to-people exchanges" that China has emphasized in recent years. The chapter also explores as to how China has reoriented its public diplomacy to facilitate its regional and global ambition by analyzing the shift in China's public diplomacy in Nepal over the years.

The fifth chapter, Nepal-China Trade Relations in Retrospect examines the current features of Nepal-China trade relations, which have undergone significant changes since the 1956 treaty and the construction of the Kathmandu-Khasa highway. Likewise, the sixth chapter, Practical Cooperation delves into the study of the key areas of cooperation between the two nations with a focus on development cooperation. The seventh chapter discusses China's Buddhism Policy in Nepal and its inextricable link to the Tibetan movement for self-determination and nationhood. It explores the understanding of the human rights violations that are on-going against the Tibetan community in Nepal as well the larger geopolitical forces at play that have created such a situation. Finally, the last chapter, Chinese FDI in Nepal, builds on the previous chapter and provides information about Chinese FDI and China's relations with the private sector.



# CONTENTS

Factors Shaping Relations with China	1
China's Strategic and Security Engagements in Nepal	25
Political Engagements	61
China's Public Diplomacy in Nepal	95
Nepal-China Trade Relations in Retrospect	129
Practical Cooperation	151
China's Buddhism Policy in Nepal	187
Chinese FDI in Nepal	211



## Chapter 1

# FACTORS SHAPING RELATIONS WITH CHINA

Ajaya Bhadra Khanal

Since 1956, China's contributions to Nepal's evolution as an independent nation-state and its quest for modernization have been significant. When Mao Zedong was helping Nepal in the early 70s, the Chinese leader framed it as a sharing of resources among friends and not as a gift from a rich nation to a poor nation.<sup>9</sup> During the blockades of 1989 and 2015, China stood by as an ally defending Nepal's sovereignty. Because of its friendly, consistent, and trustworthy attitude, a majority of the Nepali people, until lately, have tended to view China in a positive light.

Nepal's political transition after the decade-long Maoist conflict<sup>10</sup> coincided with China's rise in the last decade. After the 2005-6 political movement in Nepal, China considerably raised its stakes in Nepal: first to promote the 2008 Beijing Olympics, second to protect Tibet's security in the face of Tibetan movements in Nepal and then India timed to coincide with Dalai Lama's exile. Since then, China's ambitions as a major global power have had a significant impact on Nepal's political course, particularly as successive communist governments courted China to buffet Nepal from India's meddling and access funds for infrastructure development and political stability.

---

9 Dr. Bhekh Bahadur Thapa 2019.

10 The Comprehensive Peace Accord (CPA) was signed in November 2006.

In recent years, China is cultivating deeper ties to Nepal's domestic political developments and partisan political interests. During the drafting of a new constitution, Nepal's political parties and different identity groups continued to wrangle with each other. India's support to the Madhesi cause, which resulted in a five-month-long blockade in 2015-16, generated widespread antipathy towards India among Nepal's hill-centric population. After that, a resurgent nationalist sentiment drove Nepal closer to China and resulted in a resounding victory for the communist alliance led by K P Oli in the 2017 elections. After becoming the Prime Minister for the second time, Oli pursued an "independent" foreign policy<sup>11</sup> that sought to take advantage of China's emergent foreign policy initiatives including the BRI. Since then, Nepal's partnership with China has extended to multiple arenas including infrastructure, culture, tourism, trade, diplomacy, and media.

Political beliefs and strategic interests have brought Nepal's political regime closer to China. However, countermeasures by China and India, in recent years, has affected Nepal's domestic politics. Prior to the dissolution of the federal parliament in December 2020, the ruling coalition was driven by three major stated concerns: protection of "nationalism" and "national interests"; political stability; prosperity through infrastructure development, and gaining investor-friendly image in the context of its communist legacy.<sup>12</sup>

Within the context of Nepal's complicated foreign relations, this Chapter seeks to describe the general factors shaping Nepal's political relations with China. The first section outlines some

---

11 Giri, Anil and Sanjeev Satgainya. 2019. "Nepal conducts an independent foreign policy. But this does not mean we want to remain in isolation." The Kathmandu Post. (accessed 17 February 2019), <<http://kathmandupost.ekantipur.com/news/2019-02-25/nepal-conducts-an-independent-foreign-policy-but-this-does-not-mean-we-want-to-remain-in-isolation-foreign-minister-pradeep-gyawali.html>>.

12 <http://kathmandupost.ekantipur.com/news/2018-03-27/pm-briefs-for-foreign-diplomats-in-baluwatar.html> (accessed March 27 2018).

historical factors that have shaped Nepal's political relations with China. The second section describes key features and policies of an emergent China, and the final section discusses new factors that are shaping China's engagements in Nepal.

## **A. FACTORS SHAPING NEPAL'S POLITICAL RELATIONS WITH CHINA<sup>13</sup>**

**Tibet.** Nepal's identity as an entrepot for trade, and exchange of goods, ideas, and people between Tibet and India has shaped Nepal's relations with its northern neighbour. Nepal's trade and communication with Tibet used to take place mainly through more than 18 passes in the Himalayan range. Among these passes, the Kerung of Rasuwa and Kuti of Sindhupalchowk were strategically and economically the most significant, given their low altitude and relatively suitable terrain. According to Leo Rose,<sup>14</sup> one of Nepal's foreign policy priorities was to establish Nepal's authority in the watershed areas up to the Bhairab Langur range across the existing border in Rasuwa. However, except for brief periods in history, Nepal's efforts were frustrated by Tibet and China, who have controlled the southern approaches to the Kerung and Kuti passes. While Nepal has a long history of political, economic and cultural relations with Tibet and its peoples, its relations with China were intermittent but significant until 1956 when Nepal signed a new treaty with China recognizing China's sovereignty over Tibet and surrendering all previous privileges it extracted from its northern neighbour, with whom it had gone to war at least three times and had prepared for a fourth.<sup>15</sup>

**Shadow of special relations:** The 1950 political settlement cast a shadow of "special relations" from which Nepal's nationalism has sought to free itself. Nepal's political settlement in 1950 in the form of "Delhi compromise" was shaped by the existing geopolitical dynamics. Although the 1950 revolution was launched internally,

---

13 This section draws heavily from Rose (1971) and Brown (1971).

14 Rose 1971.

15 Sanjay Upadhyaya. 2012. *Nepal and the Geo-Strategic Rivalry between China and India*. Routledge.

the final political settlement in the form of “Delhi compromise” reflected the interests of India more than it reflected the interests of Nepal’s revolutionary leaders.<sup>16</sup> The 1950 treaty was forged on July 31, about three months prior to the end of Rana rule. The enforcement of “special relationship” with India, which resulted in politicians and the Royal Palace directly dealing with Indian political “umpires,”<sup>17</sup> generated popular resentment and anti-Indian nationalism. After he came to power in 1955, King Mahendra began to diversify Nepal’s relationships; he re-opened talks with the Chinese resulting in a series of treaties.

The settlement continues to cast a shadow of “special relations” from which Nepal’s foreign policy has sought to free itself, to this day. For example, during a trilateral meeting between Nepal, India, and China in 2013, Nepal is reported to have expressed its desire to be “less dependent on India so that it can maintain an independent foreign policy” and a strong desire to revise the 1950 treaty.<sup>18</sup> Historically, Nepal’s need for survival, primarily against Indian hegemony, has frequently pushed Nepal to seek closer ties with China. Currently, China is cashing on this historical goodwill to assert its self-interests against that of western powers and India.

**Identity:** At one time, Tibet played a significant role in Nepal’s economy. However, as the role of entrepot trade dwindled in the second half of the 20th century, Nepal became “a virtual adjunct of the Indian economy”<sup>19</sup> to the extent that Nepal’s domestic public policies were almost always subservient to its relations with India. As a result, the other dimension of Nepal’s foreign policy was to wean itself away from India’s influence, politically, economically, and culturally. Leo Rose notes that Nepal and Tibet

---

16 Rose 1971:279.

17 Brown, MacAlister. 1971. *The Political Development of Nepal*. Asian Survey 11 (7), pp. 661-676.

18 Institute for Defence Studies & Analyses. 2013. “Is India-Nepal-China trilateral Cooperation possible?” <<https://idsa.in/event/IsIndiaNepalChinaTrilateralCooperationpossible>>

19 Rose 1971:19.

used to have inverse world views regarding China and India. While Nepal looked at India as a threat, the more distant China was seen as a potential source of support. Inversely, Tibet looked at China as a principal enemy and India as a possible ally. When China annexed Tibet in 1951, Nepal showed little concern.<sup>20</sup> Nepalis, meanwhile, over-read and over-reacted to India's motives and intentions in every overt action; they were more neutral to China's engagements. Therefore, Nepalis have resisted the notion that Nepal and India are culturally similar. As Nepal sought to assert its sovereignty, a number of regimes since the Ranas tried to establish Nepal's cultural difference from India, to the extent that they created a mythology where Nepal's cultural ties with China was as significant as that with India.<sup>21</sup> Such tendencies continue to this day.

**Culture and diversity:** Until recently, Nepal's hill areas were more closely integrated into the Terai plains and India than with each other. The project to integrate the hill areas with each other has become a major political project in the recent past and is directly linked to issues of nationalism and sovereignty. Similarly, although Nepal's evolution as a modern state has required a synthesizing of its ethnic and cultural diversity, Hinduism and the southern plains have played a significant role in converging cultural distinctions in Nepal's hill areas and linked Nepal with its southern neighbour. As Nepal tries to wean itself away from Indian influence, the desire to connect Nepal's northern districts with Tibet has become a major motivational factor.

**The tacking strategy:** In the mid-20th century, Britain's policies created ambiguities in the region, allowing China to assert its suzerainty over Tibet as well lay claim to several other sub-Himalayan states: Ladakh, Nepal, Sikkim, Bhutan, and the North-East Frontier Agency (now a part of Arunachal Pradesh in India). India, meanwhile, sought to continue the British legacy and tried

---

20 Ibid 1971:278.

21 Ibid: 17.

to keep Nepal under its sphere of influence in the form of special relations. Since 1951, when Nepal overthrew the Ranas, Nepal has swung between China and India depending on Nepali ruler's domestic political needs. In the 1950s and 60s, Nepal was adopting a neutralist foreign policy, but King Mahendra was finding it hard to maintain neutrality given intense rivalry between India and China on the one hand and between Russia and US on the other.

In the late 1950s, as China became more aggressive and entered into war with India, Nepal became cautious and tried to harmonize relations with India. After King Mahendra took over power and exiled Nepali Congress in December 1960, he orchestrated a careful balancing game between India and China. He used the threat of reliance on China "to keep India from gaining too strong an influence in Nepal" while India was cautious that "Mahendra, if pushed too far, might rely more heavily on Chinese support to stay in power." The Chinese approved King Mahendra's moves and sought to appease him further. The King, however, was cautious about getting too close to China and tried to maintain good relations with the United States.<sup>22</sup>

As a result of these factors, Nepal's foreign policy has been shaped by Nepal's desire to promote its own independent identity, maximize foreign aid benefits, and maintain a balance between China and India, which was cast as a buffer when India-China relations worsened and link when China and India grew closer. Nepal's survival as an independent state, depended to a great extent on maintaining balance between India and China<sup>23</sup> as any imbalance would trigger "a spiral of counterbalancing intrusions."<sup>24</sup> After 1950, Nepal has managed to extract economic and political concessions from China, India and other countries by

---

22 CIA. National Intelligence Estimate. 1961. Number 38.1-61. The Outlook for Nepal. <https://www.cia.gov/library/readingroom/docs/CIA-RD-P79R01012A018500040001-4.pdf>

23 Rose, L. R. (1971), *Nepal Strategy for Survival*. Berkeley: University of California Press. <https://www.jstor.org/stable/2642973>

24 Brown 1971 pp. 661-676

taking advantage of the geo-strategic competition between the US, USSR, and India on one side and China on the other. Sometimes, these concessions have served Nepal's national interests, while at other times, they have only served the narrow political interests of the ruling regime. Nepal's foreign policy has thus been heavily influenced by the ruling regime's strategies of survival amidst geopolitical competition and the domestic political opposition.<sup>25</sup>

## **B. EMERGENT CHINA**

President Xi Jinping has announced a foreign policy that seeks to assert China's place in the global order. During his closing remarks to the National People's Congress, Chinese President Xi Jinping outlined his vision for a rejuvenated China as a world power and promised more assertive Chinese foreign policy. According to the Financial Times, the speech "parted decisively" with the previous era of caution in China's foreign relations and equated Xi's rule with "China's return as a major global power." Earlier policies, in contrast, were defined by Deng Xiaoping's slogan: "Hide your strength and bide your time."<sup>26</sup>

It is necessary to grasp the notion of the Chinese dream in order to understand Chinese nationalism and its aspirations. The Chinese people have aspired to regain dignity and China's rightful place in human civilization after 100 years of hurt from imperialism and colonization. The 2008 Beijing Olympics epitomized the achievement of this dream. The idea of the Chinese dream was appropriated by the Chinese Communist Party which has sought credit for liberating China from imperialism, unleashing growth and prosperity, and establishing China as a superior, rich and powerful civilization. In the last two decades, the discourse of the Chinese dream has been used to support various types of aspirations and reforms, including environmental reforms,

---

25 S D Muni 1973.

26 The Financial Times. 2018. "Xi Jinping promises more assertive Chinese foreign policy." (accessed 18 February 2019).

27 William Callahan. 2013. "China dreams: 20 visions of China's future". Oxford University Press.

banking policies, and quality of life.<sup>27</sup> Ferdinand (2016) argues that, when Xi Jinping came to power in 2012, he began to use the discourse of the Chinese dream as an ideology—socialism with Chinese characteristics—and sought to “wrest back” control of the narrative from the public intellectuals as it conferred legitimacy on its proponents.<sup>28</sup> This growing self-confidence underpinning the Chinese dream “flowed over into Chinese foreign policy” including the One Belt One Road initiative.<sup>29</sup>

**The BRI:** China’s President Xi Jinping proposed the concepts of a Silk Road Economic Belt and a 21st-Century Maritime Silk Road in September and October of 2013. The two concepts are collectively referred to as the Belt and Road Initiative. In order to implement the BRI, the Chinese government issued a blueprint, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” in March 2015.<sup>30</sup> The BRI is driven by multiple rationales: developing western parts of China, the need of the state-owned enterprises to search for economic opportunities abroad, the shift in emphasis from investment to consumption, and the desire to internationalize the Chinese economy.<sup>31</sup>

China seeks to align the BRI with the visions and strategies of partner countries along the route. The Shanghai Cooperation Organization helped support the initiative by engaging with its member states, while China engaged with UN institutions for cooperation documents. China’s National Development and Reform Commission, meanwhile, worked with the signatory countries to prepare bilateral cooperation plans. China’s Silk Road Economic Belt has three destinations: Europe and the Baltic

---

28 Peter Ferdinand. 2016. “Westward ho—the China dream and One Belt, One Road.” *International Affairs* 92(4): 941–957.

29 Ibid: 948-949.

30 Office of the Leading Group for the Belt and Road Initiative 2017. <<https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydy-lyw/201705/201705110537027.pdf>>.

31 Ferdinand 2016.



*Belt and Road transport corridors and members of the AIIB, 2020.  
(Graphics: Mathildem16, Wikipedia)*

Sea, the Persian Gulf and the Mediterranean Sea, and the Indian Ocean. The access to the Indian Ocean is primarily through the Indo-China Peninsula from Southwest China. The Maritime Silk Road, meanwhile, starts from the coastal ports of China and follows two major routes; one extends to the Indian Ocean through the Malacca Strait and the other extends to the South Pacific through the South China Sea. The BRI framework has proposed “six corridors, six means of communication, multiple countries, and multiple ports” along the routes.<sup>32</sup>

The BRI works in the areas of (i) promoting connectivity of infrastructure and facilities, (ii) enhancing economic and trade cooperation, (iii) expanding production capacity and investment cooperation, (iv) expanding financial cooperation, (v) strengthening cooperation on ecological and environmental protection, (vi) promoting orderly maritime cooperation, and

<sup>32</sup> Office of the Leading Group for the Belt and Road Initiative 2017:10. <<https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydy-lyw/201705/201705110537027.pdf>>.

(viii) strengthening cooperation and exchanges in cultural, social and other fields.<sup>33</sup> These areas have been consolidated under five categories in the list of 76 deliverables of the BRI:<sup>34</sup>

1. Synergize Connectivity of Development Policies and Strategies
2. Deepen Project Cooperation for Infrastructure Connectivity
3. Expand Industrial Investment, Enhance Trade Connectivity
4. Enhance Financial Cooperation, Promote Financial Connectivity
5. Invest More in People's Livelihood, Deepen People-to-People Exchange

China works with partner countries to develop multi-level cooperative mechanisms so that there are policy coordination and political trust to implement the BRI. One mechanism is state-level support and promotion for which high-level visits play a key role. The other mechanisms are “coordination of development strategies,” bilateral and multilateral mechanisms, and non-governmental exchanges and cooperation. The BRI's vision is to develop “a community of shared future” based on “equality and mutual respect.”<sup>35</sup>

BRI's strategic inroads in Nepal, until 2017, consisted of an information network through international land cable, joint research on the feasibility of the China-Nepal Free Trade Area, consultations on border economic cooperation zones, agreements on general trade and local currency settlement in investment, cooperation on environment protection, aid for post-quake restoration of cultural relics, science and technology exchange visits through the Talented Young Scientist Program, disaster relief, and simplification of visa procedures to facilitate people-to-people exchanges.<sup>36</sup> Efforts since then have stalled, and will be

---

33 Office of the Leading Group for the Belt and Road Initiative 2017: 18-48. <<https://eng.yidaiyilu.gov.cn/wcm.files/upload/CMSydylyw/201705/201705110537027.pdf>>.

34 [http://english.www.gov.cn/news/top\\_news/2017/05/16/content\\_281475657209052.htm](http://english.www.gov.cn/news/top_news/2017/05/16/content_281475657209052.htm) (accessed November 21 2019).

35 Office of the Leading Group for the Belt and Road Initiative 2017:49-54.

36 Ibid.

discussed in later chapters.

**Other policies:** After Xi Jinping came to power, the term “New Type of Great Power Relations” was used often to describe China’s relations with the US. Although the use of the phrase has declined,<sup>37</sup> it generally indicates China’s desire for the world, and the United States, to recognize China as a great power but not expect it to take global leadership as it is still a rising power.<sup>38</sup> As indicated by Xi Jinping, China expects parity with the US as a world leader; it seeks to avoid confrontation, ensure mutual respect, and prevent a zero-sum game as the US and China compete for global influence.<sup>39</sup> Relations with other great and emerging powers like Russia and India, meanwhile, are described as “a major-country relationship.”<sup>40</sup> Meanwhile, the geostrategic relations with Eurasia and Asia is described as an attempt to withstand the strategic shift in major power relations.<sup>41</sup>

**Neighbourhood policy:** In October 2013, Xi Jinping delivered

---

37 David Wertime. 2017. “China quietly abandoning bid for ‘New Model of Great Power Relations’ with the US.” *Foreign Policy*. <<https://foreignpolicy.com/2017/03/02/china-quietly-abandoning-bid-for-new-model-of-great-power-relations-with-u-s/>>.

38 Zeng and Breslin 2016.

39 Cheng Li and Lucy Xu. 2014. Chinese Enthusiasm and American Cynicism Over the “New Type of Great Power Relations.” <<https://www.brookings.edu/opinions/chinese-enthusiasm-and-american-cynicism-over-the-new-type-of-great-power-relations/>>.

40 Yan eds. 2019. “Xi, Putin lead bilateral ties into new era, embark on fresh journey of int’l cooperation.” *Xinhuanet*. <[http://www.xinhuanet.com/english/2019-06/08/c\\_138125226.htm](http://www.xinhuanet.com/english/2019-06/08/c_138125226.htm)>.

41 Yang Yi eds. 2018. “Spotlight: Chinese premier’s visit to strengthen Asia-Europe connectivity, openness.” *Xinhuanet*. <[http://www.xinhuanet.com/english/2018-10/11/c\\_137525191.htm](http://www.xinhuanet.com/english/2018-10/11/c_137525191.htm)>.

42 Xi Jinping. 2013. “Let the community consciousness of destiny take root in neighboring countries.” *Xinhuanet*. <[http://www.xinhuanet.com//politics/2013-10/25/c\\_117878944.htm](http://www.xinhuanet.com//politics/2013-10/25/c_117878944.htm)>.

an important speech<sup>42</sup> that set the tone for China's neighbourhood diplomacy- based on a "solid foundation" laid by the previous generations of leadership. Xi Jinping emphasized that regardless of geographical orientation, natural environment or mutual relationship, the periphery has an extremely important strategic relevance for China. According to Xi, China's neighbourhood diplomacy must be equipped with two strategic goals around domestic and international conditions. While China's domestic policy was shaped by the goal of the "two hundred years" struggle and the Chinese dream of great rejuvenation, the international relations policy was to strive for good external conditions for China's reform, development, and stability. According to Xi, the surrounding environment, as well as China's relations with the neighbouring countries, has undergone "great changes," but the environment is generally stable and has obvious development advantages and potential. The basic principle of the policy is

"Efforts should be made to strengthen the propaganda work, public diplomacy, non-governmental diplomacy, and humanities exchanges with neighbouring countries, and consolidate and expand the social and public opinion base for the long-term development of China's relations with neighbouring countries. It is necessary to promote humanities exchanges in an all-round way, conduct in-depth friendly exchanges such as tourism, science and education, and local cooperation, make friends, and build a good relationship. We must introduce China's internal and external policies and policies, clarify the Chinese story, spread the voice of China, and connect the Chinese dream with the people of the surrounding countries to live a better life and the development prospects of the region so that the community of destiny can take root in neighbouring countries."<sup>43</sup>

---

43 Ibid.

to develop good-neighbour friendly relations. This includes developing a destiny of common interests; focusing on peace; stability, and regional security cooperation; deeper connectivity and cooperation; consolidating and expanding the social and public opinion base, and winning the hearts of the people. The idea of regional security cooperation, thus, is an important part of China's diplomatic strategy. A recent meeting between China's Foreign Minister, Wang Yi and Nepal's Foreign Minister, Pradeep Gyawali illustrated how China's neighbourhood policy is defined. According to the press statement issued after the meeting, China's neighbourhood policy is described as "featuring amity, sincerity, mutual benefit, and inclusiveness as well as the philosophy of building a community with a shared future for mankind, and stands ready to strengthen communication and cooperation with the Chinese side on regional and international affairs."<sup>44</sup>

### **Strategic Interests**

As Chinese dream comes under threat due to economic difficulties and US pressure, "nationalism and sovereignty" has once more taken the centre stage in Xin Jinping's focus.<sup>45</sup> Recent Chinese narrative insists that the growing US animosity toward China is pushing the world toward military conflict.<sup>46</sup> It may be for this reason that China has increased its military budget by 6.6% while cutting substantially in other areas.<sup>47</sup> However, China's ability to garner political allies around the world through development and political assistance may be tested by the need to tighten its purse. China's Government Work Report released recently, requires all levels of government to tighten their belts implying the need to

---

44 [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1696656.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1696656.shtml) (accessed November 21 2019).

45 <https://www.scmp.com/news/china/diplomacy/article/3086871/china-india-border-dispute-fuelled-rise-nationalism-both-sides>

46 <https://www.globaltimes.cn/content/1189927.shtml>

47 <https://twitter.com/CNN/status/1265847713490440193?s=20>

48 <https://www.globaltimes.cn/content/1189869.shtml>

reduce deficit/debts and focus on high-quality development amid economic pressure caused by the coronavirus pandemic.<sup>48</sup>

President Xi Jinping announced a foreign policy that seeks to assert China's place in the global order. During his closing remarks to the National People's Congress in March 2018, the Chinese President outlined his vision for a rejuvenated China as a world power and promised more assertive Chinese foreign policy. According to Financial Times, the speech "parted decisively" with the previous era of caution in China's foreign relations and equated Xi's rule with "China's return as a major global power." Earlier policies, in contrast, were defined by Deng Xiaoping's slogan: "Hide your strength and bide your time."<sup>49</sup>

### **Asia Pacific Security Cooperation**

The white paper on China's Asia Pacific Security Cooperation (APSC)<sup>50</sup> released in January 2017, has several significant implications for Nepal. The white paper on APSC reflects China's strategy of obviating the need for military action while trying to protect China's interests in the new global order. The strategy seeks to link security with the convergence of economic interests; partnerships and political alliances; multilateral mechanisms; influence in the international rule-setting arena; military exchanges and cooperation including in the UN mechanisms; and addressing hot-spot issues and disputes in the Asia-Pacific region.

### **China's National Defence**

A more recent white paper,<sup>51</sup> China's National Defence in the New Era, takes note that while there is increasing strategic competition in the global arena, dealing with non-traditional security threats, extremism and terrorism requires more security

---

49 Financial Times. 2018. "Xi Jinping promises more assertive Chinese foreign policy." (accessed 18 February 2019).

50 White Paper: China's Policies on Asia-Pacific Security Cooperation. 2017. <[www.china.org.cn/chinese/2017-01/20/content\\_40146001.htm](http://www.china.org.cn/chinese/2017-01/20/content_40146001.htm)>.

51 China's National Defense in the New Era. 2019. <[http://eng.mod.gov.cn/news/2019-07/24/content\\_4846443.htm](http://eng.mod.gov.cn/news/2019-07/24/content_4846443.htm)>.

cooperation. As the Asia-Pacific gradually is becoming a centre of security and economic interests, hot-spot issues and disputes in the region continue to pose a threat. At the domestic level, China lists separatism, and territorial disputes as key threats and downplays challenges to political stability, ethnic unity, and social stability. The global military competition is intensifying, with major powers turning to artificial intelligence and high technology. In such a situation, the white paper outlines several policies: safeguarding China's sovereignty, security, and development interests; never seeking hegemony, expansion or spheres of influence; implementing the military strategic guideline for a new era; strengthening China's national defence and military in the new era; and building of a community with a shared future for mankind.

The APSC, meanwhile, reflects China's strategy of preventing the need for military action while trying to protect China's interests in the new global order. As outlined in the APSC, the first strategy is "the convergence of economic interests" as "common development provides a fundamental safeguard for peace and stability and holds the key to various security issues." This strategy provides the basis for economic integration, free-trade, connectivity, and development (UN 2030 Agenda for Sustainable Development). BRI, AIIB and Silk Road Fund are part of this initiative.

The second strategy is to "promote the building of partnerships and strengthen the political foundation for peace and stability in the Asia-Pacific region" based on mutual trust and respect for differences. China's "major-country relations" with the US is based on such a strategy of "non-conflict, non-confrontation, mutual respect, and mutually beneficial cooperation." This includes a "strategic" partnership with Russia and "a closer partnership" with India.

The third strategy is to "improve the existing regional multilateral mechanisms and strengthen the framework for supporting peace

and stability in the Asia-Pacific region.” This includes exchange and cooperation in the field of security mechanisms and dialogues. The fourth strategy is to “promote the rule-setting”...where rules should not be “dictated by any country.”

The fifth strategy is to “intensify military exchanges and cooperation to offer more guarantees for peace and stability in the Asia-Pacific region.” China’s national defence and armed forces are tailored to defend against “diverse and complex security threats and challenges” including threats to national unity, territorial integrity, China’s international standing, and its security and development interests. This includes interactions and cooperation with the armed forces of other countries, in addition to confidence-building measures in border areas. This strategy has guided China to intensify dialogue and cooperation on security, take part in United Nations peacekeeping missions, engage in international counter-terrorism cooperation, humanitarian assistance, and disaster-relief operations, and conduct joint exercises and training with armed forces of other countries.

The sixth strategy is to promote peace and stability in the Asia-Pacific region by resolving differences and disputes, most of them leftover from history. China’s ‘hotspot’ issues are (i) Nuclear Issue on the Korean Peninsula, (ii) Anti-Ballistic Missile Issue, (iii) Afghanistan, (iv) Counter-Terrorism Cooperation (addressing root causes by political, economic and diplomatic means and separate terrorism from identity politics), and (v) maritime cooperation.

## **C. FACTORS SHAPING CHINA’S POLITICAL RELATIONS WITH NEPAL**

### **Strategic and Security Interests Around Tibet**

Despite “notable increase in China’s overall national strength, global influence, and resilience to risks” China is still concerned

---

52 The State Council Information Office of the People’s Republic of China. “China’s National Defense in the New Era.” July 2019. [http://english.www.gov.cn/archive/whitepaper/201907/24/content\\_WS5d3941ddc6d08408f502283d.html](http://english.www.gov.cn/archive/whitepaper/201907/24/content_WS5d3941ddc6d08408f502283d.html)

about ‘security threats and challenges’ posed by separatist forces for independence of Tibet, Taiwan and East-Turkistan.”<sup>52</sup> China believes that it has served the interests and freedom of Tibetan people after the “peaceful liberation of Tibet” in May 1951.<sup>53</sup> As the rest of the report shows, until 2012, China’s policy in Nepal centred around Tibet and began to move to the next phase of political relations only after China become confident that it had successfully managed the Tibetan issue in Nepal. A 2019 white paper on Tibet<sup>54</sup> claims that China had “liberated the people and made them the masters of the nation and society” by “abolishing serfdom, a grim and backward feudal system.” The paper also described that the people of Tibet had, “in the fight to guard national unity and oppose separatism, the people of Tibet” had “closely followed the leadership of the Central Committee of the Communist Party of China (CPC) in the face of all forms of hardship, challenge, and test, reinforcing the communal strength of the Chinese nation.”

China’s 13<sup>th</sup> Five Year Plan (2016-2020)<sup>55</sup> spells out several strategic and security interests around Tibet. The first strategic interest is to connect Xinjiang and Tibet to domestic and international transport corridors. The second interest is to strengthen water security, particularly by developing the Lhalho reservoir, one of the major water sources in Tibet. The third strategic interest is to accelerate “the development of ethnic minorities and the areas where they reside, ensuring that such areas see an increase in government investment and financial support, an improvement in infrastructure, and a strengthening of basic public service

---

53 Information Office of the State Council of The People’s Republic of China. 1992. “Tibet: Its ownership and Human Rights Situation. September 1992, Beijing, China. <http://www.china.org.cn/e-white/tibet/index.htm> (accessed November 20, 2020).

54 Information Office of the State Council of The People’s Republic of China. 2019. “Democratic Reform in Tibet – Sixty Years On.” [http://english.www.gov.cn/archive/white\\_paper/2019/03/28/content\\_281476583712704.htm](http://english.www.gov.cn/archive/white_paper/2019/03/28/content_281476583712704.htm)

55 Central Committee of the Communist Party of China. 2016. “The 13th Five-Year Plan for Economic and Social Development of The People’s Republic of China.” <<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>>.

capabilities.” The plan seeks to increase support for Tibet and Tibetan ethnic groups living in other provinces like Sichuan, Yunnan, Gansu, and Qinghai. The fourth strategic interest is to develop cities and experimental zones in border areas. China wants to ensure that “Tibet becomes a major channel for opening up into South Asia” along with Yunnan. The fifth strategic interest is ecological restoration and environmental governance as the Qinghai-Tibet Plateau constitutes a national ecological security barrier.

### **Political Goals of Chinese Diplomacy and BRI**

At the political level, China seeks Nepal’s unwavering support for its security perspectives, China’s place in the world, China’s achievements in the past 70 years, development partnership with China, implementation of the BRI, and the “building of a community with a shared future for China and Nepal.”<sup>56</sup> In addition to these elements, the Chinese often mention the 200-year-old “Chinese Dream of the great rejuvenation of the Chinese nation” and “the building of the Trans-Himalayan Multi-Dimensional Connectivity Network.”<sup>57</sup> Historically, China’s interests in Nepal have predominantly been driven by interests in Tibet, followed by reducing Nepal’s dependence on India (especially in economic and military affairs), and weakening the hold on Nepal.<sup>58</sup>

China’s economic and cultural engagements in Nepal were aligned with its interest to develop Tibet and western parts of China. In January 2000, China had just launched the Western Development (Go West) Strategy to help China’s western region—covering six provinces, five autonomous regions, and one municipality - with a combined population of approximately 370 million. China’s

---

56 [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1697106.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1697106.shtml) (accessed November 21 2019).

57 [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1696656.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1696656.shtml) (accessed November 21 2019).

58 Satish Kumar. 2011. “China’s expanding footprint in Nepal: Threats to India.” *Journal of Defence Studies* 5(2): 77-89.

59 [http://english.gov.cn/premier/news/2016/12/27/content\\_281475526349906.htm](http://english.gov.cn/premier/news/2016/12/27/content_281475526349906.htm) (accessed November 21 2019).

current five-year plan continues to emphasize the strategy along with the BRI. By 2016, China's central government had invested about \$914 billion,<sup>59</sup> helping the region sustain an annual average growth rate of almost 12%.<sup>60</sup> The western regions achieved substantial GDP growth, driven by fixed-asset investment. Although the region faces challenges linked to governance, environment, and infrastructure, focus on the west is likely to be a driver of China's overall economy with significant implications for Central and South Asia.<sup>61</sup> At present, while the investment has helped narrow the gap, disparities persist and rising social tension threatens to hinder investment flows.<sup>62</sup> As part of the Silk Road Economic Belt strategy, the National Development and Reform Commission of China recommended promoting "border trade and tourism and culture cooperation between Tibet Autonomous Region and neighbouring countries such as Nepal."<sup>63</sup>

### **Weakening India's Hold on Nepal**

Under a 1965 agreement, India was Nepal's primary defence partner, supported by the US and UK. India wanted to continue the British colonial strategy of building a ring-fence of buffers like Nepal, Sikkim, Bhutan, and Tibet to protect India's economic and security interests. India, at the time, believed that if Nepal wanted a special economic relationship, it should also accept a special security relationship. Nepal did not accept India's position that the Himalayas were India's defence barriers. China, meanwhile,

---

60 [http://www.chinadaily.com.cn/china/westdevelopment/2009-12/22/content\\_9215054.htm](http://www.chinadaily.com.cn/china/westdevelopment/2009-12/22/content_9215054.htm) (accessed November 21 2019).

61 Doris Ma and Tim Summers. 2009. *Is China's Growth Moving Inland? A Decade of "Develop the West"*. Hong Kong: Centre for East Asian Studies, The Chinese University of Hong Kong. <[https://www.chathamhouse.org/sites/default/files/public/Research/Asia/1009pp\\_chinasgrowth.pdf](https://www.chathamhouse.org/sites/default/files/public/Research/Asia/1009pp_chinasgrowth.pdf)>.

62 Victoria Ruan. 2014. "China's new Silk Road plan builds on failed Go West drive." SCMP. <<https://www.scmp.com/business/economy/article/1523471/chinas-new-silk-road-plan-builds-failed-go-west-drive>>.

63 NDRC. 2015. "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." State Council.

saw India's notions of "sphere of influence" as a colonial concept to maintain domination.

While India wanted Nepal to uphold the "special relationship", Nepal's growing confidence in economic matters and a strident anti-Indian nationalism was encouraging it to reset relations with India on par with China. One such attempt was the 1988 decision to buy arms from China contravening the 1965 agreement with India. However, the 1988 arms purchase<sup>64</sup> had disastrous consequences for China's relations with Nepal.<sup>65</sup> India saw the arms sale, the possible training by PLA, and a secret agreement about intelligence sharing<sup>66</sup> as signs of Nepal's gradual shift away from India's influence. As India imposed a trade and transit embargo—by allowing trade and transit treaties with Nepal to lapse—China tried to provide assistance to Nepal, but its support was modestly constrained by its own limitations at the historical juncture (internal upheavals in China, deteriorating relations with the West, rapprochement with India/the Third World) and limitations of connectivity.

Kathmandu's subsequent submission to India, followed by the 1990 political transition, was a setback for China as it allowed India to contain Chinese engagements in Nepal including activities in the Terai, road constructions, military relationships, and Chinese involvement in 'sensitive' areas like hydropower and telecommunications. While China saw India's move as a continuation of colonial hegemony, it was not in a position to do anything about it. However, it put China in a unique position: it became imperative for China to focus on connectivity and

---

64 The arms sale included small arms, ammunitions, uniforms and boots and 19 anti-aircraft guns. According to Garver 1991:961, China's arms sale decision did not have higher level clearance.

65 Garver. 1991. "China-India rivalry in Nepal: The clash over Chinese arms sales." *Asian Survey*, 31(10): 961-962.

66 See Leo E. Rose. 1990. "India's Foreign Relations: Reassessing basic policies." India briefing for Asia Society. Boulder, Co.: Westview Press.

67 Garver 1991.

economic linkages to South Asia through Tibet and wait for a more propitious moment to benefit from the widespread resentment against India, both in Nepal and Sri Lanka.<sup>67</sup>

Chinese commentators argued that India should be more open to economic and security cooperation between China and Nepal as well as between South Asian countries as “it is neither realistic nor possible for India to always regard Nepal as its backyard and put pressure on Sino-Nepalese cooperation.” According to Xu Liping, a senior fellow of the National Institute of International Strategy, the Chinese Academy of Social Sciences, South Asia requires more integration and aspires for economic development, “but India alone is unable to promote integration.”<sup>68</sup>

In December 2016, Nepal Telecom and China Telecom Global signed an agreement on internet protocol service between the two countries through a cross-border terrestrial cable route that would lessen Nepal’s dependence on India.<sup>69</sup> The fibre cable project was completed soon and became operational in January 2018, ending “Nepal’s sole dependence on India for internet bandwidth.”<sup>70</sup>

Whenever a government close to China has emerged in Nepal, India has actively worked to subvert the government and limit China’s influence, sometimes with the assistance of the British and Americans. Whenever politics and the government were not in its favour, China used public diplomacy, investment relations, and state-owned enterprises to work around this problem, specifically to pursue its strategic interests and expand its influence. In particular, China’s state-owned enterprises and large contractors preceded China’s official foreign policy engagements with Nepali institutions and have functioned as the precursor to BRI.

---

68 Xu Liping. 2016. “India should be more open for Sino-Nepalese cooperation.” Global Times. <<http://www.globaltimes.cn/content/1025743.shtml>>.

69 [http://www.chinadaily.com.cn/business/2016-12/08/content\\_27612068.htm](http://www.chinadaily.com.cn/business/2016-12/08/content_27612068.htm) (accessed November 21 2019).

70 <https://thehimalayantimes.com/nepal/sino-nepal-cross-border-optical-fi-bre-link-starts-operations-today/> (accessed November 21 2019).

At present, China is aggressively pursuing foreign policy interests in Nepal, which is evident from the manner of involvement of Chinese diplomats, officials and leaders in engaging the political leaders and guiding and directing them towards Chinese priorities and interests. China has been encouraging Nepal, successfully, to move away from Indian and western influence in both domestic affairs and international relations by taking “independent” decisions. China is currently providing development assistance to Nepal for about a dozen projects including transport and health infrastructure, tunnels and railways, and concessional loans. In addition to the delays caused by Covid-19, both sides acknowledged that there were issues related to planning and coordination.<sup>71</sup>

In recent years, Western allies appear to be adopting a constraint strategy, which argues that although democratic governments should be prepared to offer China incentives for good behaviour, they must be prepared to deter bad behaviour vigorously.<sup>72</sup> There are several emerging versions of this constraint strategy including trade sanctions, technological decoupling, restrictions on financial flows and investments, forced changes to global supply chains, strategic (military and political) alliances, and cooperative alliances around Covid 19.<sup>73</sup> As part of the global strategy, some western countries including the US are trying to place a wedge in India-China relationship, hoping that India would move away from China towards the US. Western narratives suggest that China,

---

71 The key projects currently under planning and implementation are: improvement of Araniko Highway and the Ring Road, extension of Bir Hospital, coordinated border management at Korala Customs Point, Madan Bhandari Science and Technology University Project, Livelihood Improvement Projects in northern districts of Nepal, feasibility study of Tokha-Chhare and Betrabati-Syafrubesi tunnels, China-Nepal Cross-Border Railway and Exim Bank concessional loans.

72 <https://www.project-syndicate.org/commentary/liberal-democracies-need-policy-to-constrain-china-by-chris-patten-2020-06>

73 <https://www.bloomberg.com/news/articles/2020-05-21/five-flashpoints-to-watch-as-u-s-china-relations-worsen>

74 <https://foreignpolicy.com/2020/06/09>

with its aggressive military strategy, is pushing India closer to the United States and pick sides in the new cold war.<sup>74</sup> The West's constraintment strategy is also interested in constraining China's growing influence in Nepal. This will be discussed in greater detail in Chapter 3.

China has been forced to respond to the "new shock wave" generated by the paradigm shift in US policy. China's ability to withstand pressure depends on domestic economy, domestic public sentiments, national security, military capability, and international alliances. Cracks have appeared in China's international alliances with entities like EU, Russia, Iran, India and Nepal. China is also strengthening itself on all fronts, ranging from international diplomacy and trade to military capacity and digital currency.



## Chapter 2

# CHINA'S STRATEGIC AND SECURITY ENGAGEMENTS IN NEPAL

Ajaya Bhadra Khanal

Chinese State Councillor and Defence Minister Wei Fenghe made a short visit to Nepal on November 29, 2020. Reports in Nepali and Indian media claimed that his visit was quickly arranged in mid-November to counter increased Indian diplomatic initiatives. Chinese media, on the other hand, portrayed the visit as “a normal part of China-Nepal bilateral interaction,” which had been put under “spotlight” by Indian “sensationalist” media.<sup>75</sup> However, knowledgeable sources said that although the Defence Minister had a standing invitation, the Chinese approached Nepal about Fenghe’s visit only around November 9, after which the visit was arranged through the Foreign Ministry. Because of the absence of a dedicated Defence Minister, the visit had to face some protocol issues,<sup>76</sup> which was not to the satisfaction of the Chinese side.

Several contextual factors made his visit significant. His visit coincided with internal differences in the ruling party, increased Indian diplomatic initiatives, and a slowing down of Nepal’s cooperation with China. The tussle between China and India in recent years has created rifts in political parties, slowed down the implementation of development assistance, heightened diplomatic competition, resulted in public relations exercise aimed

---

75 <https://www.globaltimes.cn/content/1208416.shtml>

76 Based on information provided by individuals with first-hand knowledge.

at tarnishing each other's role in Nepal, and invited intrusions in government policies and practices. China has been encouraging Nepal, successfully, to move away from Indian and western influence in both domestic affairs and international relations—by taking “independent” decisions. This includes cooperating with China on Covid-19.

China views military assistance as one area through which Nepal's independence from India can be achieved. Historically, India saw Nepal as falling within its security umbrella and wanted Nepal to buy arms and military supplies through India. It is not surprising, therefore, for Wei to mention during his visit that “China would resolutely support Nepal to safeguard its independence, sovereignty and territorial integrity.”<sup>77</sup> In Chinese view, maintaining an “independent” diplomacy and deepening military ties with China will help Nepal prevent Indian interference. According to a Chinese scholar,<sup>78</sup> Chinese military assistance—like the \$22.8 million aid signed during Defence Minister Ishwar Pokhrel's visit to China in October—is intended to fulfill these two objectives. Liu describes the Madhesi population and Nepalis troops receiving training in India as “unfavourable factors for Nepal's national stability.” China's strategy of weaning Nepali military ties away from India has become a topic of discussion in the Indian media. For example, the Indian media widely discussed a Chinese-funded study about why Nepali mercenaries joined the Indian Army and interpreted it as an attempt to weaken Nepal's ties with India.<sup>79</sup>

---

77 <https://www.scmp.com/news/china/diplomacy/article/3111971/china-india-relations-chinese-defence-minister-declares>

78 Liu Zongyi. “With hegemonic mentality, India is wary of China meeting in Nepal.” *Global Times*.

<https://www.globaltimes.cn/content/1208416.shtml>. Zongyi is the secretary-general of the Research Center for China-South Asia Cooperation at Shanghai Institutes for International Studies.

79 For example, see <https://www.indiatoday.in/india/story/china-wants-to-know-w-hy-nepal-young-men-joining-indian-army-1712287-2020-08-17>

By working with Nepal's political and security apparatus, China wants to ensure the security of the Chinese border and the stability of Tibet. In China's view, Nepal is no longer a "transfer stop and refuge for secessionist Tibetans in exile." Strengthened military and security cooperation with Nepal has helped secure China's border security and stability in Tibet. However, China feels that India and the US might foment anti-Chinese activities in the future and it wants to make security cooperation more intensive. In October 2019, during Defence Minister Ishwar Pokhrel's visit to China, he signed an agreement where China promised another Rs 2.5 billion worth of military assistance. A year before, China had promised Rs 2.53 billion worth of non-lethal military aid to be provided over a period of five years.<sup>80</sup>

China's diplomatic and security engagements with Nepal have intensified in recent years, straining Nepal's ability to negotiate the complex geopolitical landscape. Initially, China's security strategy in Nepal was to support the monarchy and use it to secure China's security interests. At that time, securing Tibet and ensuring the success of the 2008 Beijing Olympics was China's primary concern. By 2012, China had more or less addressed the Tibetan issue and began to focus on its broader strategic interests, especially those being promoted by its new leader, President Xi Jinping.

This chapter briefly describes the general features and trends of China's security engagements in Nepal after the turn of the century and the implications of China's emerging security strategies for Nepal's democracy and development.

### **A. TIBETAN FACTOR**

One of China's major strategic concerns in its relations with Nepal was Tibet and the possible activities of separatist forces. In the 1950s and 60s, China viewed itself as surrounded by hostile forces that were trying to tighten a ring around it; Chinese publications showed Nepal as one of the territories that China had lost because

---

80 <https://cn.nepalembassy.gov.np/?p=246>

of the western interventions and it was intent on protecting its hold over Tibet.<sup>81</sup> China's cooperation with Nepal began to strengthen when King Gyanendra started to assert his role in the affairs of the state after 2001. At that time, China felt that Nepal was being used by outsiders to train and strengthen subversive activities. For example, China's Ministry of Public Security revealed in 2004 that Uyghur "terrorists" had been receiving training in Nepal around 2000-2001. Nepal Government captured the "terrorists" and handed them over to China.<sup>82</sup> King Gyanendra's visit to China in July 2002 further strengthened the relationship. China supported the Nepal government's crackdown on the Maoists, saying China opposed and condemned violence and terrorism of all forms.<sup>83</sup>

Because of this concern, Nepal has adopted a firm position on the One China Policy and the country takes serious action against any related activities. The events and their ramifications show that the government and even the political parties of Nepal are under Chinese pressure. For example, in June 2019, the Federal Socialist Party (FSP) of Nepal suspended one of its federal parliament members, Pradip Yadav, for taking part in an event supporting the Free Tibet movement in Latvia.<sup>84</sup> Party insiders said the party had come under immense pressure from China. In the same month, Nepal refused the entry of a US citizen Penpa Tsering, on the grounds that the person is on China's most-wanted list. Nepali officials later found out that the name was confused with another Penpa Tsering who used to be the speaker of Tibetan Parliament-in-exile.

---

81 CIA. Peking's Lost Empire. A Communist Map showing how China lost Nepal. [https://www.cia.gov/library/readingroom/docs/DOC\\_0005968173.pdf](https://www.cia.gov/library/readingroom/docs/DOC_0005968173.pdf)

82 [http://www.chinadaily.com.cn/english/cndy/2004-02/14/content\\_305978.htm](http://www.chinadaily.com.cn/english/cndy/2004-02/14/content_305978.htm) (accessed November 23 2019).

83 [http://www.chinadaily.com.cn/en/home/2002-07/11/content\\_127601.htm](http://www.chinadaily.com.cn/en/home/2002-07/11/content_127601.htm) (accessed November 23 2019).

84 स्वतन्त्र तिब्बतको कार्यक्रममा सहभागी सांसद प्रदीप यादव समाजवादी पार्टीबाट निलम्बित, नया पत्रिका, २०७६ असार

### **Engagements in Nepal to Protect Interests Around Tibet**

As China tried to build economic relations and connectivity with Nepal at the turn of the century, one of its interests appeared to be to “divert Tibetans from political activities”<sup>85</sup> by providing business opportunities. Around this time, China invested heavily in road and connectivity in Tibet, spending about USD 1.81 billion from 2001-2005 and about USD 700 million in 2006 alone.

<sup>86</sup> Trade and infrastructure relations with Nepal triggered this effort to promote Tibet's economy.

Tibet had always remained China's key concern in its relations with Nepal, but it was amplified after the 2006 political change in Nepal. Around 2007, Tibetan activities and protests in Nepal began to intensify, coinciding with the upcoming Beijing Olympics and the 50th year of Dalai Lama's exile to India. In 2008, there were massive Tibetan protests in Nepal, Tibet, and India; the government crackdown on the protestors received global media attention. After the 2005-6 political movement in Nepal, China considerably raised its stakes in Nepal, first to promote the 2008 Beijing Olympics and then to protect Tibet's security in the face of Tibetan movements in Nepal and India.

The Tibetan issue was the primary reason why China continued to provide military assistance to Nepal. In December 2008, China agreed to provide about Rs. 170 million to the Nepal Army. The Defence Minister of Nepal, Ram Bahadur Thapa signed an agreement in Kathmandu and reports said it also included intelligence sharing. In December 2009, China pledged another Rs. 35.2 million for non-lethal military support and a “friendship”

---

85 [https://wikileaks.org/plusd/cables/06KATHMANDU688\\_a.html](https://wikileaks.org/plusd/cables/06KATHMANDU688_a.html) (accessed November 22 2019).

86 [http://www.chinadaily.com.cn/bizchina/2006-03/24/content\\_584699.htm](http://www.chinadaily.com.cn/bizchina/2006-03/24/content_584699.htm) (accessed November 22 2019).

building on the Nepal-China border. China forced the Nepal government to deploy security forces along the northern border. However, the deployment was merely symbolic as Nepal didn't have the resources to fortify the northern border.<sup>87</sup> China tried to further bolster relations with Nepal during Madhav Kumar Nepal's visit to China in December 2009. During Defence Minister, Bidya Devi Bhandari's visit in 2010, China pledged military cooperation, while Nepal promised cooperation in border control.<sup>88</sup> In return for Nepal's promise to ban anti-Chinese activity in Nepal, China offered a gradual upscaling of aid and engagements in Nepal in tourism and hydropower sectors.

Around 2009, Nepal was finding it difficult to negotiate pressures from China and the West over the Tibetan protests. While China wanted Nepal to clamp down on the protests to prevent anti-China activities, the UN and the West wanted Nepal to protect Tibetan rights.<sup>89</sup> China's "edgy nationalism" along with "game-changing" strategic engagements in countries like Nepal, Pakistan and beyond was making India uncomfortable, forcing it to work closely with South Korea and Japan.<sup>90</sup> During this period, while Nepalis had begun to nurture a "beautiful dream" about increased connectivity and aid linkages, China's sole interest was to protect Tibet.

Then in March 2011, when China-friendly Jhala Nath Khanal became the new Prime Minister on an anti-Indian plank, China offered an assistance of Rs. 1.30 billion to be used for hospitals

---

87 CIA. Peking's Lost Empire. A Communist Map showing how China lost Nepal. [https://www.cia.gov/library/readingroom/docs/DOC\\_0005968173.pdf](https://www.cia.gov/library/readingroom/docs/DOC_0005968173.pdf)

88 [http://www.chinadaily.com.cn/english/cndy/2004-02/14/content\\_305978.htm](http://www.chinadaily.com.cn/english/cndy/2004-02/14/content_305978.htm) (accessed November 23 2019).

89 [http://www.chinadaily.com.cn/en/home/2002-07/11/content\\_127601.htm](http://www.chinadaily.com.cn/en/home/2002-07/11/content_127601.htm) (accessed November 23 2019).

90 [https://wikileaks.org/plusd/cables/09NEWDELHI2142\\_a.html](https://wikileaks.org/plusd/cables/09NEWDELHI2142_a.html) (accessed November 22 2019).

and materials for relief and rescue operations. In return, Nepal promised to crack down on Tibetan refugees and cooperate in border control. China's Chief of General Staff of the PLA, Chen Bingde promised there was more to come and picked his appointee, Young Houlan, as the Chinese ambassador to Nepal.<sup>91</sup>

In May 2011, China sent a nine-member team from Chengdu to explore investment opportunities in Nepal; the team members said they were interested in setting up manufacturing factories. A security analyst for the US government, Stratfor commented that it was a "great cover for surveillance and info gathering, increasing economic interconnection and interdependence over and above India along with good cover for increasing logistic routes into Nepal that are military dual-use."<sup>92</sup> If such analysis is true, then the Chinese economic engagements in Nepal were merely strategic, aimed to serve China's security interests. China provided another Rs. 627 million worth of assistance to the Nepali Army in October 2011. According to US strategic analysts, China was trying to reinforce its buffers with India.<sup>93</sup>

There was another political change in August 2011, when Maoist leader Baburam Bhattarai ousted Jhala Nath Khanal and became the prime minister. PM Bhattarai suffered a diplomatic embarrassment when Chinese president Wen Jiabao postponed his visit to Nepal in December 2011. China believed that the number of Tibet related activities had gone up since Bhattarai took office.<sup>94</sup> Nepali media speculated that the Chinese government was unhappy with Bhattarai. In January 2012, however, the Chinese president made

---

91 Purna Basnet. 2016. "High-level Chinese officials visiting Nepal." My Republica, <[http://www.myrepublica.com/portal/index.php?action=news\\_details&news\\_id=34396](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=34396)>.

92 [https://wikileaks.org/gifiles/docs/13/1361631\\_re-g3-s3-gv-nepal-china-econ-security-china-interested-to.html](https://wikileaks.org/gifiles/docs/13/1361631_re-g3-s3-gv-nepal-china-econ-security-china-interested-to.html) (accessed November 22 2019).

93 [https://wikileaks.org/gifiles/docs/28/2883074\\_g3-s3-gv-china-nepal-tibet-csm-mil-nepal-police-detain.html](https://wikileaks.org/gifiles/docs/28/2883074_g3-s3-gv-china-nepal-tibet-csm-mil-nepal-police-detain.html) (accessed November 22 2019)

94 <http://kathmandupost.ekantipur.com/news/2011-12-14/chinese-premier-wen-postpones-nepal-visit.html> (accessed November 24 2019).

a short stop in Nepal, the first after Zhu Rongji's visit in 2001. Wen Jiabao emphasized cooperation in economic development and security, as well as investment and exchange visits.<sup>95</sup> However, during his tenure, Baburam Bhattarai was never invited to China.

### **Border Security and Sransit Operations**

In November 2012, Nepal closed the border with China to coincide with CCCP's 18th congress which elected Xi Jinping as its new leader. Tibetan protests increased in 2013, which were part of a four-year campaign against Chinese rule in Tibet. In view of these incidents, China wanted to cooperate closely with Nepal's security agencies. According to former army chief, China wanted the Nepali Army to be involved in preventing anti-China activities in Nepal.<sup>96</sup> However, when the army made it clear that it could not do so, the Chinese turned to the APF. In June 2013, during State Councillor Yang Jiechi visit, China pledged Rs. 3.6 billion for the construction of the APF training academy. China, however, continued to assist the Nepal Army. In December 2013 China pledged a grant of \$8.2 million to Nepal Army to build two mobile hospitals for which it had earlier given \$9.68 million.<sup>97</sup>

By mid-2013 China had increased digital surveillance of Tibetans and appeared to have attained tight political control in Tibet and Nepal. The New York Times reported that China's anti-Tibetan policies in Nepal were working in "a variety of ways" including financial incentives. According to the NYT, the number of Tibetans crossing the border had trickled down to 400 in 2012, nearly half compared to the 2011 figures. Tibetans blamed tight surveillance in Tibet and China-trained Nepali border guards

---

95 <http://dk.china-embassy.org/eng/TourChina/t896571.htm> (accessed November 24 2019).

96 Based on conversation with a former Chief of Army Staff.

97 <https://economictimes.indiatimes.com/news/politics-and-nation/china-provides-8-2-million-assistance-to-nepal-army/articleshow/27434186.cms> (accessed November 22 2019).

for the “reduced migration.”<sup>98</sup> In April 2014, Human Rights Watch published a report, “Under China’s Shadow,” about the mistreatment of Tibetans in Nepal.<sup>99</sup> The report said Nepal had signed “several security and intelligence-sharing” agreements with China since 2008 and Nepal’s Tibetan refugee policy was shaped by Chinese influence. Nepal was no longer safe for Tibetan refugees. For example, in November 2014 the frontier police force in Tibet and the armed police and fire department of Nepal carried out a joint exercise at the Sino-Nepal Friendship Bridge, which “effectively improved the cooperation ability between the armed police of the two countries.”<sup>100</sup>

For a long time, China had been attempting to create a joint border control mechanism on the Nepal-China border. In December 2017, China proposed to set up offices of joint security forces along the Nepal-China border under the Joint Command Mechanism agreement, aimed at controlling the movement of Tibetan refugees and criminal activities.<sup>101</sup> In January 2018, newspaper reports said that China would open the Tatopani border only if Nepal agreed to a joint border security arrangement. PM Dahal and K P Oli were reported to be in a dilemma.<sup>102</sup> After sustained pressure from China, Nepal finally consented to a joint command and control mechanism to manage its northern Rasuwa

---

98 Edward Wong. 2019. “China makes inroads in Nepal and Stanches Tibetan flux.” *The New York Times* <<https://www.nytimes.com/2013/04/14/world/asia/china-makes-inroads-in-nepal-stemming-tibetan-presence.html>>.

99 <https://www.hrw.org/report/2014/04/01/under-chinas-shadow/mistreatment-tibetans-nepal> (accessed November 22 2019).

100 <http://www.globaltimes.cn/content/892378.shtml> (accessed November 22 2019).

101 Rewati Sopkota. 2017. “China proposes joint security mechanism along border with Nepal.” *The Himalayan Times*. <<https://thehimalayantimes.com/nepal/china-proposes-joint-security-mechanism-along-border-nepal/>>.

102 Rewati Sopkota. 2018. “Chinese Rider on Tatopani.” *The Himalayan Times*. <<https://thehimalayantimes.com/nepal/chinese-rider-tatopani/>>.

border in July 2019<sup>103</sup> indicating that such a mechanism may have been developed for other districts as well. Such a mechanism was one of the preconditions for the opening of the Zham-Tatopani transit point.<sup>104</sup> The border finally opened four years after the earthquake,<sup>105</sup> however, the movement of people and goods across the Zham-Tatopani border was negligible.<sup>106</sup>

## B. DALAI LAMA'S SUCCESSOR

An emerging dimension in Nepal-China relations is that of Dalai Lama's successor. As His Holiness the Dalai Lama celebrated his 84th birthday, the succession question propelled a debate. A Chinese official and a member of a Beijing based think tank told some Indian journalists that China will reject any Dalai Lama that is born outside its territory and amongst the Tibetans-in-Exile.<sup>107</sup> The comment sparked widespread condemnation from the international community and the Central Tibetan Administration. Chinese authority has understood that in order to be able to 'Sinicize' the Tibetan community they must earn legitimacy first, which could only come if they could control the next spiritual leader.<sup>108</sup> The Third Tibet Work Forum was the landmark strategic

---

103 Balaram Ghimire. 2019. "Nepal and China decide to form joint command to check cross-border crimes." The Kathmandu Post. <<https://kathmandupost.com/province-no-3/2019/07/05/nepal-and-china-decide-to-form-joint-command-to-check-cross-border-crimes>>.

104 Ibid.

105 Chandra Shekhar Adhikari. 2019. "tftf[kfgL gfsf v'Nof] t/ rn]g." Annapurna Post. <<http://annapurnapost.com/news/133466>>.

106 Rajesh Khanal. 2019. "China's focus on Rasuwagadhi-Kerung puts Tatopani-Khasa border in the shadows." The Kathmandu Post. <<https://kathmandupost.com/money/2019/08/10/china-s-focus-on-rasu-wagadhi-kerung-puts-tatopani-khasa-border-in-the-shadows>>.

107 Vineeta Pandey. 2019. "China can't pick the new Dalai Lama, say Tibetans." The Asian Age. <<https://www.asianage.com/india/all-india/230719/china-cant-pick-the-new-dalai-lama-say-tibetans.html>>

108 Vijay Kranti. 2019. "China's conspiracy to install its puppet as Tibet's next Dalai Lama." News Intervention <<https://www.newsintervention.com/chinas-conspiracy-to-install-its-puppet-as-tibets-next-dalai-lama/>>.

forum after which China's State Administration for Religious Affairs issued its State Religious Affairs Bureau Order no-5 which made the Chinese stamp of approval non-negotiable in order to choose a reincarnate.

There is a real possibility that after His Holiness the Dalai Lama's death, China will attempt to choose his successor and as will the Central Tibetan Administration. A similar scenario has played out earlier with the Panchen Lama in 1995 when the Chinese authorities allegedly kidnapped the Tibetan chosen representative who was a mere six years old and appointed another Panchen Lama in his place.<sup>109</sup> The Chinese appointed Panchen Lama has not been accepted by the Tibetan community as he is considered a Chinese controlled mouthpiece. By linking heritage revival and Buddhism as an integral part of BRI, China is laying the groundwork to assign itself the legitimacy to choose the next Dalai Lama.<sup>110</sup> By bringing Nepal under the umbrella of the BRI, China is determined to ensure Nepal will follow its One China Policy. This will reflect in realpolitik by Nepal not recognizing Tibet's claim to independence and eventually shunning the CTA chosen Dalai Lama.

For example, Nepal's Home Ministry stopped the celebration of His Holiness the Dalai Lama's 84th birthday on July 6th. District Administration Office, Kathmandu, rejected a request from the Tibetan Refugee Welfare Office to organize a celebration citing that no anti-China activities would be allowed on Nepali soil.<sup>111</sup>

---

109 Chakmo Tso and Singeri Sonam Lhamo. 2019. "Dalai Lama Representative Dismisses Chinese Pressure on India Over Reincarnation." Nepal 24 Hours. <<https://www.nepal24hours.com/dalai-lama-representative-dismisses-chinese-pressure-on-india-over-reincarnation/>>.

110 N.S. Venkataraman. 2019. "Who is China to appoint next the Dalai Lama?" Nepal 24 Hours. <<https://www.nepal24hours.com/who-is-china-to-appoint-next-the-dalai-lama/>>.

111 Shambhu Kattel. 2019. "Nepal stops Dalai Lama's 84th birthday celebrations." The Annapurna Express. <<https://theannapurnaexpress.com/news/nepal-stops-dalai-lamas-84th-birthday-celebrations-1709>>.

Journalists in Nepal are discouraged from covering Tibetan affairs and government officials shy away from commenting on China-related issues. With the increasing foray of Chinese investment in Nepal's economy, it seems as though the media is expected to be muzzled and must not offend the Chinese narrative. Furthermore, this censorship is not restricted to the media itself; Pradip Yadav of the Samajbadi Party of Nepal was suspended for six months for taking part in a Free Tibet related program in Latvia.<sup>112</sup>

From recent developments and escalating tensions, it seems as though China and Dharamshala are both poised to appoint their own Dalai Lama. While the possibility of two parallel Dalai Lama's remains conceivable, it is also understood that there may be no 15th Dalai Lama at all. Beijing will shoot down any successor chosen by Tenzin Gyatso and vice versa, thus it seems highly unlikely that either will be able to choose a Dalai Lama due to the ensuing political deadlock. Additionally, India can also be seen to play a crucial role in this choice as it could loan legitimacy by deciding which choice to side with. The next Dalai Lama, if any could either resolve China's long-standing security concerns from Tibet or he/she could be the first step towards Tibetan self-determination.

### **C. BROADER STRATEGIC INTERESTS**

Once the Tibetan issue was considered to be under control, China turned its attention to achieving broader strategic interests. China's pursuit of these interests is discussed in an earlier section, however, a number of trends and patterns are relevant for Nepal's security sector. The first factor is Xi Jinping's assertive foreign policy objectives in South Asia and the "edgy" Han Chinese nationalism that drives this, which has resulted in an ambivalent relationship with India. The second factor is the white paper on Asia Pacific Security Cooperation (APSC), which reflects China's

---

112 Yeshi Dorje & Rajani Tamang. 2019. "Nepalese Journalists Pushed to Avoid Reporting on China, Tibet." Voa News. <<https://www.voanews.com/south-central-asia/nepalese-journalists-pushed-avoid-reporting-china-tibet>>.

broader strategy. Some of the multilateral mechanisms of security relevance to Nepal are the Shanghai Cooperation Organization (SCO); Conference on Interaction and Confidence-Building Measures in Asia (CICA); and Beijing Xiangshan Forum of Defence.<sup>113</sup> As part of its APSC, China wants to have a closer collaborative relationship with regional mechanisms like SAARC, for which Nepal can become an important medium, or for rules-based international regimes viz. WTO and the UN.

### **APSC: Obviate the Need for military Action**

China's engagements in Nepal closely resemble its approach outlined in APSC. China is trying to ensure convergence of economic interests and build robust partnerships and political foundations in Nepal. It is seeking to do so by engaging with South Asia's regional/multi-lateral mechanisms, influencing foreign policy of Nepal so that it serves international rule-setting institutions and practices in China's favour, and cultivating strong security/military relations. China continues to engage Nepal and its security agencies in a broad range of strategic objectives. China's strategy laid out in APSC indicates that China will intensify relations with Nepal's security agencies, particularly in relation to United Nations peacekeeping missions, counter-terrorism cooperation, border surveillance, humanitarian assistance and disaster-relief operations, and joint exercises and training. This is in addition to the special type of security cooperation with China in the last 12 years. All Nepal's agreements with China regarding foreign aid and assistance to the security institutions in the past decade were meant to generate support for control of the Tibetan resistance movement and to further China's strategic objectives laid out in APSC.

---

113 In October 2018, Deputy Prime Minister and Defence Minister, Ishwor Pokhrel attended the Xiangshan Forum and signed an MoU with China's State Councillor and Defence Minister Wei Fenghe. The Military Aid offered by China was valued at Rs 2.4 billion over the next five years.

China wants to develop closer trade relations between Nepal and Tibet. China will, therefore, need to closely monitor the border and has been insisting on joint security mechanisms as well as intelligence sharing. For example, closer security cooperation was one of the pre-conditions for the opening of the Zham-Tatopani border. China's closer cooperation with Nepal's security agencies, will further China's strategic interests but may invite competition and conflict with the US and India's interests.

## **D. SOUTH ASIA**

### **Geo-strategic Rivalry in South Asia**

China's engagements in Nepal cannot exist in isolation because India and the United States see such engagements as posing a security dilemma. Nepal-China relations, thus, figures heavily in the broader geo-strategic competition between India, China, and the United States. Western powers, particularly the United States see China as a direct competitor to their security and economic interests as well as their cultural values. The promotion of Western interests, as a corollary, directly impacts China's national security and economic interests as well as China's cultural identity in the global arena.

China's growing security engagements in Nepal have inevitably worried the US, which has responded to growing Chinese influence by sending high-level delegations to Nepal to develop relations and push back Chinese influence. For example, in March 2017, the U.S. Pacific Command Admiral Harry B. Harris Jr. arrived in Kathmandu to attend the Multinational Peacekeeping Exercise "Shanti Prayas-III". He met Prime Minister Pushpa Kamal Dahal, Foreign Minister Prakash Sharan Mahat and Defence Minister Balkrishna Khand among other high-ranking officials to discuss U.S.-Nepal defence cooperation.<sup>114</sup>

---

114 Zhang Dongmiao eds. 2017. "U.S. Navy commander arrives in Nepal for three-day visit." Xinhuanet. <[http://www.xinhuanet.com//english/2017-03/19/c\\_136140673.htm](http://www.xinhuanet.com//english/2017-03/19/c_136140673.htm)>.

Chinese Defence Minister and State Councillor Chang Wanquan visited Nepal a week after Admiral Harris's visit and met Prime Minister Pushpa Kamal Dahal, who praised China's neighbourhood diplomacy.<sup>115</sup> Wanquan assured that China would provide heavy equipment and other logistics for the Nepal Army.<sup>116</sup> The visit was "the first by a Chinese Defence Minister to Nepal in 15 years."<sup>117</sup> Then in December 2017, as mentioned earlier, China proposed joint security forces along the Nepal-China border under the Joint Command Mechanism agreement.

After China intensified diplomatic and security engagements in Nepal, the US began to draw Nepal into a strategic partnership under the rubric of the Indo-Pacific Strategy. This foreign policy thrust is clearly mentioned in the Asia Reassurance Initiative Act 2018.<sup>118</sup> The US wants to promote its interests through economic, security and cultural engagements with Nepal. The Indo-Pacific Strategy,<sup>119</sup> meanwhile, emphasizes preparedness and partnerships with Nepali security forces and political actors.

Nepal's security dilemma emerged when the US officials announced in December 2018 that Nepal was part of the Indo-Pacific Strategy.<sup>120</sup> The statement (coinciding with Foreign

---

115 Xuxin eds. 2017. "Nepal, China vow to further boost ties." Xinhuanet. <[http://www.xinhuanet.com/english/2017-03/25/c\\_136157205.htm](http://www.xinhuanet.com/english/2017-03/25/c_136157205.htm)>.

116 Yubaraj Ghimire. 2017. "China set to supply heavy equipment to Nepal army." The Indian Express. <<https://indianexpress.com/article/world/china-set-to-supply-heavy-equipment-to-nepal-army/>>.

117 Annual Report to Congress. 2018. "Military and Security Developments" Department of Defence. <<https://media.defense.gov/2018/Aug/16/2001955282/-1/-1/1/2018-CHINA-MILITARY-POWER-REPORT.PDF>>.

118 <https://www.congress.gov/bill/115th-congress/senate-bill/2736/text> (accessed November 23 2019).

119 Indo-Pacific Strategic Report. 2019. "Preparedness, Partnerships, and Promoting a Networked Region" Department of Defence. <[https://media.defense.gov/2019/May/31/2002139210/-1/-1/1/DOD\\_INDO\\_PACIFIC\\_STRATEGY\\_REPORT\\_JUNE\\_2019.PDF](https://media.defense.gov/2019/May/31/2002139210/-1/-1/1/DOD_INDO_PACIFIC_STRATEGY_REPORT_JUNE_2019.PDF)>.

120 Anil Giri. 2018. "US says Nepal is part of its Indo-Pacific Strategy." The Kathmandu Post. <<https://kathmandupost.com/miscellaneous/2018/12/20/us-says-nepal-is-part-of-its-indo-pacific-strategy>>.

Minister Pradeep Gyawali's visit to the US) said the Millennium Challenge Corporation's USD 500 million Nepal Compact<sup>121</sup> was an initiative being implemented under the Strategy. During the meeting, US Secretary of State Michael R Pompeo talked about MCC and Nepal's "central role in a free, open, and prosperous Indo-Pacific."<sup>122</sup> After returning home, Minister Gyawali clarified that the MCC and the Indo-Pacific Strategy were two different things and that Nepal had not become part of the Strategy.<sup>123</sup>

Throughout 2019, the US was trying to intensify cooperative relations with Nepal and its security forces. The US conducted a series of diplomatic initiatives to promote the neutrality of the Indo-Pacific Strategy as a policy. Members of the Nepal Communist Party said the US was trying to court influential leaders like Pushpa Kamal Dahal and Bishnu Paudel. But while China was making inroads, the US diplomacy was suffering several setbacks. For example, the Home Minister cancelled the US National Guards exercise with the Armed Police Force. The Nepal Army objected to the defence force. It constituted a major setback for the US Department of Defence's efforts to expand its influence in the Nepali security forces.

Then on September 12, 2019 the Ministry of Foreign Affairs of China issued a press statement regarding Minister Wang Yi's exchanges with NCP co-chair Pushpa Kamal Dahal. The press statement reported Dahal as saying that "Nepal firmly adheres to

---

121 <https://www.mcc.gov/where-we-work/program/nepal-compact> (accessed November 23 2019).

122 <https://www.state.gov/secretary-pompeos-meeting-with-foreign-minister-pradeep-gyawali-of-nepal/> (accessed November 23 2019).

123 Anil Giri. 2018. "Gyawali refutes reports about Nepal joining US Indo-Pacific Strategy." The Kathmandu Post. <<https://kathmandupost.com/national/2018/12/24/gyawali-refutes-reports-about-nepal-joining-us-indo-pacific-strategy>>.

the policy of non-alignment, disagrees with the so-called Indo-Pacific Strategy, and opposes any attempt to contain or thwart China's development."<sup>124</sup> Senior party official associated with the foreign affairs department believes that China deliberately exposed Prachanda's personal conversations with the Chinese Prime Minister. "Prachanda did not expect the Chinese to expose his conversation and he was later complaining in a meeting," a senior party official present at the meeting said. US Embassy Spokesperson Andie De Arment said, "If true, it is bewildering that we now learn about Nepal's positions from statements issued from Beijing."<sup>125</sup> Pushpa Kamal Dahal's spokesperson clarified that Dahal was misquoted and that he had only told Yi that Nepal disapproved of any initiative targeted at China. Nepal will not be part of any strategy that targets China or any other country as it would violate its non-interference clause under non-alignment.<sup>126</sup>

The strategies of the US, China, and India seek to create a special relationship with Nepal, especially with the political parties and the security forces so that Nepal can serve its strategic objectives. For example, under the strategy, all these countries want to engage with Nepal's security forces on humanitarian assistance and disaster relief, joint military exercises, training, and support for UN missions. This has both advantages and disadvantages. While Nepal may be able to receive assistance and foreign aid, the conflict and competition between the three can spill over into Nepal. Nepal is already witnessing signs that geo-strategic competition is testing the internal affairs of Nepal's political parties and national security institutions.

---

124 [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1697106.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1697106.shtml) (accessed November 23 2019).

125 The Himalayan Times. 2019. "US embassy 'awaiting' government clarification." <<https://thehimalayantimes.com/kathmandu/us-embassy-awaiting-government-clarification/>>.

126 <https://asianews.network/2019/09/12/us-embassy-seeks-clarification-after-beijing-says-nepal-disapproves-of-indo-pacific-strategy/> (accessed November 23 2019).

The US is intensifying diplomacy to bring Nepal under its influence as defined by the Asia Reassurance Initiative Act 2018 (ARIA),<sup>127</sup> which assumes that the US-backed international order is under threat from China, North Korea, ISIS and different forms of terrorism. Under the ARIA, the US is implementing a policy to secure “vital national security interests” of the United States and its allies or partners; promote “prosperity and economic interests” by “advancing economic growth and development of a rules-based Indo-Pacific economic community”; “advance US influence; support a “functional problem-solving regional architecture” and support “rule of law and international norms.” Among others, it adopts strategies to forge diplomatic, economic, trade and security relationships. Even though the Nepal government categorically rejected any engagement in the US-led Indo-Pacific Strategy, the recent report from the US Department of Defence states that the US seeks to “expand” its defence relationship with Nepal under the ‘State Partnership Program in the Indo-Pacific.’<sup>128</sup>

### **India’s Security Interests**

In India, Prime Minister Modi’s sustained political strength is seeking to create a “secure” neighbourhood and establish India’s rightful place in global affairs. India considers China’s “edgy” nationalism and growing influence in South Asia as a threat to its economic and security interests. One of the major challenges to a more extensive Nepal-China relationship is the presence of India and its influence in the Nepali state and society. India views China’s growing engagements in Nepal as a security threat and consistently tries to push back China’s growing influence. India’s response to Chinese engagements in Nepal, however, is likely to be tampered by its efforts to maximize economic cooperation with China, as well as China’s relations with the US, UK, and Australia.

---

127 <https://www.congress.gov/115/bills/s2736/BILLS-115s2736enr.xml>

128 Anil Giri. 2019. “Contrary to Government claims latest Indo-Pacific Strategy report includes Nepal in its State Partnership Program.” *The Kathmandu Post*. <<https://kathmandupost.ekantipur.com/news/2019-06-03/contrary-to-government-claims-latest-indo-pacific-strategy-report-includes-nepal-in-its-state-partnership-program.html>>.

India views China's engagements in Nepal from its national interest perspectives. As it pursues national interests based on international relations—a change from its non-aligned position in the past—India is building stronger strategic partnerships with the United States, Japan, and Australia. India's international relations is driven by concerns about national security, economic interests, the desire for a secure neighbourhood, and a rightful place in global affairs. Given its past relationship with China, India is wary about China's regional influence and neighbourhood policy and it views China's edgy nationalism as a key threat. India, like China, is focusing on a secure neighbourhood, and its use of military power in relation to China is primarily aimed at deterrence rather than a military victory.

China's "edgy nationalism" along with "game-changing" strategic engagements in countries like Nepal, Pakistan and beyond is making India uncomfortable, forcing it to work closely with S Korea and Japan.<sup>129</sup> In the Indo-Pacific, India is part of the Quad grouping (United States, Japan, India, and Australia), which wants to see a rule-based strategic system in the Indo-Pacific and which "recognises the stability which United States strategic engagement brings to the region."<sup>130</sup> In 2019, the US senate and house discussed whether to recognize India as a major defence partner, passing a watered-down version of the National Defence Authorization Act (NDAA) FY 2020. Despite India's interest in procuring defence equipment from Russia, many in the US want to push India as a counter to China in the Asia-Pacific region.<sup>131</sup> India wants to maintain strategic autonomy, but the US is pushing

---

129 [https://wikileaks.org/plusd/cables/09NEWDELHI2142\\_a.html](https://wikileaks.org/plusd/cables/09NEWDELHI2142_a.html)

130 Samir Saran & Richard Rahul Verma. 2019. "Strategic Convergence: The United States and India as Major Defence Partners." ORF. Sriram

131 Lakshman. 2019. "U.S. House will vote on watered-down version of India defence cooperation legislation" *The Hindu*. <<https://www.thehindu.com/news/international/us-house-will-vote-on-watered-down-version-of-india-defence-cooperation-legislation/article28364247.ece>>.

India to lead a strategic Indo-US partnership in the region to counter China's influence.<sup>132</sup>

### **Nepal's Security Dilemma**

One country's attempt to pursue its economic and security interests is seen by another as a threat. This element will test Nepal's quest to remain "neutral" and "independent." Nepal's strategic relationship with the US and China has dragged Nepal's security cooperation with the two countries into controversy. After the September 2019 episode, Pampha Bhusal, a communist member of the parliament said that Nepal's upcoming military exercise and police training with the US Army should be cancelled since the Indo-Pacific strategy is under controversy.<sup>133</sup> Her refrain has been echoed by many politicians close to China.

Within the then ruling party, the recent debate over Nepal's involvement in the Indo-Pacific Strategy created deep polarization. Leaders close to Dahal protested the framework around MCC as being closely linked to the Indo-Pacific strategy while those close to Oli accused the latter of being an obstruction against their own party. NCP's whip, Dev Gurung suggested a fresh round of negotiations between the US and Nepal to clarify if this agreement would bring the added pressure of the Indo-Pacific Strategy.<sup>134</sup>

Clinton Brown, the spokesperson at the US embassy clarified that there has been a misunderstanding that the Indo-Pacific is similar to a military alliance. Emphasizing that US intentions in Nepal have been selfless and development-oriented, Brown stated that

---

132 Rajasimman Sundaram. 2019. "US military ties could be a trap for India." *Global Times*. <<http://www.globaltimes.cn/content/1146168.shtml>>.

133 Anil Giri. 2019. "US Embassy officials meet with foreign secretary over Chinese statement about Dahal's 'disapproval' of Indo-Pacific Strategy." *The Kathmandu Post*. <<https://kathmandupost.com/politics/2019/09/12/us-embassy-officials-meet-with-foreign-secretary-over-chinese-statement-about-dahal-s-disapproval-of-indo-pacific-strategy>>.

134 The US was unhappy with Pampha Bhusal's statement in the parliament that Nepal should cancel all exercises with the US. She is embittered because the US rejected her a visa.

the US intents were clear on free and independent Indo-Pacific.<sup>135</sup> Despite persistent efforts by the US to portray Indo-Pacific Strategy as a policy and not a security strategy, stakeholders in Nepal have refused to accept the American interpretation. They claim to know the rationale behind the Indo-Pacific strategy and what it entails. The army, however, says it has not faced any direct pressure from China.

### **China's Rise and Change in Regional Dynamics**

The 2015 blockade, which soured relations between Nepal and India and the 2017 Doklam standoff between China and India serve to highlight transformation of South Asia's political dynamics. During the 1989 blockade, Nepal desperately sought China's help, but there wasn't much that China could do. In 2015, on the other hand, China's assurance allowed the ruling regime to resist India's pressures. In the 25 years, China had increased connectivity in Tibet and Nepal, unleashed economic development, bolstered military power, and forged partnerships across the globe. As a result, China's support allowed Nepal to assert its independence and move closer to China. When Nepal remained "neutral" during the Doklam standoff between China and India, China saw it as a victory that needed to be rewarded by further economic assistance, while India saw it as a gradual waning of its influence in South Asia.

During the Doklam standoff, which lasted for almost two and a half months in the summer of 2017, Nepal, Bangladesh, Sri Lanka, and the Maldives were studiously silent while the reaction in Bhutan was vague. On August 8, almost two months after the standoff, Deputy Prime Minister Krishna Bahadur Mahara said Nepal would not take any side.<sup>136</sup> Global Times ran an opinion

---

135 <https://english.onlinekhabar.com/embassy-official-says-us-did-nt-force-nepal-to-support-indo-pacific-policy.html> (accessed November 23 2019).

136 Anil Giri. 2017. "Nepal won't take India's side on China-India row." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2017-08-08/nepal-wont-take-sides-on-china-india-row.html>>.

piece saying that “India’s hegemony” in the region had been “shaken off by the Doklam standoff...as South Asian countries, some of which have been under India’s control, remain neutral or even speak up for China this time.”<sup>137</sup> Chinese experts also called on China to offer more generous aid to Nepal in the face of the Sino-India border dispute. As the Chinese Vice President travelled to Nepal, Global Times wrote: “The border dispute with India has highlighted the necessity for China to accelerate investment and economic aid to Nepal.”<sup>138</sup>

## **E. SECURITY COOPERATION**

### **China’s Diversification of Relationship**

China, like other countries, has diversified its relations with various Nepali stakeholders including political parties, government agencies, security agencies, media, and civil society. This will further test the ability and willingness of the Nepali government to monitor and track engagements of foreign interests in Nepal. Currently, Nepal does not have a consistent foreign policy nor a regime to look after Nepal’s national security interests. In such a situation, political parties and leaders pursue a foreign policy to serve their personal or partisan interests, which frequently contradicts Nepal’s national interests. In order to deal with these emerging scenarios, Nepal needs to pursue a mechanism to link foreign policy with national security, coordinate and enforce national security interests across multiple government agencies, and develop a mechanism to align national security and foreign policy interests across political parties. Since geo-strategic competition is a given, Nepal needs increased strategic knowledge along with negotiation and diplomatic skills to make sure the geo-strategic competition does not destabilise national economic and security interests including peace and stability.

---

137 Yang Sheng. 2017. “Indian hegemony shaken by Doklam standoff.” Global Times. <<http://www.globaltimes.cn/content/1061955.shtml>>.

138 Wang Jiamei. 2017. “China should offer more generous aid to Nepal amid Sino-Indian border dispute.” Global Times. <<http://www.globaltimes.cn/content/1061315.shtml>>.

### **Investment in Maintaining a Favourable Environment**

Continuity of China-friendly policies and practices requires favourable government, political parties, and state institutions. China is, therefore, likely to invest heavily in maintaining a favourable environment. Given that India and the US are already engaged in such practices, this will, in turn, make Nepali political parties, government and state institutions vulnerable to play of foreign interests. Perhaps the most significant area of Nepal-China cooperation is enhancing security cooperation focusing on both law-enforcement mechanisms and the military. After Chinese President Xi Jinping's visit to Nepal in October 2019, Nepal and China agreed to move forward with a number of strategic and security initiatives. According to Xi's blueprint, in addition to building law-enforcement capacity, China wants to "scale up border defence contacts," strengthen military exchanges, training, technologies, and equipment. Such security cooperation will not only ensure China's security but also enhance its global standing in strategic affairs.<sup>139</sup>

China was eager to sign an extradition treaty with Nepal, but the initiative did not bear results, given the opposition to many countries. The joint statement issued at the end of Xi's visit, however, said Nepal and China will "work to conclude" a treaty on extradition. For now, China and Nepal have signed a treaty on mutual legal assistance in criminal matters and on a boundary management system. The statement mentions that Nepal and China will "strengthen cooperation between the law enforcement agencies on information exchanges, capacity building, and training," which includes an offer by China to train 100 Nepali law enforcement officers each year and carry out exchange visits of security personnel, joint exercises and training, disaster prevention and reduction and personnel training.

---

139 <https://www.chinadaily.com.cn/a/201910/11/WS5da026b-ba310cf3e3556ff60.html> (accessed November 23 2019).

Two weeks after Xi Jinping's visit, Nepal's defence minister Ishwar Pokhrel flew to China and, along with State Councillor and Défense Minister of China H.E Wei, signed an agreement on military cooperation. Under the agreement, China will provide assistance of RMB 150 million to Nepal over a period of five years for the purpose of humanitarian and disaster relief equipment.<sup>140</sup>

China and Nepal are developing a close level of cooperation, exchanges, and training. Nepali security agencies, bureaucrats, and decision-makers have learned the security practices that are specific to China and China's political needs. The transmission of such practices and values will continue over the years and can influence the identity, structure, and practices of Nepali institutions. Some of these traits can come into conflict with Nepal's democratic culture.

### **Joint-Military Exercise and Exchanges**

In April 2017, China and Nepal held their first-ever joint military exercise in Kathmandu focusing on tactics of counter insurgency and counter-terrorism. The Sagarmatha Friendship 2017 exercise was the first of its kind between Nepal and China.<sup>141</sup> A year later, in September 2018, Nepal cancelled at the last minute a joint exercise between Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) member states in September 2018.<sup>142</sup> Newspaper reports said Nepal's decision to participate in the joint military exercise between the armies of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation member states was a result of military engagement between Nepal Army and the Indian Army, without formal dealings at the diplomatic or political level.<sup>143</sup>

---

140 <https://cn.nepalembassy.gov.np/?p=2462> (accessed November 23 2019).

141 <https://thehimalayantimes.com/nepal/nepal-china-joint-military-drill-kicks-off-sagarmatha-friendship-2017/>. (accessed November 23 2019).

142 Binod Ghimire. 2018. "Two Ministries say the Army didn't consult over military drill." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2018-09-06/joint-army-drill-plan-causes-uproar.html>>.

143 Ibid.

That same month, Nepal took part in the second phase of the military exercise with China in Chengdu. The platoon-level “Sagarmatha Friendship-2” military exercise in China’s Sichuan province focused on counter-terrorism and disaster management.<sup>144</sup> Chinese media reported that Nepal scaled-down military drills with China after Prachanda sought to improve relations with India. According to the Chinese media, “It was said the two countries initially planned to hold a battalion-scale military exercise. However, facing strong opposition from India, Nepal had to compress the size of the military exercise and changed the venue to a military school. But even so, India’s security strategy observers and media paid close attention to the military exercise.”<sup>145</sup>

### **Engagement with APF**

Nepal’s national security institutions are pursuing relations with foreign countries and institutions in an ad-hoc manner. The Armed Police Force is an example. High-level sources within the security agencies say that the focus of all three foreign nations now is on the APF, given its broad mandate. While APF’s role in Nepal from a democratic and security policy perspective remains ambiguous, it continues to serve the narrow vested interests of political parties, leaders and foreign states.

## **F. SECURITY AND DIPLOMACY**

### **Partnership with Nepal on Global Rule-Setting Institutions**

During PM K P Oli’s tenure, Nepal favoured China in international relations. Prime Minister K P Oli made several speeches at the UN and related meetings. In his pre-recorded speech to the UN General Assembly, he highlighted current problems in the international order and emphasized the need for

---

144 Anil Giri. 2018. “Nepal, China begin joint military exercises.” The Hindustan Times. <<https://www.hindustantimes.com/world-news/nepal-china-begin-joint-military-exercises/story-cqFFKTZQrSuuTp7S-gwPCyN.html>>.

145 Liu Zongyi. 2017. “Indian worry over China-Nepal drill outdated.”

multilateralism.<sup>146</sup> He spoke on the theme of “reaffirming our collective commitment to multilateralism,” “rules-based order” and “reform of WTO,” among others. He indirectly criticized the US saying, “it is unfortunate that we witness in some quarters lesser desire to work under the multilateral framework.” The language Nepal used in discussing the international order and international issues resembled Chinese foreign policy discourse. While support for multilateralism, rules-based order and the UN system is reasonable and rational, using the language and terminology used by China portrays Nepal’s affinity to China in its views about international relations and is critical of the US. PM Oli however, also supported the Convention on International Terrorism (CIT), which is being pushed by India.

### **One China Policy/Nepal’s Support in the International Arena**

Nepal took several steps in the international arena in recent years to appease Chinese interests. Nepal has supported China’s efforts to maintain law and order in Hong Kong. In a statement, MoFA said “Maintenance of peace, law and order is a primary responsibility of a nation. Nepal believes in non-interference in the internal affairs of any country and supports China’s efforts to maintain law and order in Hong Kong.”<sup>147</sup> In June, Cuba delivered a statement in the UN HRC on behalf of 53 countries including Nepal supporting China’s national security law for Hong Kong, asserting that Hong Kong is an inseparable part of China and asking “relevant sides to stop interfering in China’s internal affairs by using Hong Kong related issues.”<sup>148</sup> In July, MoFA said Nepal is in favour of concluding treaties and agreements

---

146 Global Times. <<http://www.globaltimes.cn/content/1043393.shtml>>. <https://mofa.gov.np/statement-by-right-honorable-prime-minister-mr-k-sharma-oli-at-the-general-debate-of-the-75th-session-of-unga/>

147 <https://myrepublica.nagariknetwork.com/news/nepal-voices-support-for-china-s-efforts-to-maintain-law-and-order-in-hong-kong/>

148 <http://www.china-un.ch/eng/hom/t1793804.htm>

with neighbouring and other friendly countries on mutual legal assistance and extradition.<sup>149</sup>

### **Partnership on Covid 19**

Covid 19 has appeared as a new arena where potential strategic alliances among states are being shaped and reshaped. Chinese diplomats, as well as senior political and military leaders have reached out to Nepali political leaders and the Nepal Army in recent years. Along with China's Defence Ministry, its foreign policy establishment has also been active in recent months. Nepal participated in a five-party ministerial level Covid-19 meeting with China along with Bangladesh, Pakistan and Sri Lanka on November 10. Chinese foreign ministry has been intensifying diplomatic consultation with Nepal and, in recent months, China has been using the Covid platform to bolster its position. The meeting reached a consensus on three issues: containing COVID-19, promoting economic recovery, and coping with non-traditional security issues. China is using the platform to promote BRI, maintain stability of industrial and supply chains, and cooperation in the international arena.<sup>150</sup> China's growing influence in Nepal has alarmed US, India and their western allies.

## **G. ANALYSIS AND CONCLUSION**

As international pressure against China grows, Nepal's value for China will increase. Nepal, currently is of critical importance for China as a neighbour, as a region bordering Tibet, as a buffer with India, and as a partner in the international fora. China is therefore likely to continue to invest on strategic partnerships, connectivity and regional geo-political stability, which means Nepal will remain critical for China. In the context of global geopolitical conflict, China is turning to military power and courting allies across the globe. This will have added significance in China's relations to Nepal, which figures both as a neighbour and an international ally of China. In addition to securing its interests, China is likely to see

---

149 <https://mofa.gov.np/official-spokespersons-response-to-media-query-on-treaties-agreements-on-mutual-legal-assistance-and-extradition/>

150 [https://www.mfa.gov.cn/mfa\\_eng/wjbxw/t1832096.shtml](https://www.mfa.gov.cn/mfa_eng/wjbxw/t1832096.shtml)

Nepal as a means to counter US influence and to prevent India from “speculating” on US ties. Nepal is certain to see a more aggressive China, which is both hard on security interests and soft on development cooperation.

Both India and China have engaged in visible and well publicized events as they hold talks with Nepali political leaders, indicating that they may as well be sending a message to each other. In particular, the factions led by Madhav Kumar Nepal and Pushpa Kamal Dahal have remained close to China in recent years. Dahal was particularly critical of Indian intelligence Chief Semant Goel’s visit as he was not informed about it.<sup>151</sup> In its editorial, *The Hindustan Times* noted that while Goel’s visit demonstrated RAW’s clout in Nepal and the Indian government’s decision to engage with PM Oli, “New Delhi must be careful that “normalcy” in ties should not come at the cost of narrowing down its interests in Nepal.” It added that “only a stable, inclusive, democratic Nepal—led by a regime which knows the value of special ties with India and engages with China within certain boundaries—can help keep the regional security environment balanced.”<sup>152</sup> Not to be outdone, China sent its Minister of Defence in late November 2020.

### **Spill-Over Effects of Surveillance, Control and Incentives**

Given China’s political system and the need to maintain political stability, China’s mechanisms of political control, security and surveillance will continue to have spill over effects on Nepal over the long term. These spill over effects can strain Nepal’s commitment to democratic practices and the rule of law. The case of Penpa Tshering, an American traveller deported on the suspicions of being a Tibetan activist,<sup>153</sup> highlights the geo-

---

151 <https://kathmandupost.com/politics/2020/10/31/oli-extends-an-olive-branch-to-dahal-but-the-latter-remains-unconvinced>

152 <https://www.hindustantimes.com/editorials/stay-focused-on-the-big-picture-in-nepal-ht-editorial/story-6MKWB688Svz48lgBx1jgZL.html>

153 Rajan Pokhrel. 2019. “Man labelled Dalai Lama’s agent, deported to US.” *The Himalayan Times*. <<https://thehimalayantimes.com/kathmandu/man-labelled-dalai-lamas-agent-deported-to-us/>>.

strategic pressure on Nepal and the subsequent implications for Nepal's democracy and international relations.<sup>154</sup>

China has been rewarding Nepal and giving political incentives whenever Nepal has stood its ground against India and practiced an “independent” foreign policy, or whenever Nepal has acceded to China's concerns about security or strategic investments. Such quid pro quo practices are likely to continue in the future and strain Nepal's public policy and pursuit of national interests. Under Oli's government, Nepal and China's economic interests are converging on infrastructure, border and connectivity projects. Some of these projects, like the railway, will require a long term Chinese presence. Free trade and economic integration between Nepal and China are long-term prospects that can facilitate security partnerships.

### **India, China and Border Disputes**

China has been dragged into Nepal's border dispute with India. First, while the NCP is blaming only India for border encroachment, Nepali Congress has clearly stated that China is also a party. On May 27, NC leader Sher Bahadur Deuba tweeted that Limpiyadhura, Kalapani and Lipulekh are Nepal's territory and the amendment proposal registered by the government was positive.<sup>155</sup> Nepali Congress central working committee decided to support the constitution amendment and to instruct the parliamentary party to vote in favour. The NC also asked the government to maintain diplomatic dialogue to address the issue and noted that the NC had protested when China and India had agreed, on May 15, 2015, to use Lipulekh—a Nepali territory—as a trade route between the two countries.<sup>156</sup> Earlier on May 14, during a political consultative meeting, Nepali Congress had recommended that there should be a tripartite discussions to

---

154 <http://kathmandupost.ekantipur.com/news/2019-06-27/us-embassy-seeks-clarification-from-nepal-government-after-immigration-officials-barred-entry-to-us-citizen.html> (accessed November 23 2019).

155 <https://twitter.com/DeubaSherbdr/status/1265688929254158338?s=20>

156 <https://ekantipur.com/news/2020/05/30/159085453691711707.html>

include China.<sup>157</sup> China's Foreign Ministry Spokesperson Zhao Lijian, however, said "the issue of Kalapani is between Nepal and India. We hope the two countries will resolve their differences properly through friendly consultations and refrain from taking any unilateral action that may complicate the situation."<sup>158</sup>

Second, on May 15, India's army chief General MM Naravane suggested that China was behind Nepal's objection to India's encroachment of the Kalapani area. "There is a reason to believe that they might have raised this problem at the behest of someone else and that is very much a possibility,"<sup>159</sup> he said. Naravane's statement supported China's perception that the Indian military establishment is more hawkish than the foreign policy establishment. It also reflected Indian army's perception that China can influence critical foreign policy choices by Nepal's leadership. Later it was Nepal's Defence Minister who reacted to Naravane rather than the Nepali Army.<sup>160</sup> However, there was a clear shift in PM Oli's approach to dealing with the border dispute with India coinciding with his consultations with the Chinese.

There were also disputes over whether China has encroached into Nepali territory. Chinese claim that such disputes have been raised at the behest of Indian political forces, which see "both Nepal and Bhutan as its protectorates."<sup>161</sup> In recent months, Chinese government media outlets are labelling anyone speaking

---

157 <https://kathmandupost.com/national/2020/05/13/cross-party-leaders-urge-oli-government-to-hold-talks-with-both-india-and-china-on-lipulekh>

158 [https://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/2511\\_665403/t1780716.shtml](https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1780716.shtml)

159 <https://www.ndtv.com/india-news/nepal-a-proxy-protester-warns-army-chief-general-mm-naravane-hinting-at-china-2229505>

160 Hindustan Times reported that Chief of Nepal Army, Purna Chandra Thapa refused to deliver a public rebuttal against General Naravane. Nepal Army immediately countered by saying the news was a fabrication. See <https://www.hindustantimes.com/india-news/nepal-puts-on-hold-constitution-amendment-for-new-map-that-upset-india/story-A9XnqDS-9nE487hNd3huZvJ.html>

161 <https://www.globaltimes.cn/content/1207952.shtml>

for Nepal's national interests that conflict with China as pro-US or pro-India. China has shown resentment to Nepali Congress and its representatives for claiming China has encroached Nepali territory<sup>162</sup> while members of NCP are supporting China's position.

The first story was that of Rui village in Gorkha, where a settlement of Nepali villagers was on the Chinese side.<sup>163</sup> The story was followed by student protests against China.<sup>164</sup> Nepal's dialogue with China over settling the boundary has stalled since 2005.<sup>165</sup> Meanwhile, some local and political representatives from Humla have been raising questions over China's encroachment of the Nepali border, Nepal's government officials<sup>166</sup> and the Chinese are insisting that no such encroachment has taken place.<sup>167</sup> The government issued a press statement clarifying that Nepal has no border dispute with China and that the Chinese construction close to the boundary pillars 11 and 12 in Humla were well within the Chinese territory.<sup>168</sup> However, locals continue to claim the disputed land clearly falls inside Nepali territory and the issue can be resolved only after locating the missing boundary pillar.<sup>169</sup>

Chinese media has been making the issue personal by bringing in the Nepali Congress and MP Jiwan Bahadur Shahi, for spreading "fabricated" reports.<sup>170</sup> While NC has claimed that China has

---

162 <https://thehimalayantimes.com/nepal/main-opposition-nc-reiterates-china-has-encroached-nepali-territory/>

163 <https://www.youtube.com/watch?v=2Xg3LcMd3LI>

164 <https://sagarmatha.tv/2020/06/26/46451>

165 <https://www.bbc.com/nepali/53192722>

166 <https://mofa.gov.np/press-statement-on-news-report-on-nepal-china-border/>

167 <https://www.globaltimes.cn/content/1203736.shtml>

168 <https://mofa.gov.np/press-statement-on-news-report-on-nepal-china-border/>

169 <https://kathmandupost.com/national/2020/09/23/a-missing-border-pillar-in-humla-creates-row-between-nepal-and-china>

170 <https://www.globaltimes.cn/content/1206402.shtml>

indeed encroached Nepali territory,<sup>171</sup> Shahi has pushed back by outlining evidences and challenging China to back its claim with evidence.<sup>172</sup> The stance by MPs like Jiwan Bahadur Shahi raises the prospect that Nepal government may be trying to protect Chinese interests rather than protecting its own national interests, while pro-Chinese sections in Nepal are claiming that it is an attempt by western and pro-Indian forces to contain China in Nepal. India's view is that China is trying to limit India's influence in Nepal and expanding operations close to the Nepal-India border by procuring huge amounts of land.

### **Analysis**

China's policy towards major and emerging powers is one of non-conflict and non-confrontation. China is likely to continue trust-building initiatives with India. While the US relationship with India will have an impact on Sino-Indian relations, the future of the Sino-Indian relationship will have a major impact on Nepal's relations with its two neighbours. It will also determine whether China's long-term connectivity initiatives through Nepal will materialize or not.

Another arena where the international competition will take place is the global rule-setting institutions including the UN. Given Nepal's contribution to the UN's peacekeeping missions, global powers would want to have close working relations with the Nepal Army as well as to shape its values and cultures. For example, the US released the Indo-Pacific Strategy Report in May 2019, which states that the U.S. Department of State, USINDOPACOM (U.S. Indo-Pacific Command) will maintain strong regional partnerships through Global Peace Operations Initiative (GPOI), "which is the U.S. Government's primary tool to build partner capacity to support U.N. peace operations." This indicates a clear competition

---

171 <https://thehimalayantimes.com/nepal/main-opposition-nc-reiterates-china-has-encroached-nepali-territory/>

172 <https://www.onlinekhabar.com/2020/11/908867>

between China and the United States to pursue their strategic interests through the UN and its peacekeeping operations.

Nepal Army's role in Nepal's foreign relations has grown in significance. Nepal Army established a separate directorate for border monitoring and management<sup>173</sup> after cabinet approval. The government has introduced a policy making it mandatory to include Nepal Army on all mechanisms related to border management and security. The directorate will also be in charge of archiving sensitive and important documents related to the border.<sup>174</sup> Similarly, Nepal Army's role in Covid 19 and disaster management has made it an important player in diplomacy.

Nepal Army has adopted a policy of conducting foreign relations through the Ministry of Foreign Affairs. Now all foreign governments, intergovernmental agencies, and I/NGOs are required to go through the Foreign Ministry. This move has also made the US government unhappy as senior government officials and political appointees close to Oli have been showing reluctance to meet with the Americans. The Nepal Army's policy is to continue bilateral engagements, but not become part of any multilateral arrangements or exercises, particularly after the bitter experience with BIMSTEC.

In November, PM Oli visited Kimathanka border point to observe progress on the Koshi Highway, one of the projects prioritised by Nepal and China.<sup>175</sup> Nepal Army is opening the track at Kimathanka, and both Nepalese and Chinese sides see the 362 km highway as the primary road link between China and India. A 14 km track from Sankhuwasabha to Kimathanka was assigned to the Nepal Army by Defence Minister Ishwar Pokhrel and is scheduled to be completed in the spring 2021.

---

173 <http://annapurnapost.com/news/164147>

174 <http://annapurnapost.com/news/164147>

175 <https://myrepublica.nagariknetwork.com/news/koshi-highway-connecting-nepal-china-and-india-soon-pm-oli/>

**Chinese Security Assistance to Nepal**

<b>YEAR</b>	<b>CHINESE ASSISTANCE</b>
<b>October 2005</b>	China pledges military assistance amounting to US\$ 989,000; supplies arms to Nepal.
<b>December 2008</b>	China agrees to provide military assistance worth \$ 2.6 million to the Nepal Army. Defence Minister Ram Bahadur Thapa signs an agreement in Kathmandu that includes intelligence sharing.
<b>December 2009</b>	China pledges Rs. 35.2 million for non-lethal military support and a “friendship” building on the Nepal-China border. China offers a gradual upscaling of aid and engagements in Nepal in the tourism and hydropower sectors.
<b>March 26, 2010</b>	China pledges military cooperation.
<b>March 2011</b>	China offers the assistance of Rs 1.30 billion to be used for a hospital and materials for relief and rescue operations. China’s Chief of General Staff of the PLA, Chen Bingde promises there is more to come.
<b>October 2011</b>	Nepal Chief of Army Staff, Chhatraman Gurung and China sign the biggest Chinese military aid ever to Nepal, amounting to Rs. 627 million at the initiative of Gen Chen Bingde.
<b>June 2013</b>	State Councillor Yang Jiechi visits Kathmandu. China pledges to provide NPR 3.6 billion in assistance for the construction of the APF training academy.

<b>December 2013</b>	China pledges a grant of USD 8.2 million to the Nepal Army to build two mobile hospitals for which it had earlier given USD 9.68 million.
<b>March 2017</b>	Chinese State Councillor and Defence Minister Chang Wanquan visits Nepal leading a military delegation. Wanquan promises US\$ 32.3 million to the Nepal Army, the largest aid in a decade.
<b>December 2017</b>	China proposes joint security forces along the Nepal-China border under the Joint Command Mechanism agreement. Nepal resists.
<b>October 2018</b>	China agrees to provide assistance of RMB 150 million (about Rs 2.4 billion) to Nepal over a period of five years for the purpose of humanitarian and disaster relief equipment.
<b>October 2019</b>	China and Nepal sign an agreement for another RMB 150 million worth of assistance to Nepal Army following China's President Xi Jinping's visit to Nepal. The assistance is said to be part of the "strategic cooperative partnership."
<b>November 2020</b>	China's State Councillor and Defence Minister General Wei Fenghe visits Nepal and promises continued support.

\*\*

## Chapter 3

# POLITICAL ENGAGEMENTS

Ajaya Bhadra Khanal

### A. INTRODUCTION

In a signed article published on October 11, 2019 a day before his visit to Nepal, Chinese President Xi Jinping proposed “a new blueprint for our bilateral ties,” which he hoped the two countries could “together draw up.”<sup>176</sup> The blueprint outlined four key elements of the strategic relationship: deepening strategic communication, broadening practical cooperation, expanding people-to-people exchanges and enhancing security cooperation.<sup>177</sup> Xi’s article indicated that China’s main agenda in Nepal is to promote One China policy and to ensure that “anti-Chinese” forces cannot conduct any activity in Nepal. Similarly, China understands Nepal’s major concern to be independent of India’s influence and “pursuing a development path tailored to its national reality.”

Chinese President Xi Jinping’s blueprint for strategic relationship was reflected in the agreements and understandings during his visit to Nepal in October 2019. President Bidya Devi Bhandari and President Xi announced they would elevate the “Nepal-

---

176 Xi Jinping. 2019. “Toward Greater Progress of China-Nepal Friendship across the Himalayas.” *China Daily*. <<https://www.chinadaily.com.cn/a/201910/11/WS5da026bba310cf3e3556ff60.html>>.

177 These four areas are discussed in greater detail in the relevant chapters.

China Comprehensive Partnership of Cooperation Featuring Ever-lasting Friendship to Strategic Partnership of Cooperation Featuring Ever-lasting Friendship for Development and Prosperity.”<sup>178</sup> The terminology “strategic” generated a level of public debate but there was not much clarity about what it really meant.<sup>179</sup> However, the statement indicated that Nepal and China had provided thrust to the four-point blueprint outlined by Xi and had tried to firmly integrate China’s partnership in Nepal’s politics, governance, foreign policy, security, and economic development.

Xi subsumed political relations under the heading of strategic communication; this component focuses on high-level exchanges, political mutual trust, mutual support on core interests of the two nations, and transmission of ideas and expertise about governance and development. This includes aligning “development strategies” and “strengthening policy exchanges.”<sup>180</sup>

The path to this historical juncture, officially framed by the two countries as “the beginning of a new era in Nepal-China relations” was not easy. Nepal’s political relations with China has ebbed and flowed depending on the changes in patterns of global trade, the domestic political environment, China’s strategic goals, and the broader geopolitical dynamics. Tibet has continued to remain the central pivot around which Nepal’s relations with China is evolving. The Tibetan factor has complicated Nepal-China relations because it has been used as an instrument by many external powers to achieve their geostrategic objectives, especially at times when China seemed vulnerable.

---

178 Ministry of Foreign Affairs. 2019. “Joint Statement between Nepal and People’s Republic of China.” Government of Nepal. <<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>>.

179 Anil Giri. 2019. “Nepal and China elevate bilateral ties to a ‘strategic partnership’ but no one’s certain what that entails.” *The Kathmandu Post*. <<https://kathmandupost.com/national/2019/10/15/nepal-and-china-elevate-bilateral-ties-to-a-strategic-partnership-but-no-one-s-certain-what-that-entails>>.

180 <http://np.china-embassy.org/eng/zgwj/t1707851.htm> (accessed November 23 2019).

By late 2020, as India and US pushed back on China's growing influence in Nepal, Oli government's willingness to implement the "strategic cooperative partnership" with China had come under strain. Nevertheless, as China seeks to counter US pressures and enhance its influence in Nepal, it is shaping Nepal's relations with India and the US as well. The particular circumstances of domestic politics and international relations is almost always putting pressure on the ruling regime and political decision-makers.

This chapter seeks to discuss some of the factors that have shaped Nepal's political relations with China and trace the ebbs and flows of political relations in the past two decades, culminating with the dramatic dissolution of the parliament and split of the Nepal Communist Party in December 2020. The first section will discuss the major factors that continue to shape Nepal's relations with China. Then it will outline factors that have shaped China's political relations with Nepal and the way in which China is engaging with Nepali political interlocutors. Finally, the chapter will discuss some emerging trends and their implications on Nepal's democracy and development.

## **B. CHINA AND NEPAL'S POLITICAL STAKEHOLDERS**

### **China's Partnership with King Gyanendra**

After the monarchy lost power in 1990, Nepal has largely remained under India's political influence. Most of the Prime Ministers and governments have looked to India for active political support. This, in turn, constricted the space in which China could expand its engagements in Nepal. So whenever, China found windows of opportunity during the reign of leaders sympathetic to China, it sought to expand its influence and engagements. After 1990, the first significant instance was Gyanendra's ascent to the throne, and for five years from 2001 until February 2006, China fully backed the monarchy, providing it with military assistance and strategic political support.

At that time, China was trying to develop more robust linkages in South Asia and within other regional groups like the Association of Southeast Asian Nations (ASEAN). As China supported the King by supplying arms, Nepal responded by supporting China's inclusion in SAARC as an observer despite India's reservations. Although China sought to play a greater role in regional affairs, it was effectively bypassed by the US and India during their talks on regional issues.<sup>181</sup>

At that time political balance of power was swiftly changing in Nepal. The King was counting on "unstinted support from Beijing" to drive out external pressures.<sup>182</sup> By February 2006, however, China was withdrawing support to the King<sup>183</sup> accepting that India had a much greater influence on Nepal than<sup>184</sup> China. China's believed that King Gyanendra had become just "one of many forces"<sup>185</sup> in Nepal and took initiatives to build a relationship with political parties. China decided not to proceed with large-scale military assistance to Nepal given India's sensitivity. China's support to the monarchy in terms of the sale of arms received international criticism. Following a report by Amnesty International, China had to face multiple questions about how its arms supplies had fuelled conflict in places like Nepal, Myanmar, and Sudan.<sup>186</sup>

After the fall of the monarchy, China scrambled to build alliances with political parties. In doing so, it courted "nationalist" forces

---

181 [https://wikileaks.org/plusd/cables/06NEWDELHI5609\\_a.html](https://wikileaks.org/plusd/cables/06NEWDELHI5609_a.html) (accessed November 23 2019).

182 [https://wikileaks.org/plusd/cables/05NEWDELHI825\\_a.html](https://wikileaks.org/plusd/cables/05NEWDELHI825_a.html) (accessed November 23 2019).

183 [https://wikileaks.org/plusd/cables/06BEIJING2778\\_a.html](https://wikileaks.org/plusd/cables/06BEIJING2778_a.html) (accessed November 23 2019).

184 [https://wikileaks.org/plusd/cables/06BEIJING16165\\_a.html](https://wikileaks.org/plusd/cables/06BEIJING16165_a.html) (accessed November 23 2019).

185 [https://wikileaks.org/plusd/cables/06BEIJING2778\\_a.html](https://wikileaks.org/plusd/cables/06BEIJING2778_a.html) (accessed November 23 2019).

186 [http://www.chinadaily.com.cn/china/2006-06/15/content\\_617578.htm](http://www.chinadaily.com.cn/china/2006-06/15/content_617578.htm) (accessed November 23 2019).

including former monarchists, communists, and factions of the Madhesi political base. Even as India was spearheading the political transition in Nepal, China managed to gain some foothold in Nepali politics during the transition period.<sup>187</sup>

### Post-Conflict Swings

Despite the ups and downs in its relations with Nepal, China had to press strategic and security needs, and it used every window of opportunity that was available, frequently resorting to quid pro quo that became the hallmark of its relations with Nepal during the decade. Most of China's engagements with Nepal in the post-conflict period reflected China's security and strategic interests including Tibet and access to Nepal's hydropower projects.

China regained a foothold in Nepal after the rise of the Maoists in the 2008 elections. China used the prevalent anti-Indian sentiments and Nepali dreams of connectivity to China to expand its influence. Breaking the tradition, Dahal visited China in August 2008 prior to visiting India.<sup>188</sup> Although his visit was intended to respect China's achievement in hosting the Beijing Olympics, it generated some controversy. Dahal sought to balance India and China by saying that his trip to Beijing was to attend the Olympics and his first "political" visit would be to India. He insisted that Nepal would continue to have a "special" relationship with India.<sup>189</sup> A month later he visited India, creating a buzz in the Indian media. Although his stated position was to maintain "equidistance" between India, China and the US, China

---

187 This included calls by Prime Minister Girija Prasad Koirala to extend the Qinghai-Tibet railway to the Nepalese border, proliferation of China Study Centres in Nepal, and China's warnings that it would not allow Nepal to become another Sikkim or Bhutan. Upadhya 2012: 150-151.

188 <http://lt.china-embassy.org/eng/xwtd/t509027.htm> (accessed November 23 2019).

189 Saurabh Shukla. 2008. "I am going to China for the Olympics, don't read much into it." India Today. <<https://www.indiatoday.in/magazine/in-this-issue/story/20080901-i-am-going-to-china-for-the-olympics-dont-read-much-into-it-737335-2008-08-21>>.

began to cultivate intimate relations with the Maoists.<sup>190</sup> As Tibet protests increased, Dahal supported China's desires to crack down. Chinese Foreign Minister Yang Jiechi, meanwhile, vowed to protect Nepal's "sovereignty and independence."<sup>191</sup>

Dahal, however, was soon forced to quit as the Prime Minister after his failed attempt to remove the then army chief Rukmangud Katwal and was replaced by Madhav Kumar Nepal, who actively promoted India's interests and sought to weaken the Maoists. Nepal visited India in August 2009, which "allowed India to hit the reset button in its ties with Nepal." PM Nepal returned to Nepal with promises of substantial aid, which was intended to show that India could offer a larger aid package than that offered by China during Dahal's visit. India, at this time, was trying to push back China's influence in Nepal. According to a US embassy cable,<sup>192</sup> India wanted to "detoxify" Nepal-India relations and establish itself as a "benevolent regional leader" before Nepal swung back to China under the Maoist influence.

In 2010, as Dahal tried to reclaim the prime minister's position, a wiretap was released which allegedly revealed leader Krishna Bahadur Mahara was soliciting funds from the Chinese. Both, the Chinese Embassy and Mahara denied the audio, but it forced Dahal to take a step back amidst internal differences in the party between the two factions.<sup>193</sup> In 2011, China found another window of opportunity when UML leader Jhala Nath Khanal became the prime minister on an anti-India plank with the support of Pushpa

---

190 Jiao Xiaoyang. 2008. "Nepal leader eager to visit China." *China Daily*. <[http://www.chinadaily.com.cn/china/2008-06/13/content\\_6758302.htm](http://www.chinadaily.com.cn/china/2008-06/13/content_6758302.htm)>.

191 Abanti Bhattacharya. 2009. "China's Inroads into Nepal: India's Concerns." Institute for Defence Studies and Analyses. <[https://idsa.in/idsastrategiccomments/ChinasInroadsintoNepal\\_ABhattacharya\\_180509](https://idsa.in/idsastrategiccomments/ChinasInroadsintoNepal_ABhattacharya_180509)>.

192 [https://wikileaks.org/plusd/cables/09NEWDELHI1801\\_a.html](https://wikileaks.org/plusd/cables/09NEWDELHI1801_a.html) (accessed November 23 2019).

193 Gopal Khanal. 2010. "टैप प्रकरणमाफत व्यक्त भारत-चीन टकराव" *Kantipur*. <<https://ekantipur.com/opinion/2010/09/10/317599.html>>.

Kamal Dahal. During his tenure, China's security figures like Zhou Yongkang and General Chen Bingde intensified security cooperation with Nepal and gained an opportunity to reinforce buffers against India.<sup>194</sup>

Around 2012, media and analysts in India and elsewhere were beginning to notice China's growing influence in Nepal and South Asia. Some of them believed that the trade ties and commercial relations served "a dual purpose of increasing China's presence in the country and also giving Beijing greater strategic weight to press authorities there to cooperate more closely on the Tibetan issue."<sup>195</sup> Others questioned whether Beijing's assistance was to support Nepal's need or a part of its foreign policy strategy to gain access to India.<sup>196</sup> Whatever the case, China's engagements were "ruffling feathers" in India; the strategists were "wary of China's growing influence across the continent."<sup>197</sup>

### **Dahal and China**

Pushpa Kamal Dahal continued to wield influence despite remaining out of office; he maintained close working relations with China. One of the projects designed to appease Dahal was the Lumbini Project sponsored by The Asia Pacific Exchange and Cooperation Foundation (APECF) and Xiao Wunan, who dragged the name of United Nations Industrial Development Organization (UNIDO) and UN's Ban Ki-Moon into the USD 3-billion project.<sup>198</sup> The controversy over the Lumbini

---

194 [https://wikileaks.org/gifiles/docs/28/2883074\\_g3-s3-gv-china-nepal-tibet-csm-mil-nepal-police-detain.html](https://wikileaks.org/gifiles/docs/28/2883074_g3-s3-gv-china-nepal-tibet-csm-mil-nepal-police-detain.html) (accessed November 24 2019).

195 Ananth Krishnan. 2012. "China boosts trade with Nepal." *The Hindu*. <<https://www.thehindu.com/news/international/china-boosts-trade-with-nepal/article3273935.ece>>.

196 <https://www.livemint.com/Politics/jYosUbwaKrGaWnSmJRVzuO/China-eyes-India-trade-by-boosting-spending-in-Nepal.html> (accessed November 24 2019).

197 Melati Kaye. 2013. "Renewed Nepali trade route draws regional ire." *Aljazeera*. <<https://www.aljazeera.com/indepth/2013/06/2013623123438887107.html>>.

198 <http://www.apecf.org/en/foundationnews/20110715.html> (accessed November 24 2019).

Cloud Tower Project,<sup>199</sup> which proposed the development of a fascinating tower in Lumbini designed by Eric R. Kuhne and Associates,<sup>200</sup> generated international controversy and forced a secretary to resign.<sup>201</sup> The project was patronized by senior Chinese leaders including Zhou Yongkang and generated the discourse of tri-lateral cooperation between Nepal, China, and India. For example, during Dahal's visit to China and India in 2013, he called for a trilateral partnership. Indian officials said Dahal's visit was aimed at rebuilding trust between the Dahal and the Indian leadership.<sup>202</sup> Xinhua carried a news analysis saying Dahal's India visit demonstrated that he had abandoned his earlier stances in order to appease India.<sup>203</sup> Analysts in India concluded that Dahal's proposal was Lumbini-centric and that India should not join the proposed framework. India's major security concerns at the time were two-fold: the presence of Chinese close to the Nepal-India border and expansion of China's influence in South Asia.<sup>204</sup>

Dahal, in particular, found it difficult to balance China and India. In April 2013, as soon as he was re-elected as president of the UCPN (Maoist) after the Hetauda congress, he met Chinese leader Xi Jinping in April 2013. At that time, Baburam Bhattarai

---

199 <https://www.vtppglobal.com/vertical-theme-park-tower-special-projects.html> (accessed November 24 2019).

200 <https://www.civicarts.com/lumbini-cloud-nepal> (accessed November 24 2019).

201 Anurag Acharya & Dewan Rai. 2011. "In the land of the Buddha." *Nepali Times*. <<http://archive.nepalitimes.com/news.php?pid=18484#XOzvW9MzbqQ>>.

202 Elizabeth Roche. 2013. "Prachanda calls for partnership between India, Nepal, China." *Livemint* <<https://www.livemint.com/Politics/DWzekVf59HPiV7nntXjv8O/Dahal-calls-for-partnership-between-India-Nepal-China.html>>.

203 Huang Beibei and Chen Lidan, eds. 2013. "Change in Nepali Maoist's India policy evident during Prachanda's visit." *English People CN*. <<http://en.people.cn/90777/8229312.html>>.

204 Institute for Defence Studies & Analyses. 2013. "Is India-Nepal-China trilateral Cooperation possible?" <<https://idsa.in/event/IsIndiaNepalChinatrilateralCooperationpossible>> .

had given way to Khila Raj Regmi as the Prime Minister. During his visit, Dahal often mentioned the importance of the Chinese dream, a phrase coined by Xi Jinping. He said while the Chinese dream represented the dream of the people who wanted peace and stability in the globe, the American dream was based on capitalist ideology.<sup>205</sup>

### **A Convergence of Dreams**

Dahal again visited China in March 2015<sup>206</sup> at the invitation of the Chinese Communist Party. When he returned, he expressed support for the promulgation of the constitution, signing a 16-point agreement on June 12, 2015, along with three other parties—Nepali Congress, CPN-UML and Madhesi Janadhikar Forum (Democratic). The agreement resolved contentious issues regarding the new constitution.<sup>207</sup>

China raced to assist Nepal during and after the earthquake. China's Foreign Minister Wang Yi pledged USD 760 million worth of grants<sup>208</sup> and loans and China registered its first NGO in Nepal, China Foundation for Poverty Alleviation (CFPA), to channelize aid funds. China's entry was seen as strategic. For example, Time magazine questioned how "China's involvement in the recovery effort could further change the balance of power in the region, challenging India and potentially putting Nepal's Tibetan exile community at risk."

---

205 <http://www.globaltimes.cn/content/785117.shtml> (accessed November 24 2019).

206 China at this point, appears to be courting a lot of politicians urging them to unite for a new constitution. See [https://www.bbc.com/nepali/news/2015/03/150323\\_prachanda\\_china\\_visit](https://www.bbc.com/nepali/news/2015/03/150323_prachanda_china_visit) (accessed November 24 2019).

207 Om Astha Rai. 2015. "Constitution deal inked." eSpecial. <<http://archive.nepalitimes.com/blogs/thebrief/2015/06/08/constitution-deal-inked/>>.

208 Prithivi Man Shrestha. 2015. "\$4.4 billion aid pledged during donor conference." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2015-06-25/44-bn-aid-pledged-during-donor-conference.html>>.

India's opposition to the new constitution generated unprecedented political and humanitarian crises in Nepal.<sup>209</sup> After the constitution was promulgated on September 20, 2015, India imposed an unofficial blockade from September 23, coinciding with the Madhes movement. The Madhesh-based political parties disowned the political process and started a political movement from August 2015. The movement took a violent turn on September 24 when seven policemen and a child were killed in Kailali. The movement, which grew after the promulgation of the constitution, obstructed transit points along the Nepal-India border, deepening the divide between the Madhesi people and the people originating from the hills. This delayed focus on other issues like disaster relief and rehabilitation. The Nepali Congress and the Maoists, meanwhile, began to inch closer to India, promising constitutional amendment to accommodate demands of Madhes, while the UML began to develop close relations with China. In the midst of crisis, PM Sushil Koirala paved the way for UML's KP Oli to become the prime minister on 11 October 2015, significantly altering the direction of Nepal's foreign policy.

In October 2015, Nepal signed a "historic" deal with Petro China ending India's monopoly oversupply of fuel. China agreed to provide 1.4 million litres of fuel worth 10 million yuan to Nepal to meet its emergency needs even as backchannel meetings were taking place between China and India to "stabilise" Nepal.<sup>210</sup> Then in December, Nepal and China agreed to trade in fuel on a long term basis.<sup>211</sup> This initiative led to further exploration of

---

209 Monitoring report. 2015. "Human rights situation during the agitation before and after the promulgation of constitution of Nepal." NHRC. <[http://www.nhrcnepal.org/nhrc\\_new/doc/newsletter/NHRC\\_Nepal\\_Madhesh\\_Terai\\_Protest\\_Human\\_Rights\\_Monitoring\\_Report\\_English.pdf](http://www.nhrcnepal.org/nhrc_new/doc/newsletter/NHRC_Nepal_Madhesh_Terai_Protest_Human_Rights_Monitoring_Report_English.pdf)>.

210 <https://kathmandupost.ekantipur.com/news/2015-10-29/nepal-inks-historic-oil-agreement-with-china.html> (accessed November 24 2019).

211 Lekhanath Pandey. 2015. "Nepal, China agree to trade fuel on long term basis." The Kathmandu Post. <<https://thehimalayantimes.com/business/nepal-china-agree-to-trade-in-fuel-on-long-term-basis/>>.

petroleum in Nepal by Chinese companies.<sup>212</sup> In December 2015, the government announced that PM Oli would visit China first if the blockade continued.<sup>213</sup> Oli visited China in March and among others, signed a loan agreement worth USD 215.96 million for the Pokhara International Airport. Chinese President Xi Jinping called on the two governments to make the two nations a “community of common destiny.”<sup>214</sup> Within two months, China pipped India from the top 5 donor list.<sup>215</sup>

By 2016, China was upbeat about its engagements in Nepal. China overtook India as the biggest source of FDI in 2014 and bilateral trade volume reached USD 2.32 billion in 2014. SOEs were big players, as well as more than 100 small-sized companies, who were investing in such sectors as catering, hospitality, medicine, and food processing. The biggest bottleneck, according to Chinese, was Nepal’s infrastructure.<sup>216</sup> China’s economic assistance to Nepal, after 2015, were intended to lessen Nepal’s dependence on India and a reward for maintaining a “neutral” and “independent” foreign policy. An extended rationale was the need to maintain the government’s stability.

### **Dahal’s Turnaround**

India, on the other hand, was apprehensive. In addition to the Madhes issue, India was equally worried about the inroads that

---

212 Ibid.

213 Shirish B. Pradhan. 2016. “Nepal PM may visit China ahead of India if blockade remains.” Livemint <<https://www.livemint.com/Politics/0V89cdg8lMWjiTySYze4rL/Nepal-PM-may-visit-China-ahead-of-India-if-blockade-remains.html>>.

214 [http://www.chinadaily.com.cn/china/2016-03/22/content\\_24002664.htm](http://www.chinadaily.com.cn/china/2016-03/22/content_24002664.htm) (accessed November 24 2019).

215 Sachin Parashar. 2016. “China pips India in aid to Nepal.” The Times of India. <<https://timesofindia.indiatimes.com/india/China-pips-India-in-aid-to-Nepal-Delhi-out-of-top-five-donors-list/articleshow/52180744.cms>>.

216 Li Xuanmin. 2016. “Entrepreneurs cite opportunities as China becomes Nepal’s top source of foreign investment” Global Times. <<http://www.globaltimes.cn/content/1011687.shtml>>.

China had made into Nepal during KP Oli's tenure.<sup>217</sup> India refused to believe that China's inroads were purely economic and viewed them as having strategic significance. India blamed China for "cheque-book diplomacy" and realized that it could not compete with China on that front. A report by the National Security Advisor of the Indian Prime Minister said that India did not believe in the Chinese clarifications that BRI (Belt and Road Initiative) projects have mere economic objectives, and believed the economic initiatives have strategic and security dimensions.<sup>218</sup> In 2016, India adopted another policy that dissuaded China's investment in Nepal's hydropower sector. India issued a new directive on cross-border trade of electricity, which imposed several conditions for cross-border electricity trade saying it was an issue of "strategic, national and economic importance."<sup>219</sup> According to Nepali media, the guidelines "virtually ended the possibility of more investment from China and other countries."<sup>220</sup>

Despite China's pressure on the Maoists to relent and not isolate Oli,<sup>221</sup> the Maoists announced in May that they would withdraw support to Oli and formed an alliance with the Nepali Congress. The UML perceived that India had actively undermined the legitimacy of the government and led to its demise.<sup>222</sup> As Oli resigned on July 14, 2016, ahead of a no-confidence vote in

---

217 Sutirtho Patranobis. 2017. "Rising Hindu nationalism has hijacked India's China policy: Chinese media." *The Hindustan Times*.

218 Arun S. 2017. "PMO, NSA tracking impact of Chinese FDI in South Asia." *The Hindu*.

219 Ministry of Power. 2016. "Guidelines on Cross Border Trade of Electricity." Government of India. <<https://powermin.nic.in/sites/default/files/webform/notices/Guidelines%20for%20Cross%20Boarder%20Trade.pdf>>.

220 Sachen Gautam. 2016. "Indian Power." *Nepali Times*. <<http://archive.nepalitimes.com/blogs/thebrief/2016/12/09/indian-power/>>.

221 Partha S Ghosh. 2016. "It's complicated: The China factor in India-Nepal relationship." *Scroll*. <<https://scroll.in/article/819705/its-complicated-the-china-factor-in-india-nepal-relationship>>.

222 Interview with Rajan Bhattarai, UML MP and Member of EPG.

parliament, he said Nepal was becoming a “laboratory.”<sup>223</sup> Indian media reported that Oli’s fall was good news for India.<sup>224</sup> For example, the *Hindustan Times* said that Oli’s departure marked an Indian comeback<sup>225</sup> and added that Dahal believed that China’s main concern in Nepal wasn’t India, it was the western powers.<sup>226</sup>

After Dahal became the prime minister on 4 August 2016, he continued to talk about trilateral cooperation between India, Nepal, and China. However, China was not pleased with Dahal’s government and the lack of progress on the “agreements reached by former K P Shama Oli government to step up road and rail links connecting Nepal with Tibet and to reduce Nepal’s dependence on India.”<sup>227</sup> Dahal’s second stint in power was seen as a low ebb in the Nepal-China relationship; it was widely believed that India had schemed to topple Oli from power.<sup>228</sup>

- 
- 223 Prashant Jha. 2016. “Nepal PM Oli’s departure marks an Indian comeback.” *Hindustan Times*. <<https://www.hindustantimes.com/analysis/prime-minister-oli-s-departure-marks-indian-comeback-in-nepal/story-SlfKmL3xkCWZDHO0IPDPwI.html>>.
- 224 Indrani Bagchi. 2016. “Oli’s fall is good news for India, Prachanda likely to be next PM.” *The Times of India*. <<https://timesofindia.indiatimes.com/world/Oli-s-fall-is-good-news-for-India-Dahal-likely-to-be-next-PM/articleshow/53370448.cms>>.
- 225 Prashant Jha. 2016. “Nepal PM Oli’s departure marks an Indian comeback.” *Hindustan Times*. <<https://www.hindustantimes.com/analysis/prime-minister-oli-s-departure-marks-indian-comeback-in-nepal/story-SlfKmL3xkCWZDHO0IPDPwI.html>>.
- 226 Prashant Jha. 2016. “China’s main concern in Nepal isn’t India, it is western powers: Prachanda.” *Hindustan Times*. <<https://www.hindustantimes.com/india-news/china-s-main-concern-in-nepal-isn-t-india-it-is-western-powers-Dahal/story-P2MX8x84LIg8fZjncjs2dK.html>>.
- 227 [https://economictimes.indiatimes.com/news/international/world-news/president-xi-jinping-will-visit-nepal-at-appropriate-time-chinese-envoy/articleshow/55548710.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/international/world-news/president-xi-jinping-will-visit-nepal-at-appropriate-time-chinese-envoy/articleshow/55548710.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst) (accessed November 24 2019).
- 228 Zhang Shubin. 2017. “Will Nepal’s PM repair ties with China?” *Global Times*. <<http://www.globaltimes.cn/content/1038667.shtml>>.

China began to see political stability and consistency in Nepal as a major issue. As India sought to re-craft its ties with Nepal,<sup>229</sup> China exhorted Nepal's parties to unite for stability<sup>230</sup> and reached out to Bhutan as part of a "new" South Asia policy.<sup>231</sup> Then the Chinese ambassador to Nepal announced that Xi Jinping had scrapped his planned visit to Nepal with the media speculating that it was an expression of disappointment over Oli's ouster.<sup>232</sup> Chinese media were warning Nepali against getting too close to India. A *Global Times* opinion piece<sup>233</sup> said in September 2016 that Nepal risked missing a chance with China by using China as a bargaining chip with India:

"It looks like the bilateral relationship between China and Nepal has suddenly turned fragile and sensitive. Obviously, China feels tricked. When Kathmandu needed Beijing to relieve pressure from New Delhi, it got close to China and signed a series of crucial agreements with Beijing which would help Nepal get rid of its reliance on India."

Dahal held talks with a splinter faction led by Mohan Baidya and a large number of them abandoned Baidya and joined the UCPN (Maoist). While Dahal's woes over transitional justice continued, he had to cancel Australia visit over fears he may be arrested for

---

229 Elizabeth Roche. 2016. "Nepal's Prachanda and India: A love-hate relationship." *Livemint*. <<https://www.livemint.com/Politics/X6O6Yz6XuqPoGBbwPJ02yN/Nepals-Dahal-and-India-A-lovehate-relationship.html>>.

230 <https://thehimalayantimes.com/nepal/china-wang-yi-calls-nepals-factions-unite-stability/> (accessed November 24 2019).

231 Atul Aneja. 2016. "China reaching out to Bhutan as part of new South Asia policy." *The Hindu*. <<https://www.thehindu.com/news/international/China-reaching-out-to-Bhutan-as-part-of-new-South-Asia-policy/article14572880.ece>>.

232 Yubaraj Ghimire. 2017. "Next Door Nepal: Red versus rest." *Indian Express*. <<https://indianexpress.com/article/opinion/columns/next-door-nepal-red-versus-rest-4881033/>>.

233 Xu Liang. 2016. "Nepal risks missing chance with China." *Global Times*. <<http://www.globaltimes.cn/content/1007091.shtml>>.

war crimes,<sup>234</sup> his relations with India surged. Dahal continued to appease India saying “Modiji and I think in similar ways, we have chemistry.”<sup>235</sup>

In October 2016, PM Dahal, Indian Prime Minister Narendra Modi, and Chinese President Xi Jinping held an “unplanned” trilateral meeting at the BRICS summit in Goa. At the meeting, Dahal said Nepal would act as a bridge between China and India.” After insightfully pointing out that China and Nepal are connected by rivers and mountains,<sup>236</sup> Xi “called for concerted efforts to carry out the consensuses the two sides have reached on beefing up cooperation on connectivity, free trade, and energy and continue to push forward cooperation in their pursuit of development.”<sup>237</sup> Following the meeting, a Chinese Foreign Ministry spokesperson said, “We would like to explore how to enhance trilateral cooperation with India and Nepal so as to advance common development of the three countries.”<sup>238</sup>

Dahal’s rapport with the Chinese President did not last long. A month later, the Chinese ambassador to Nepal said that Xi’s impending visit to Nepal had been postponed and would take place at an appropriate time.<sup>239</sup> Reports said “China was displeased

---

234 [http://zeenews.india.com/news/south-asia/fearing-arrest-Dahal-cancels-australia-visit\\_1899652.html](http://zeenews.india.com/news/south-asia/fearing-arrest-Dahal-cancels-australia-visit_1899652.html) (accessed November 24 2019).

235 Shashi Shekar and Binod Bandhu. 2016. “Modiji and I think in similar ways, we have chemistry: Nepal’s new PM Prachanda.” *Hindustan Times*. <<https://www.hindustantimes.com/india-news/modiji-and-i-think-in-similar-ways-we-have-chemistry-nepal-s-new-pm-Dahal/story-jb0kAMn5TST9ED0elMz3QM.html>>.

236 Partha S Ghosh. 2016. “It’s complicated: The China factor in India-Nepal relationship.” *Scroll*. <<https://scroll.in/article/819705/its-complicated-the-china-factor-in-india-nepal-relationship>>.

237 Wang Lingxiao. 2016. “Xi suggests China, Nepal forge community of shared destiny.” *CCTV English*. <<http://english.cctv.com/2016/10/16/ARTIUf1kzCINjElo6G0E5JuQ161016.shtml>>.

238 <https://thehimalayantimes.com/nepal/china-wants-advance-trilateral-cooperation/> (accessed November 24 2019).

239 <https://economictimes.indiatimes.com/news/international/world-news/president-xi-jinping-will-visit-nepal-at-appropriate-time-chinese-envoy/articleshow/55548710.cms>

with the lack of preparations for Xi's visit as well as commitment to implement China's Silk Road plan.<sup>240</sup> China continued to put pressure<sup>241</sup> on Nepal for not implementing bilateral agreements that K P Oli had signed in March 2016. When he met the Chinese ambassador in February 2017, PM Dahal offered preferential policies to Chinese investors<sup>242</sup> and reiterated that Nepal would carry out bilateral development cooperation projects under the BRI framework.<sup>243</sup> The issue was taken up during Pushpa Kamal Dahal's visit to China for the Boao Forum.

Chinese Ambassador to Nepal, Yu Hong met PM Dahal at his official residence and urged him to expedite past agreements.<sup>244</sup> Although Nepal had signed a framework Memorandum of Understanding (MoU) with China in December 2014, it was yet to finalize cooperation projects to be developed under the initiative. Dahal met Chinese President Xi Jinping on 28 March 2017, saying Nepal would soon become part of BRI.<sup>245</sup> However, China was still not convinced whether Dahal's commitment to BRI was just rhetoric or reality.<sup>246</sup> The Chinese media were also warning India not to meddle in Sri Lanka and Nepal.<sup>247</sup>

---

240 Ibid.

241 <https://thehimalayantimes.com/kathmandu/no-bilateral-agreement-pms-china-trip-prakash-sharan-mahat/> (accessed November 24 2019).

242 <https://economictimes.indiatimes.com/news/international/world-news/nepal-offering-preferential-polices-to-chinese-investors-envoy-to-china/articleshow/57226038.cms> (accessed November 24 2019).

243 An eds. 2017. "Nepalese PM reiterates bilateral cooperation under B&R Initiative." Xinhuanet. <[http://www.xinhuanet.com//english/2017-02/28/c\\_136091319.htm](http://www.xinhuanet.com//english/2017-02/28/c_136091319.htm)>.

244 Ibid.

245 Huaxia eds. 2017. "Nepal to sign MoU with China on Belt and Road Initiative: PM." Xinhuanet. <[http://www.xinhuanet.com//english/2017-03/29/c\\_136168195.htm](http://www.xinhuanet.com//english/2017-03/29/c_136168195.htm)>.

246 Ritu Raj Subedi. 2017. "Prachanda's commitment to Belt & Road: rhetoric or reality?" China.org. <[http://china.org.cn/opinion/2017-04/09/content\\_40578053.htm](http://china.org.cn/opinion/2017-04/09/content_40578053.htm)>.

247 Saibal Dasgupta. 2017. "Don't 'meddle' in Nepal, Sri Lanka, China media warns India." The Times of India. <<https://timesofindia.indiatimes.com/world/china/dont-meddle-in-nepal-sri-lanka-china-media-warns-india/articleshow/57762891.cms>>.

## Deuba and China

Sher Bahadur Deuba took over as the prime minister in June 2017. In September 2017, Deputy Prime Minister Krishna Bahadur Mahara visited China and inked a deal on the cross-border railway. According to the People's Daily, the railway plan was raised by the then Prime Minister KP Sharma Oli in March 2016. The plan included "two rail lines, with one connecting three of Nepal's most important cities and two crossing the border from China into Nepal." China also listed the Budhi Gandaki Hydropower Project as one of the components of its Belt and Road Initiative (BRI).<sup>248</sup> Despite the change in government, Nepal continued to pursue cooperation with China, which included efforts to gain access to Chinese ports. Nepal and China finally signed the MoU under the Belt and Road Initiative in Kathmandu in May 2017. Xinhua celebrated the agreement and described various cooperation deals including the railway network. "Nepal's efforts to enhance connectivity and cooperation with China in recent years have been reaping benefits for the Himalayan country in various areas of the economy including tourism and aviation," Xinhua said.<sup>249</sup>

At the same time, however, the Chinese gave the message that they were skeptical of Nepal's commitment to BRI. For example, The Kathmandu Post reported in September 2017 that "Despite Nepal's repeated commitments to China's Belt and Road Initiative (BRI), a sense of uncertainty and skepticism persists among Chinese officials." Chinese think tanks and government officials told Nepali journalists that "Nepal must act to assure China that

---

248 Bibek Subedi & Binod Ghimire. 2017. "Budhi Gandaki listed as component of BRI." Kathmandu Post. <<http://kathmandupost.ekantipur.com/news/2017-09-05/budhi-gandaki-listed-as-component-of-bri.html>>.

249 Ying eds. 2017. "Nepal, China sign bilateral cooperation agreement under 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)>.

Nepal indeed is committed to the BRI.<sup>250</sup> Even as Deuba was the PM, China was courting KP Oli and invited him to patronize projects funded by China. For example, on July 2, 2017, Oli attended an event where a Chinese charity donated 300 bicycles to individuals from Kavrepalanchowk.<sup>251</sup>

### A Dramatic Turn

In October 2017, while the rest of the country had quietened down for the Dashain holidays, the two major leftist forces made a surprise announcement—they were going to merge after the series of local and parliamentary elections for the three levels of the government.<sup>252</sup> According to media, Dahal said in the meeting that the leftist alliance had pleased China and displeased Indian leaders. “You are developing an independent personality and we don’t like your preparation to merge with the UML,” Dahal had quoted an Indian official.<sup>253</sup> However, in private conversations with close politicians and journalists, Dahal said that China had put a lot of “pressure” on him for party unity.<sup>254</sup>

As soon as KP Oli came back to power in February, China was urging Nepal to finalize BRI projects including the rail network.<sup>255</sup> PM Oli, meanwhile, was preparing to give back the Budhi Gandaki project to Gezhouba. In an interview with South China Morning

---

250 Binod Ghimire. 2017. “Belt and Road Initiatives: China looks Askance at Nepal’s Commitments.” *The Kathmandu Post*. <<https://kathmandupost.ekantipur.com/news/2017-09-08/china-looks-askance-at-nepals-commitments.html>>.

251 Mu Xuequan eds. 2017. “Chinese charity foundation donates 300 bicycles to support education of Nepali students.” *Xinhuanet*. <[http://www.xinhuanet.com/english/2017-07/02/c\\_136410104.htm](http://www.xinhuanet.com/english/2017-07/02/c_136410104.htm)>.

252 <http://kathmandupost.ekantipur.com/news/2017-10-03/cpn-uml-maoist-centre-naya-shakti-announcing-electoral-alliance.html> (accessed November 24 2019).

253 Rewati Sapkota. 2019. “एमाले र माओवादी एकताको तयारीमा चीन ख’सी, भारत बेख’सी” *Annapurna Post*. <<http://annapurnapost.com/news/81254>>.

254 Based on conversation with a senior journalist and a politician.

255 <https://thehimalayantimes.com/business/nepal-urged-finalise-projects-belt-road-initiative/> (accessed November 24 2019).

Post, Oli said, “Political prejudice or pressure from rival companies may have been instrumental in the scrapping of the project. But for us, hydropower is the main focus and come what may, we will revive the Budhi Gandaki project.”<sup>256</sup> A cabinet meeting in February 2018 decided to provide VGF Rs. 94 billion, about one-third of the total cost. However, the Ministry of Energy said it was yet to receive an official letter from the prime minister’s office regarding the funding, preventing it from moving ahead with the project.<sup>257</sup>

The new government sought to intensify cooperation with China. Foreign Minister Pradeep Gyawali visited China in April, during which Nepal and China agreed to set up mechanisms to coordinate and implement Chinese government-aided projects and take the BRI a step further.<sup>258</sup> China’s top diplomat, Wang Yi, emphasized trilateral cooperation between India, China, and Nepal and said the three-dimensional interconnection network across the Himalayas would facilitate a trilateral economic corridor between Nepal, China, and India.<sup>259</sup> Nepal’s priority areas, as outlined by Minister Gyawali were transport connectivity, interstate electricity transmission line, modernization of agriculture, tourism promotion and development of people to people relations under the Belt and Road Initiative.<sup>260</sup>

---

256 Debasish Roy Chowdhary. 2018. “Nepal leader vows to revive Chinese dam project, open to review pact over Nepalese soldiers in India.” SCMP. <<https://www.scmp.com/week-asia/geopolitics/article/2133845/nepal-leader-revive-chinese-dam-project-open-review-pact-over>>.

257 <http://kathmandupost.ekantipur.com/news/2018-03-11/budhi-gandaki-project-faces-another-hurdle.html> (accessed November 24 2019).

258 <https://thehimalayantimes.com/nepal/nepal-china-to-establish-mechanism-on-chinese-aid-projects/> (accessed November 24 2019).

259 State Councilor and Foreign Minister Wang Yi’s statement. <<https://www.fmprc.gov.cn/web/wjzbzd/t1552139.shtml>>.

260 <https://thehimalayantimes.com/nepal/nepal-outlines-five-priority-areas-under-belt-and-road-initiative/> (accessed November 24 2019).

In March 2018, China welcomed Nepal's "independent foreign policy" saying it supported Nepal's efforts to develop friendly relationships with surrounding countries.<sup>261</sup> Two months later, Minister of Energy Barshaman Pun announced that the government would build the Budhigandaki Hydro-electric project on its own and was initiating a new bidding process, which would take into consideration the benefits to the lower riparian.<sup>262</sup> In an interview with Xinhua in June 2018, Minister Pun expressed an eagerness to make up with China regarding hydropower development. He said the government was still working with a Chinese company on the development of West Seti, and the country was still looking for Chinese assistance to develop Budhi Gandaki.<sup>263</sup>

K P Oli's visit to China in June 2018 re-envisioned Sino-Nepal cooperation; the 14-point joint-statement<sup>264</sup> reflected a combination of Chinese strategic and economic interests as well as the interests and concerns of Nepal and Prime Minister K P Oli. In addition to emphasizing security cooperation and intelligence sharing, the joint statement lays the blueprint for Nepal-China cooperation in multiple arenas including cooperation in regional, multilateral, and international forums like the UN, SCO, SAARC and rules-based multilateral trading regimes like WTO. The agreement allowed China to pursue its broader strategies like Western Development (Go West) Strategy, BRI, and Asia Pacific Security Cooperation.<sup>265</sup>

---

261 <http://www.chinadaily.com.cn/a/201803/29/WS5abcd06ea3105cdcf6515261.html> (accessed November 24 2019).

262 <https://thehimalayantimes.com/business/tender-of-1200mw-budhigandaki-by-next-fiscal/> (accessed November 24 2019).

263 Liangyu eds. 2018. "Nepal eager to develop energy cooperation with China: minister." Xinhuanet. <[http://www.xinhuanet.com/english/2018-06/05/c\\_137231004.htm](http://www.xinhuanet.com/english/2018-06/05/c_137231004.htm)>.

264 Ministry of Foreign Affairs. 2018. "Joint Statement between Nepal and the People's Republic of China." Government of Nepal. <<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china/>>.

265 [www.china.org.cn/chinese/2017-01/20/content\\_40146001.htm](http://www.china.org.cn/chinese/2017-01/20/content_40146001.htm) (accessed November 24 2019).

### Strains in Domestic Politics

Geopolitical rivalry further strained divisions in the Nepal Communist Party and domestic Nepali politics. International geopolitical dynamics generated intense strains in the ruling party and may have helped cause a split. India, China and the US figure heavily in Nepal Communist Party's internal differences.<sup>266</sup> During a public function in June 2020, PM Oli claimed that India was intent on removing him from the office. On the other hand, Chinese Ambassador Hou Yanqi met former PM Madhav Kumar Nepal generating questions about the Chinese Ambassador's role in mediating NCP's internal differences.<sup>267</sup>

In November 2020, as the political infighting in the ruling Nepal Communist Party reached a breaking point, China's Ambassador to Nepal Hou Yanqi made a late-night dash to the Prime Minister's residence and, according to newspaper reports, requested PM K P Oli to ensure political stability and prevent party split at any cost. After the late-night tryst with the Chinese ambassador, PM Oli rushed to meet President Bidya Devi Bhandari. Ambassador Yanqi has held similar meetings with top party leaders in May and July 2020, these meetings mostly coincided with disputes in the party generating questions about her role.<sup>268</sup> Although the party spokesperson provided a perfunctory denial, his choice of words indicated something else. "This is not an interference," Narayan Kaji Shrestha said. "We do not accept foreign interference. If we don't accept (it), then it is not interference."<sup>269</sup>

A week later, Chinese State Councillor and Defence Minister Wei Fenghe made a short stop. He made it clear that China wants to implement a strategic alliance with Nepal not only in principle but also in practice. According to Wei, during Xi Jinping's visit,

---

266 <https://ekantipur.com/news/2020/07/04/159382490151784856.html>

267 <https://www.bbc.com/nepali/news-53310311>

268 <https://kathmandupost.com/national/2020/07/06/chinese-ambassador-making-the-rounds-at-a-time-of-internal-crisis-invites-much-criticism>

269 <https://www.nayapatrikadaily.com/news-details/54976/2020-11-18>  
(accessed November 20, 2020)

Nepal-China relations were “upgraded to a strategic partnership of cooperation.”<sup>270</sup> In recent years, China is experiencing delays from Nepal’s part in implementing the agreements signed during Chinese President Xi Jinping’s visit to Nepal. Wei’s visit signified China does not want to cede the space it has gained in Nepal to India or the West.

China’s strategic engagements in Nepal received a jolt when Prime Minister K P Oli, despite efforts at mediation by the Chinese, dissolved the parliament and forced a vertical split in the party. Chinese officials stepped up meetings with NCP leaders after Prime Minister K P Oli dissolved the House of Representatives.<sup>271,272</sup> China was visibly shocked at the dissolution of the House and sent Vice Minister of the International Department of the Communist Party of China, Guo Yezhou to assess the situation. Yezhou held meetings with senior Nepali leaders over four days.<sup>273</sup>

## ANALYSIS AND CONCLUSION

### China’s Access to Nepali Democratic Institutions and Civil Society

Since 2015, China has managed to gain significant access to Nepali democratic institutions, political parties, and the civil society. Like some other countries, China has used Nepal’s political instability and poor governance to gain direct access to Nepali institutions, many of which had been developing relations with China autonomously and outside the purview of the Foreign Ministry. The continuous presence of coalition governments during the post-conflict period, which saw more or less autonomous ministries have facilitated this process. Until recently, institutions

---

270 [http://www.xinhuanet.com/english/2020-11/30/c\\_139552296.htm](http://www.xinhuanet.com/english/2020-11/30/c_139552296.htm)

271 <https://kathmandupost.com/national/2020/12/24/chinese-ambassador-meets-dahal-two-days-after-calling-on-president-bhandari>

272 <https://kathmandupost.com/national/2020/12/26/beijing-sending-a-high-ranking-chinese-communist-party-leader-to-kathmandu-amid-political-turmoil>

273 <https://kathmandupost.com/national/2020/12/29/chinese-delegation-continues-assessing-the-political-situation-in-nepal-and-meets-deuba>

like the Nepal Army and the Armed Police Force were cultivating intimate relations with foreign countries on their own. At present, the government is asserting greater control over Nepal's dealings with external governments and actors. However, while the influence of western powers and India declined after 2015, China's access to Nepali institutions, political parties, and civil society has been increasing, partly because of the interest shown by the Prime Minister's Office.

Chinese President Xi Jinping sought to accelerate the process of cultivating deeper ties with Nepal's democratic institutions and civil society. According to Xi,<sup>274</sup> the Chinese side has been interacting with the Nepali government on "the experience of governance," particularly in relation to "political stability, social harmony, and rapid economic development." According to some key informants, the Chinese have perceived Nepal's bureaucracy as a hurdle in promoting China's development partnership with Nepal. So, in addition to political actors and institutions, China sought to intensify "exchanges and cooperation" between ministries and departments as well. Although the data is not publicly available, senior public officials with direct knowledge say such engagements have ballooned in recent years. For example, a senior official at the Ministry of Transport said that China had been providing more than 25 short training to its railway engineers and officials at a time since the last few years. Such kinds of training are held several times each year. In total, China is providing more than 850 scholarships and training programs to Nepali Civil servants for the year 2019-20.<sup>275</sup>

---

274 Xi Jinping. 2019. "Toward Greater Progress of China-Nepal Friendship across the Himalayas." China Daily. < <https://www.chinadaily.com.cn/a/201910/11/WS5da026bba310cf3e3556ff60.html>>.

275 <https://kathmandupost.ekantipur.com.np/news/2019-06-24/china-offers-a-record-number-of-training-programmes-and-scholarships-to-nepali-civil-servants.html> (accessed ).

### **Sinicization of Political Parties**

In order to ensure sustained strategic relationship with Nepal, China sought to develop closer ties with the Nepal Communist Party, exchanging ideas about governance and organization of a strong political party. After the 2017 merger of the Maoists and the CPN-UML, China encouraged a process of Sinicization of Nepali political parties. Prior to Xi Jinping's visit to Nepal, a delegation of the Chinese Communist party participated in a joint symposium with the Nepal Communist Party on "Xi Jinping Thought" and held ideological discussions. The two parties also signed an agreement, which promised high-level political exchanges, people-to-people relations, study visits, ideological interactions and cooperation between the two parties.<sup>276</sup> According to party officials, the agreement sought to continue Chinese ideological training from the highest level to the lowest rungs of the party. Party officials said they were also looking forward to increased discussions about the Chinese models of development.<sup>277</sup>

China is eager to cultivate relations with Nepal as one of its close global allies and a neighbour integral to its concept of national security. China considers a stable government and a unified NCP as being crucial for sustained and trusted relations between China and Nepal, especially when there is political polarization and realignment in Nepal that might put at risk China's achievements since 2015.

Comments from the Chinese indicated that they were promoting Xi Jinping's thought as the basis of a new international order and the promotion of such thought in Nepal could weave its neighbour into that order. Prior to the dissolution of the House of Representatives and the split of the NCP, China viewed Nepal Communist Party in at least three ways: (i) as a source of stability in

---

276 Anup Kaphle. 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>>.

277 <https://english.khabarhub.com/2019/24/46048/> (accessed November 24 2019).

Nepali politics, (ii) as a source of stability in Nepal's relations with China, and (iii) as a vehicle for weaving Nepal into a global order based on the Chinese model. For example, during the political symposium, the Chinese politicians emphasized on adopting the Chinese party discipline and discussed how the communist party could be organized in a better way. A senior NCP official said that the Chinese want to maintain and sustained a friendly relationship with Nepal and are constantly trying to forecast who would lead the NCP over the longer term. China expected the NCP to remain in a strong position at all three levels of the government in the federal context.<sup>278</sup>

### **Inconsistent Foreign Policy**

Nepal's foreign policy is inconsistent; since 2006, Nepal's foreign policy has swung back and forth between China and India, depending on the political regimes.

While King Gyanendra's regime had grown close to China, his overthrow in 2006 saw the country swing back towards India's influence. After 2008, Pushpa Kamal Dahal's government began to grow closer to China, but different government institutions (including ministries and defence institutions) were maintaining direct relations with outside forces. After Dahal was forced to step down, Nepal reverted to India's influence. In 2011, Jhala Nath Khanal's government represented an anti-Indian regime but it was quickly replaced by one led by Baburam Bhattarai, which was widely believed to have been propped up by India. After the second round of CA elections in 2013, the Nepali Congress, the UML and a section of the Maoists began to resist the political platforms of the Madhesi and Janajatis.

Nepal's major political parties started to move away from India's influence in order to draft a new constitution. This was particularly salient after the 2015 earthquake. Differences with India grew during and after the promulgation of the 2015 constitution gave

---

278 <https://myrepublica.nagariknetwork.com/news/nepal-china-ideological-symposium-ends-with-accord-on-high-level-visit/> (accessed November 24 2019).

rise to a new wave of nationalism that unravelled the Nepali Congress and propelled K P Oli to power. During interviews, multiple sources in the Nepal Communist Party said there was confusion as well as differences in the party regarding foreign policy. Although the Nepal Communist Party officially maintained a policy of non-alignment, such a policy may be under duress given the intensifying relationship with the Chinese Communist Party.

### **Gaps Between National Interests and Vested Partisan or Personal Interests**

Nepal's foreign policy is inconsistent because vested partisan and personal interests of political leaders create a significant gap between national interests, stated policies, and actual practices. Despite Nepal's growing relations with China, there are significant question marks about whether Nepal is keeping its national interests at the centre of its engagements with China or decision-makers are using foreign policy to promote their partisan and personal interests. China and Nepal have differing priorities; while China has been able to pursue its strategic and economic interests successfully, Nepal's national interests and priorities have remained unsatisfactory. For example, when the Chinese Prime Minister Zhu Rongji visited Nepal in 2001, he witnessed the signing of three MoUs on double taxation and fiscal evasion; economic and technical cooperation; and bilateral agricultural cooperation. Nepal and China exchanged three letters on construction projects: Polytechnic institute at Banepa, civil servants' hospital in Kathmandu and Syaphrubesi-Rasuwegadhi link road. The 19-kilometre Syaphrubesi-Rasuwa road was expected to provide an alternative to the Kodari route and increase trade with China. In total, China sanctioned about Rs. 720 million under economic and technical cooperation.<sup>279</sup> During the meeting, Nepal took up its priority issues like the construction of Baglung-Jomsom road, preferential treatment to Nepali products in the Chinese markets

---

279 Avtar Singh Bhasin. 2005. "Nepal-India, Nepal-China Relations: Documents, 1947-June 2005." New Delhi: Geetika Publishers.

to lessen the trade gap, easing of visa requirements in Hong Kong, and opening up air routes to major cities including Beijing.<sup>280</sup> China, however, did not meet Nepal's aspirations. According to a US Embassy cable, China made "polite but tepid response to GON overtures regarding trade expansion—parrying requests for concessions in the present with hypothetical benefits from an as yet unrealized tourism boom."<sup>281</sup>

While China is engaged in significant development cooperation with Nepal,<sup>282</sup> there are doubts about Nepal's ability to pursue its economic interests. Two major issues are that of trade and tourism. Nepal has not been able to pursue trade relations that can promote Nepal's economy. While the benefits of Chinese tourism are obvious, Nepal's delay in gaining slots for Nepal Airlines in China is an indicator of things that are wrong with Nepal's diplomacy. While Nepal Airlines is still waiting to get a slot in China, Himalaya Airlines, a company promoted by Tibet Airlines and businesspersons close to PM K P Oli, but whose real ownership structure is not transparent, is flying to five destinations in China, including the new Daxing airport in Beijing.<sup>283</sup> China, meanwhile, is operating 98 flights per week to Kathmandu after pushing for a revised air service agreement.<sup>284</sup>

Nepal's relations with India, in recent years, has been defined by Nepal's desire to move away from India's influence (or the shadow of special relationships) and take "independent" decisions. This has played into China's hands. One of China's strategies is to lessen

---

280 Bhasin 2005: 3324.

281 [https://wikileaks.org/plusd/cables/03KATHMANDU2098\\_a.html](https://wikileaks.org/plusd/cables/03KATHMANDU2098_a.html) (accessed November 24 2019).

282 See Chapters 8 and 9 for more detailed discussions on development cooperation and Chapter 7 for Trade and Tourism.

283 Kedar Dahal. 2019. "नेपाल एयरलाइन्सलाई उछिनेर बेइजिङ उड्दै हिमालय एयरलाइन्स." Kathmandupress. <<https://kathmandupress.com/exclusive/himalayan-air-beat-nepal-air-to-fly-china-route>>.

284 Arpana Ale Magar. 2019. "Nepal, China revise air services pact." The Himalayan Times. <<https://thehimalayantimes.com/business/nepal-china-revise-air-services-pact/>>.

Nepal's dependence on India, whether economically, culturally or politically. China has shown an inclination to lessen Nepali people's dependence on India for jobs (including in the police and the army), and promote cultural independence of Madhesh from India. China has also actively aided the ruling political regime take stand against India and capture the public's imagination by talking about big infrastructure projects and development cooperation.

### **Geopolitical Competition**

Frequent changes in foreign policy and domestic political regimes were the result of the geopolitical competition; the changes reflected the direct links between Nepal's political elites and foreign governments.

China's growing influence in Nepal was paralleled by increased resistance to US interests in Nepal, including the Indo-Pacific Strategy. Recent debate within the NCP over Nepal's involvement in the Indo-Pacific Strategy created deep polarization in the party. After his visit to Nepal in September 2019, Chinese State Councillor and Foreign Minister Wang Yi issued a statement<sup>285</sup> in Beijing about his meeting with co-chairman of the Nepal Communist Party, Pushpa Kamal Dahal. The statement thrust Nepal into a diplomatic conundrum. Part of the statement, attributed to Dahal, expressed Nepal's commitment to China's immediate security concerns: adherence to One China policy not only verbally but also in action; not allowing any external force to engage in anti-China activities in Nepal; recognizing Hong Kong as China's internal affairs, not obstructing China's fight against terrorism in the name of human rights, and adherence to the policy of non-alignment. What invited controversy was Prachanda's supposed rejection of "the so-called Indo-Pacific Strategy" which was seen as part of the United States' attempt to contain or thwart China's development. Immediately after the statement was reported in Nepali media, the US Embassy in Nepal started a flurry of activities, seeking clarification from the

---

285 [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1697106.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1697106.shtml) (accessed November 22 2019).

Foreign Ministry. The Kathmandu Post reported a statement by an Embassy official: “We await the Nepali government’s official clarification and we have asked our Embassy in Beijing to verify the statement issued there. If true, it is bewildering that we now learn about Nepal’s positions from statements issued from Beijing.”

The gains made by US has faced challenges despite support from a large section of the populace. The potential of US leadership in the fight against Covid (access to medicine and vaccines) may add another incentive for Nepal to maintain positive relations. The US and its allies want to see greater economic integration between Nepal and India, including connectivity and special economic corridors, in order to lessen China’s influence. The response of the Oli government to the MCC and the infighting within the ruling party symbolized the pressures of geopolitical competition on Nepal’s domestic politics. Until May 17, 2020 PM Oli was vowing to approve the MCC through the parliament even including the grant in the annual budget.<sup>286</sup> Oli continued to hold consultations over border disputes with India and the MCC compact telling MPs that Nepal should not quarrel with India, China and the US.<sup>287</sup> However, the MCC and the border dispute with India cornered Oli and lent fuel to nationalist and populist political forces. The debate over parliamentary approval of the Millenium Challenge Corporation Compact divided the party into two blocs and affected the election of a new Speaker of the House. The issue of the Speaker was finally resolved when the party decided not to approve the MCC Compact at the time.

### **Counterbalancing Intrusions**

Although the exact nature of the political leverage and influence of China and India in Nepal are not clear, there are grounds to believe that geo-political rivalry between US, China and India is

---

286 <https://kathmandupost.com/national/2020/01/17/oli-insistent-on-passing-mcc-pact-via-house-s-winter-session>

287 <https://kathmandupost.com/national/2020/05/18/with-oli-already-in-a-quagmire-over-indian-border-encroachment-mcc-compact-rears-its-head-again>

inviting counterbalancing intrusions in Nepal. In recent years, India's counterbalancing intrusions have begun to intensify, particularly in view of shifting global alliances and pressures against China. Nepal's cooling down of relations with China comes on the heel of increased pressure from India and the US. On October 25-26, 2020, India and the US held a two-plus-two ministerial meeting, forging an understanding for institutionalised intelligence sharing arrangement and cooperation on unmanned underwater and space platforms called Basic Exchange and Cooperation Agreement (BECA).<sup>288</sup>

In recent years, the Indian media has been reporting and highlighting issues seeking to amplify differences between Nepal and China. The Indian media, citing intelligence agencies, claimed China was also “fomenting anti-India protests along the Indo-Nepal border.”<sup>289</sup> Nepal Members of parliament in India are concerned about Nepal's growing ties to China in terms of transit and transportation and how these developments are affecting Nepal's relationship with India.<sup>290</sup>

The issue has piqued Chinese media and experts. For example, Global Times, in one of its reports said, Indian media is “spreading fake news and rumours to hype China's threat, or add fuel to nationalism.” One of the examples cited was the report in Indian media that China had encroached Nepal's territory. “The Times quoted Song Zhongping, a Chinese military expert and commentator: “It is India that always thinks it dominates Nepal, and by hyping China's ‘invasion’ of Nepal, India is making itself an excuse to enter into Nepal to control the country.”<sup>291</sup> Chinese media have also raised concerns that western NGOs in Nepal are fuelling anti-China voices.<sup>292</sup>

---

288 <https://edition.cnn.com/2020/10/27/asia/us-india-defense-china-intl-hnk/index.html>

289 <https://www.tribuneindia.com/news/nation/china-funds-anti-india-stir-along-nepal-border-137572>

290 <https://mea.gov.in/rajya-sabha.htm?dtl/33033/question+no1374+nepalchina+transportation+treaties>

291 <https://www.globaltimes.cn/content/1202151.shtml>

292 <https://www.globaltimes.cn/content/1201631.shtml>

Chinese media also tried to address these issues through an interview of Nepal's ambassador to China, Mahendra Pandey.<sup>293</sup> He said we have long standing border disputes with India, stemming from the 1962 war between India and China, but not with China. He said Nepal had requested India for dialogue many times but India did not show interest, until now. Nepal's Ambassador to China, like many other politicians in Nepal, speaks the language of Chinese diplomacy, e.g., terms like unilateralism versus multilateralism, the importance of collectivism, freedom versus preciousness of people's lives. His interviews to the *Global Times* raised controversy and experts raised questions about whether he's supposed to represent Nepal's interests or speak for Chinese interests.<sup>294</sup> His interview also showed that Nepali diplomats and politicians are not afraid of offending India.

Indian analysts, meanwhile, suggest that China could use its influence in "Nepal's politics and economy" to spoil New Delhi's attempts to restore ties and maintain leverage in Nepal. They worry that India could cede the space to China,<sup>295</sup> which is using the political differences with the ruling Nepal Communist Party as an opportunity to intervene.

### **Setbacks in Chinese Engagements**

Intrusive countermeasures by rival powers, an inefficient bureaucracy, lack of commitment from political leaders, and Covid 19, have led to setbacks in Chinese engagements in Nepal. There has been little progress in implementing the agreements signed between Nepal and China during Prime Minister K P

---

293 Xie Wenging and bai Yunyi. China-Nepal relations robust despite fake Indian media reports: Nepalese Ambassador. *Global Times*. 2020 September 27. <https://www.globaltimes.cn/content/1202258.shtml>

294 <https://kathmandupost.com/national/2020/09/29/interview-by-nepal-ambassador-to-beijing-for-china-s-global-times-causes-furore> Shishir Gupta. "Nepal ties with India are warming up. China could complicate the situation."

295 <https://www.hindustantimes.com/world-news/nepal-signals-ties-with-india-are-warming-up-but-china-keeps-them-on-the-edge/story-aHG7Qabnim5cqjW6cUTU4K.html>

Oli's visit to China in 2018. Despite these setbacks, China has tried to maintain trusted political relations with Nepal. Political officeholders, including President Bidya Bhandari and Chinese President Xi Jinping, exchanged congratulatory messages on the occasion of the 65th anniversary of official Nepal-China diplomatic ties. The messages emphasized strategic partnership of cooperation, connectivity, infrastructure and regional stability.<sup>296</sup> Chinese investments like the Damak Clean Industrial Park are likely to continue,<sup>297</sup> although it is already generating resistance from locals.<sup>298</sup> Other activities China is emphasizing include a cross-border railway<sup>299</sup> as well as the expansion of the East-West Highway by a Chinese contractor.<sup>300</sup>

### **The Challenges of Maintaining and Gaining Benefit from Trusted Relations with China**

Nepal's proximity and trusted relations with China has significant potential benefits. Among others, Nepal's economic growth requires significant foreign direct investments and inputs. Growth in Nepal's capacity to stabilise governance and deliver development; develop infrastructure; increase earnings through the promotion of trade, tourism, and hydropower; and enhance productivity heavily rely on FDI. However, in order to benefit from China and other international donors, Nepal must carefully manage the impact of geopolitical competition between great and emerging powers including the US, China, India, and Russia.

---

296 <https://mofa.gov.np/press-release-on-the-65th-anniversary-of-establishment-of-diplomatic-relations-between-nepal-and-china/>

297 The park is a joint venture between Nepali companies and Lhasa Economic and Technological Development Zone Investment Development Company Limited and Jing Ping Joint Creation Construction Project Development Co. Ltd. See [http://www.xinhuanet.com/english/2020-12/19/c\\_139603347.htm](http://www.xinhuanet.com/english/2020-12/19/c_139603347.htm)

298 <https://thehimalayantimes.com/nepal/locals-protest-china-sponsored-project-in-damak/>

299 <http://global.chinadaily.com.cn/a/202012/24/WS5fe3d1dea31024ad0ba9de75.html>

300 [http://www.xinhuanet.com/english/2020-12/29/c\\_139624831.htm](http://www.xinhuanet.com/english/2020-12/29/c_139624831.htm)

Another major issue is, rising above partisan and political interests to address critical economic and developmental issues. If partisan interests over-ride national interests while pursuing Nepal's foreign policy, it will give rise to domestic political polarization and conflict. Similarly, ad hoc foreign policy would allow China to have greater leverage over Nepal's foreign policy, which in turn would invite greater geopolitical pressures. If Nepal's relations with China are not carefully handled, the financial and political interests of India and China can distort Nepal's market and civil society.

At the same time, however, Nepal needs to be careful in balancing its national interests with China's strategic interests. For example, Xi Jinping emphasized China's linkages with Nepal's institutions which are responsible for political decision-making, planning, and delivery of development. China's strategic impulses reflected by this strategy have several implications. First, becoming close with China at a strategic level may generate a security dilemma; it may be perceived by other countries as harming their interests. Second, as other forces try to limit China's growing influence on Nepal, or as domestic actors contest with each other in Nepal's relations with China, it may generate differences within Nepal's domestic politics, including conflict and instability. Third, while adopting Chinese models of good governance and development may deliver certain results, it may also affect Nepal's own strategic autonomy and independence as well as the fundamental rights enjoyed by the people.

President Xi Jinping's visit in 2019 cemented the partnership between Nepal and China on international affairs. During his meeting with Prime Minister KP Oli, President Xi Jinping emphasized multilateral coordination to jointly support "multilateralism and the free trade system and safeguard the development rights of the two countries."<sup>301</sup> This propels Nepal

---

301 <http://np.china-embassy.org/eng/zgwj/t1707851.htm> (accessed November 24 2019).

closer to China-led global initiatives and policy platforms. In addition, it has the potential to drive Nepal's foreign policy on a course that may conflict with that of some nations who see a threat from China's growing global influence. Given China's rise and its critical interest, Nepal will need to be more efficient and capable in managing geopolitical rivalry. Nepal also needs to ensure that Chinese interests do not harm Nepal's economy, distort domestic politics, or promote corruption. This requires a broader national consensus on Nepal's national interests as well as transparency.

\*\*

---

301 <http://np.china-embassy.org/eng/zgwj/t1707851.htm> (accessed November 24 2019).

## Chapter 4

# CHINA'S PUBLIC DIPLOMACY IN NEPAL

Kunja Rai

During Xi Jinping's visit to Nepal in October 2019, the Chinese President published an article proposing a blueprint for the Nepal-China relationship. Among others, the article helped explain the rationale behind China's public diplomacy in Nepal. One of the key thrusts of China's engagements in Nepal is "strategic communication," which focuses on developing mutual trust and understanding as well as transmission of culture (e.g., ideas, expertise, and strategies for development and governance). Another key thrust of China is "expanding people-to-people exchanges," which focuses on areas like education, youth, tourism, and direct flights between China and Nepal. China's emphasis on youth, students, professionals, and tourists appears to be a convenient and effective strategy to develop long-term alliances with the Nepali civil society. These interests driving public diplomacy were reflected in the joint statement<sup>302</sup> issued at the end of Xi's visit to Nepal. In particular, the tenth point of the statement mentioned some of the key initiatives being taken at present. These include exchanges and cooperation in education, culture, tourism, traditional medicine, media, think tanks and youth; about 100 Confucius Institute Scholarships; tourism

---

302 Ministry of Foreign Affairs. 2019. "Joint Statement between Nepal and People's Republic of China." Government of Nepal. <<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>

promotion and support for Visit Nepal Year 2020; Chinese Cultural Centre and Chinese language institutes as key players in promoting Nepal-China cultural exchanges and cooperation.

Public diplomacy involves an interplay between nations, is persuasive in nature and emphasizes the role of foreign policy in achieving national interests.<sup>303</sup> For the purpose of this chapter, public diplomacy is taken to be the combined efforts by China at strategic communication with the Nepali public (including the civil society and the media) as well as members of the bureaucracy. While China's relations with the bureaucracy would normally be part of the direct government to government relationship, in Nepal's case, such relationships are part of a broader strategy of building alliances through cultural transmission.

As is conventional, China's public diplomacy initiatives have two-fold objectives. As a branding exercise, public diplomacy seeks to create positive public perceptions about China. However, in recent years, China's public diplomacy has increasingly become a tool for strategic communication, which aims to generate support for China's strategic initiatives that are designed to enhance China's political, cultural, economic and security interests. Some of these strategies like security cooperation, neighbourhood policy, and BRI are discussed in other relevant chapters. This chapter focuses primarily on China's engagements with the general public, media, civil society, and the bureaucracy: Aligning with these principles; China's engagement in Nepal through public diplomacy has five goals in particular; Build a positive image of China; Generate support for China's strategic initiatives; Promote Chinese investments; Rally political support and develop alliance relationships with China; and Transmit Chinese culture, including models of development and governance.

### **A. China's Public Diplomacy in Nepal**

As China expands its influence around the globe to advance its national interests, it has felt the need to shape foreign public

---

303 Refer to Manheim (1990) and Tuch (1990) for detailed discussions..

opinion.<sup>304</sup> China is trying to build the image of a trustworthy and cooperative country<sup>305</sup> by making efforts to build 'harmonious societies'<sup>306</sup> at home and outside.<sup>307</sup> Although China, as an emerging state, is new to international experience and governance, it has transformed its soft resources into a national power, boosting its cultural leverages.<sup>308</sup> For example, after persuading other countries that they have resources and opportunities, China initiates joint projects with the host countries.<sup>309</sup>

China's foreign policies through public diplomacy carried the narrative of the Chinese dream of "the great rejuvenation of the Chinese nation". The dream describes China's two futuristic goals; being a "moderately well-off society by 2021" and a "fully developed nation by 2049". According to Robert Lawrence Kuhn in his book "How China's Leaders Think", China functions under four guiding principles to achieve its dream: to create a harmonious society at home, to reaffirm China's potency and pre-eminence, to remodel China's image as a modern country, and be a responsible contributor to world economy and peace.<sup>310</sup>

---

304 Yongnian Zheng and Sow Keat Tok. 2007. "Harmonious Society' and 'Harmonious World': China's Policy Discourse Under Hu Jintao." The University of Nottingham: China Policy Institute, Briefing Series-Issue

305 Ingrid d'Hooghe. 2007. "The Rise of China's Public Diplomacy." Netherland Institute of International Relations, Hague.

306 Daniel Johanson, Jie Li and Tsunghan Wu. 2019. "New Perspectives on China's Relations with the world." E-International Relations. < <https://www.e-ir.info/2019/03/26/new-perspectives-on-chinas-relations-with-the-world/>>.

307 Keynote speech by President Xi Jinping at the opening ceremony of 1st China International Import Expo, in Lu Hui (eds.), Xinhuanet, Beijing, November 2018.

308 Esther Pan. 2006. "China's Soft Power Initiative." Council on Foreign Relations.

309 Eleanor Albert. 2018. "China's Big Bet on Soft Power." Council on Foreign Relations.

310 Robert Larence Kuhn. 2010. "How China's Leaders Think." Markono Media. <<http://www.urbanlab.org/articles/China/state%20and%20power/Kuhn%202010%20-%20how%20China%27s%20leaders%20think.pdf>>.

During Xi Jinping's visit to Singapore in 2015, he stated that China's neighbours are of great importance for the country and its overall diplomacy will be focused on promoting "neighbouring peace, stability, and development."<sup>311</sup> The rise of Xi Jinping became a point of inflection to China's growing accorded power.<sup>312</sup> China embraced a proactive economic and political engagement at both regional and global levels, upgraded from the earlier 'low profile' foreign policy of its predecessors.<sup>313</sup>

The geopolitical developments in Nepal are closely related to China's neighbourhood policy. According to Li Younghui, Director of School of International Relations, Beijing Foreign Studies University, "the rising power has a critical need for a friendly periphery; a strategic periphery belt." Therefore, it is of strategic importance for China that its foreign policies address its neighbours including Nepal to create a favouring regional environment. Public diplomacy has supported to advance China's foreign policies in Nepal by creating a positive reputation for China. The presentation of China's public diplomacy became so attractive and effective among the Nepali community that the focus changed from just communication to relationship building.

According to a statement made by a member of the International Relations Committee of Nepal, China's diplomacy has grown constructive and practical over time. The country started using soft approaches to win foreign public opinions rather than by using force or threat. China started approaching local media to disseminate diplomatic messages.<sup>314</sup> An expert on China's foreign policy said that China initially engages economically,

---

311 CGTN. "Chinese President Xi Jinping delivers speech at the National University of Singapore", YouTube. (accessed 12 July 2019).

312 "The Resistible Rise of Xi Jinping." *Foreign Policy*, October 2017.

313 Beeson and Fujian Li. 2012. "Charmed or Alarmed? Reading China's Regional Relations." *Journal of Contemporary China*: Vol. 21, 2012, pp. 73.

314 "China's Pursuit of New Media Order." *Reporters Without Borders*. Paris, 4 June 2019.

then the country will start investing by developing a cooperative environment between countries; and lastly, when the host country is under its influence, China begins giving political advice.

## **B. China's public diplomacy characteristics and its favouring tools in Nepal**

### **B.1 State guided targeting the general public**

**The Planner: Political leaders of CCP**

**Director: Ministry of Foreign Affairs**

**Performer: Embassy, Consulates, and Other Non-governmental Organisations**

China's public diplomacy targeting the general public aims to show an image of a strong China economically, culturally, and militarily. The public diplomacy model of China has been using different tools to cover the majority of the Nepali audience to enhance its public relations.

The Third Plenum of the CCP Central Committee Resolution passed in November 2013 states, "the people of all ethnicities in the entire country undertake under the leadership of the Party and under new conditions of the times, and it is the clearest characteristics of contemporary China." The document also says that "the government departments will shift from running culture to managing culture, promote that Party and government relations further rationalize relations with their subordinate cultural enterprise and undertaking work units." This indicates that China's policies and decisions are made by the CCP, while the government departments implement, coordinate, and handle the policies made.

## Public Diplomacy Tools that China Favours in Nepal for the General Public

### Media

Media is also a tool for China to correct the misconception about China-targeted audiences.<sup>315</sup> China created media to expose the potential and opportunities it has brought for Nepal. The news disseminated is mostly to spread Chinese culture and ideologies through China-sponsored media organizations,<sup>316</sup> which are mostly state-owned. The messages they spread through programs, newspapers, and magazines outline China's policies and developments.

A Nepali expert on China's foreign policy said, "China is connecting through Nepali media to raise awareness among Nepalis on current China". He also added that China has so much influence on Nepali media that someone has to actually pay to write negatively about China. The country has expanded its information team by adding quality and quantity to its media tools.

Dr Juyan Zhang, a Chinese communication professor at the University of Texas at San Antonio, US, said "media coverage of a country is generally consistent with the government's policy, and if there are different voices, the media might be punished." Zhang also gave the impression that Chinese media makes sure to cover mostly positive news about Nepal.<sup>317</sup> After the signing of the Transit Protocol between Nepal and China in March 2019, Xinhua wrote, "Nepali people, media, politicians, and civil society have hailed the agreement as a landmark."

Chinese media including Global Times, Xinhua News Agency, China Daily, and the South China Morning Post have a worldwide presence, and Nepal remains no exception. The Chinese national news agency, Xinhua established its bureau office in Kathmandu

---

315 Shannon Tiezzi. 2018. "How China Wins Friends and Influences People." *The Diplomat*.

316 Louisa Lim and Julia Bergin. 2018. "Inside China's Audacious Global Propaganda Campaign." *The Guardian*.

317 Dharma Adhikari. 2016. "Nepal in Chinese Press." *My Republica*.

in 1960, the CRI-China International Radio entered in 1975, and recently, the China News Service-CNS bureau office was set up in Kathmandu.<sup>318</sup>

The official national daily news portal of China, Xinhua had its presence in Kathmandu in just five years after the commencement of Nepal-China diplomatic relations on August 1, 1955. Xinhua news deliberates the concept of BRI and Chinese Dream projects through Nepali media among the intellectual diaspora. In January 2017, the Kathmandu Bureau of Xinhua invited 14 high-level representatives of the Chinese think-tank to Nepal. In the symposium, relations between Nepal and China, BRI projects, and economic and cultural corridors were discussed.<sup>319</sup> The delegates also expressed their views on strategic influences through the media. Further, the Southern-West University of Finance and Economics Institution recently organized the “Nepal Media Training Course” to strengthen their relations and also to give a boost to the Chinese economic agenda.<sup>320</sup>

CRI, also known as Radio Beijing, has been promoting China in Nepal in its own way. The Kathmandu Post reported that CRI broadcasts in sixty-three languages worldwide and receives one hundred and sixty thousand postal and electronic mails annually. In Nepal, there are seven hundred listeners of CRI. The programs on CRI are prioritized especially for its foreign listeners and it broadcasts in six South Asian languages.<sup>321</sup> Three Chinese expatriate businessmen, who are local partners of CRI, run the companies, and in some cases, own a stake in the stations. The network reaches from Finland to Nepal to Australia, and from

---

318 Hiranya Lal Shrestha. 2015. “Sixty years of dynamic partnership.” Kathmandu: Nepal-China Study Center: pp 222.

319 “Chinese team arrives for Conference.” My Republica, January 2017.

320 Professor Tang Ji-qiang informs Nepali Journalist on ‘Regional Economic Cooperation’, Kathmandu Tribune, July 2016.

321 Koh Gui Qing and John Shiffman. 2015. “Voice of China, Beijing’s covert radio network airs China-friendly news across Washington, and the world.” Reuters, London.

Philadelphia to San Francisco in the US.<sup>322</sup> Some Nepali radio stations are connected to China through CRI, says a journalist from a daily post of Nepal. There are 16 Chinese youths and two Nepalis working as journalists for CRI,<sup>323</sup> where the content is written by the Chinese in Nepali language and then edited by the Nepali staff. The Chinese journalists are also seen using their nom de plume while casting and writing the news.

In a different order, a Chinese researcher, Sing Yung, who heads the Nepali Language Department of Communications at the University of China in Beijing, has translated the 'Muna Madan', a Nepali classic by Laxmi Prasad Devkota and is publishing the Mandarin edition of 'Seto Bagh,' a book by Diamond Shumser Rana.<sup>324</sup>

Following the two big earthquakes in Nepal in 2015, there was a huge coverage of Nepal in the Chinese media. Xinhua captured 700 stories, followed by China Daily with 540, People's Daily with 441, Global Times with 460 and many more.<sup>325</sup>

For the purpose of the general public, the Embassy of China in Nepal officially launched its website in Kathmandu in May 2002, to provide authentic information on China's engagement in Nepal on diplomacy, trade, education, culture, and travel. Nepal and China also signed an MoU in China, December 2014 on media exchanges and cooperation. Ministry for State Council, Information Office of China and the Ministry of Information and Communication of Nepal signed the agreement to collaborate and initiate an information and news sharing exchange program for media professionals.

---

322 Koh Gui Qing and John Shiffman. 2015. "Voice of China, Beijing's covert radio network airs China-friendly news across Washington, and the world." Reuters, London.

323 Koh Gui Qing and John Shiffman. 2015. "Special Report-Exposed: Beijing's Covert Global Radio Network." Reuters, London.

324 Mohan Guragain. 2013. "China Radio Female Newscasters Take Pride in having Nepali Accent." The Kathmandu Post.

325 "Teaching Nepali in China." Nepali Times, May 2017.

In a discussion with the former Ambassador and the Chairman of the China Study Centre in Kathmandu, it was observed that the Nepali mainstream media and intellectuals are overwhelmingly positive about China and the projects agreed between the two countries. Nepali media outlets often write news and editorials pressing the government to take serious steps towards harnessing the benefits from China's BRI projects.<sup>326</sup> BRI has become a medium for China to engage in Nepal, and China wants the public to acknowledge the benefits of Nepal. In addition, incentives from sponsored visits and gifts have lured Nepali media to be close to China.

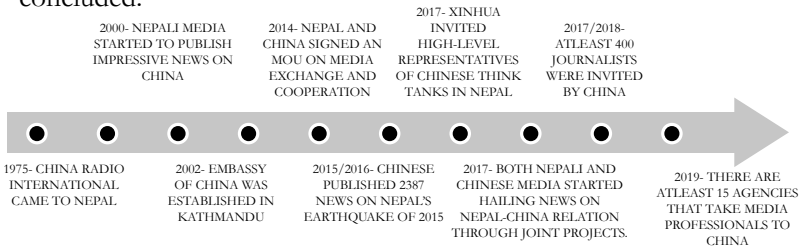
A senior journalist who has been coordinating exchange visits said that around 4,000 Nepali visited China during 2017-2018, out of which 400-500 were journalists. "Although Chinese officials do not tell the journalists what to write, they request that the journalist share what they produce. This indirectly puts pressure on the journalist to write positive things," he said. He also added that the Chinese trend of engaging with Nepali media is very individualistic. There are at least 15 smaller agencies in Nepal that take the media persons to China. The agencies connect with Nepali journalists individually and are sent to China in a group of two or three. The number does not only include journalists from Kathmandu-based media stations but also from local media houses located in other provinces. Journalists from all over Nepal are invited to cover news on BRI. These journalists are taken to China on tourist visas, as the country rejects any application applied by media persons.

China also expects Nepali media to cover the statements and messages given by the CCP because it is equally important for China to convey its political intentions. A former Member of Parliament confirmed that since 2000, Nepali media have been publishing impressive news on China, like the country's developments in sports, natural science, scientific research, academics, and business.

---

326 Ibid.

With the little available resources of China's engagement in Nepal through media, the below timeline with major events has been concluded.



*Fig: Timeline of China's Engagement in Nepal through Media*

### Chinese Study Centres

China Study Centre (CSC) was established in Nepal in 1999 to promote multi-dimensional policy dialogue and study activities on China at policy and academic levels.<sup>327</sup> The objective was to improve the relationship between China and Nepal by organizing seminars, workshops, exchange visits, and the publication of journals. The organization aims to connect with the general public through history, culture, geography, religion, governance, and economic relations that Nepal and China share.

CSC-Nepal has three thematic units to cover issues like gender, tourism, and financial sustainability alternative.<sup>328</sup> It represents China's outlook and its engagement in Nepal which has gradually increased. According to the CSC-Nepal website, the organization also established its local branches in Butwal, Biratnagar, Morang, Sunsari, Chitwan, Nepalgunj, and Lumbini. The organization conducts programs jointly with both NGOs and government organizations of Nepal, depending upon its objectives. It has successfully conducted programs with the China Association of International Friendly Contact (CAIFC), China Institutes of

327 China Study Center. 2007. "Missions and Objectives." <cscnepal.org.np>.

328 China Study Center. 2007. "Organizational Structure." <cscnepal.org.np>.

Contemporary International Relations (CICIR), China Institute of International Studies (CIIS) in Beijing, the Embassy of PRC in Nepal, Nepal Council of World Affairs, Foreign Affairs Institute, Ministry of Foreign Affairs in Kathmandu, Federation of Nepal Chambers of Commerce and Industries (FNCCI), BP Koirala Memorial Cancer Hospital of Bharatpur, Himalayan Climate Centre in Kathmandu, Nepal Philatelic Society, CCTV, Xuan Zang Study Centre and CIIS in Beijing, and Fudan University in Shanghai.<sup>329</sup>

### **Language Institutes**

Chinese language institutions emerged in Nepal due to the increase in Chinese engagements. Dr Wang Shengli, director of the Confucius Institute of Kathmandu University, says Chinese do not want to speak foreign languages and that is why Nepali entrepreneurs must have a basic knowledge of the Chinese language.<sup>330</sup> It is beneficial for Nepalis to learn Mandarin to engage with the Chinese. China claims the Confucius Institute as a propagator of cultural content but in truth, the institute has strayed from its publicly declared key task of disseminating information on cultural exchange between Nepal and China. The institute functioning in collaboration with Kathmandu University has very little information on its official website and the top-level officers are unwilling to provide any data regarding the number of students studying in the institute or students going to China through the institute. Over the telephone with a representative from the institute, he/ she informed that the data can be only accessed by Director Dr Shengli and the institute is unauthorized to provide his personal contact to anyone.

While some language institutes were established to strengthen Nepal-China relations, others emerged to cater to the demand for the Chinese language. The Kathmandu University of Nepal and Hebei University of Trade and Business of China jointly established Confucius Institute on February 5, 2007. The establishment agreement was signed by the Embassy of the People's Republic of China on behalf of the Office of the Chinese

---

329 Ibid.

330 <https://www.tourismmail.com/chinese-language-classes-for-pokharas-businessmen> (accessed 21 November 2019).

Language Council International and Kathmandu University. The vision of the institution is “to promote Chinese culture and language.” The Hebei University of Trade and Business of China supports the teachers of the Confucius Institute in Nepal. Apart from teaching Chinese, the Confucius Institute in Nepal also actively carries out cultural programs such as the Chinese cultural festival, performances, Chinese textbooks exhibitions, cultural lectures, seminars, and various Chinese games. The institute always welcomes people who are keen to know about China.

A Nepali student with a Chinese scholarship said that Nepalis learn Chinese for two particular reasons – to develop linkages with the Chinese coming to Nepal or to grab opportunities that China has to offer Nepal.

An agreement was signed between Tribhuvan University and East China University of Technology (ECUT) to establish another Confucius Institute in Nepal at the Tribhuvan University in 2017. However, no further developments have been made by favouring Nepal in the education sector.

Nepal has also started conducting HSK exams, a Chinese language proficiency test. A total of 62 students appeared for HSK exams on a single day, on one of the dates provided in 2019.<sup>331</sup> Over 10,000 students have already cleared the HSK exam at different levels from Confucius Class of Learning Realm International School over seven years.<sup>332</sup>

At the initiation of the Nepal Tourism Board, the Sino Nepal Media Society and Kathmandu University Confucius Institute jointly started basic Chinese language classes targeting the businessmen and businesswomen of Pokhara.<sup>333</sup> The objective of the program is to make people speak fluent Chinese and help flourish tourism. A government official, during the inauguration,

---

331 “Online HSK Test Starts in Nepal.” *The Rising Nepal*, March 2019.

332 *Ibid.*

333 Tek Bahadur Mahat eds. 2019. “Chinese language classes for Pokhara’s businessmen.” *Tourismmail*.

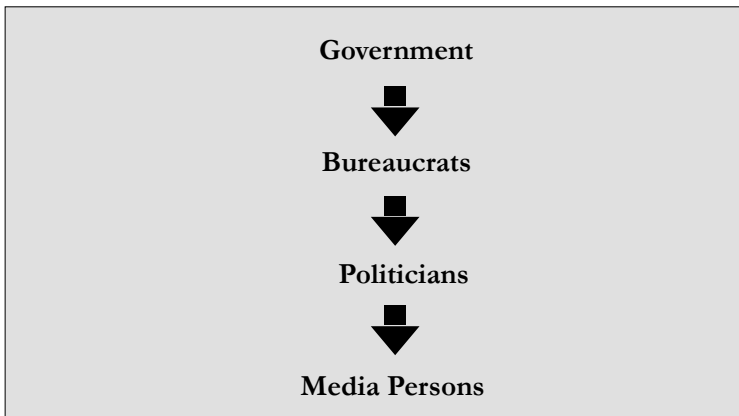
said that this step was taken by the Nepal government to attract two million tourists in Nepal by 2020.

### **B.2 Mostly Involved with the Elite Class with Power, Knowledge, or Skill**

China has been able to create a calculated number of Nepalis acting in its favour. These are people with power, knowledge, and skills, which include political leaders, bureaucrats, academicians, journalists, and students. In this circle of elites, the flow of information is usually two ways, with an exchange of opinions and suggestions between parties.

China has its own reasons to choose the targeted elite class: bureaucrats and leaders to influence Nepali politics and economy; journalists and academicians to say good things about China through media and write-ups reaching all publics, and students for cultural and language transmission. The elite circles are targeted to filter information on China. The incentives given to this elite circle are in the form of both, goods and services, which are given to either win support for China or reward for supporting China.

With time, China decentralized its focus from the central leadership to other leading bodies. Chinese public diplomacy tools focus on all levels of political actors and even public influencers in Nepal.



*Fig: Broadened Engagements of China with Elite Communities*

## Public Diplomacy Tools that China Favours in Nepal for the Elite Class

### Educational Programs

Initially, when China started the scholarships, there were two ways of getting those scholarships. Firstly, by sitting for an exam organized in Nepal conducted by the Chinese Embassy and scoring above 70%, and secondly, through 'Araniko Samaj.' But the scholarships were only granted to students whose parents had previously studied in China and were a member of the organization. Araniko Samaj at that time was fully controlled by the Embassy of China in Kathmandu.<sup>334</sup>

With globalization, educational opportunities gradually became one of China's primary instruments to attract the Nepali public. In 2004, China had approved 88 institutions where international students could study under the Chinese Government Scholarship Programme.<sup>335</sup> Scholarships and training programs during 2004 were limited to 20 seats under the Chinese Government Scholarship Program.<sup>336</sup> In 2004-5, China provided scholarships to 20 Nepali students.<sup>337</sup> In 2007-8, China offered scholarships to around 45 Nepali students.<sup>338</sup> In 2019, China-offered government scholarships to more than 100 students.<sup>339</sup> According to Mahesh Prasad Dahal, secretary at the Nepali Ministry of Education, Science and Technology, more than 3,000 Nepali students have received Chinese scholarships so far.

---

334 Worldwide Nepalese Students' Organization China, Scholarship, 2005. <[china.wnso.org](http://china.wnso.org)>.

335 <http://np.china-embassy.org/eng/StudyinChina/jxj/t167578.htm> (accessed 22 November 2019).

336 Anil Giri. 2019. "China offers a record number of training programs and scholarships to Nepali civil servants." *The Kathmandu Post*.

337 <http://np.china-embassy.org/eng/StudyinChina/jxj/t167583.htm> (accessed 22 November 2019).

338 <http://np.china-embassy.org/eng/StudyinChina/jxj/t363766.htm> (accessed 22 November 2019).

339 Xiaoxia eds. 2019. "Over 100 Nepali students to study in China under government scholarship." *Xinhuanet*. <[http://www.xinhuanet.com/english/2019-08/28/c\\_138343188.htm](http://www.xinhuanet.com/english/2019-08/28/c_138343188.htm)>.

Through scholarship programs, China started spreading Mandarin Chinese as a global language. Foreign students with scholarships have to compulsorily learn Mandarin to further study in China. The courses mostly taken by Nepalese students were medicine, engineering, Chinese language, and business study.<sup>340</sup>

Getting a scholarship in the Chinese language became comparatively easier than English. China currently provides five types of scholarships to international students – Chinese Government Scholarship (CSC), Local Government Scholarship, Confucius Institute Scholarship, Chinese University Scholarship, and Enterprise Scholarship.<sup>341</sup>

In a discussion program on China's engagements in Nepal organized by CESIF Nepal, political leaders said that “about 40-50 Nepali students go to study in China under scholarships every year for a term of 4-5 years to learn Chinese, and have to mandatorily teach Chinese for five years at least after they return. The companies in China are seen recruiting Nepali students after the completion of their education in China. Learning Mandarin has become an added value to start their career as well.”

The Chinese language has started getting grounds in Nepali schools too. Some schools in Nepal have made Mandarin compulsory after the Chinese government offered to cover the salaries of the Chinese teaching staff.<sup>342</sup> Renowned private schools in and around Kathmandu have made Mandarin compulsory in their curricula.<sup>343</sup>

---

340 Worldwide Nepalese Students' Organization China, Scholarship, 2005. <china.wnso.org>.

341 China's University and College Admission System, 5 Types of China Scholarships for International Students. <m.cucas.edu.cn>.

342 “Nepal Schools Make Mandarin Mandatory for Students After China Offers to Pay Teachers' Salaries.” Indo Asian News Service, 2019.

343 Sabitri Dakal. 2019. “Mandarin Made Mandatory in Many Schools.” The Himalayan Times.

Interviews with five graduates who availed the Chinese scholarship revealed that they chose China to study because of the following reasons:

1. Curiosity to see the rise of China.
2. Getting accepted in universities in American and European countries requires minimum years of experience at a postgraduate level and China did not ask for any. Thus, it was an easy option than going to any other country.
3. Receiving scholarships was comparatively easier in China.
4. Recommendations from professors and friends to study in China.
5. Increased business opportunities in China by learning the Chinese language

*(Note: Two respondents are graduates in International Relations, one in economics and two in public health discipline. They are scholarship holders of the Chinese Government Scholarship (CGS) and MOFCOM Scholarship granted by the Ministry of Commerce, PRC)*

### **Exchange Visits and Training**

China organizes big events and forums in all parts of the country with the aim to increase its visibility in the international arena. These events show China's goodwill – Olympics 2008 being one successful example. The convergence of the Beijing Olympics 2008, backed by a rising economy, made Chinese soft power a brand that the world wanted to experience or see at least once.

A standing member of the Federal Parliament said that Nepal and China were experiencing 'silent diplomacy' till 2006. "After the result of the First Constituent Assembly election and the collapse of the monarchy, China became nervous and was in a dilemma in which Nepali political party to support," says the respondent. Rather than choosing a particular political party, China started engaging with both, central and opposition leaders and invited Nepali leaders from all political parties. China's political engagements became more versatile by moving focus

beyond central leadership. While the curtailment of political freedom caused the West to downsize its relationship with Nepal, the Chinese were seriously upgrading theirs.<sup>344</sup> From the data provided by a parliamentarian, 500 Nepalis had gone for a 15-day training program in hydropower and engineering in 2008. A group of 14 participants comprising journalists, political leaders, and members from the student union visited China each week during Dahal's prime ministership in 2008.

The number of visits made by the Chinese increased each successive year focusing to invest in Nepal's lucrative sectors like hydropower, infrastructure, connectivity, and telecom. The signing of bilateral agreements after 2016 invited new avenues for Nepal-China relations. Nepal's diplomacy played an important role in supporting Chinese agendas in South Asia. China realizes Nepal's geopolitical situation at the moment. Hence, the country wants Nepal to maintain harmonious relations with other countries too.

With growing Chinese influence, the country has also become a hotspot for Nepali civil servants for scholarships and training programs. A large number of long-and short-term courses have been provided to numerous journalists, security officials, students, and political party leaders. "There has been a massive surge in scholarships provided by the government of China in recent years. They do not have a fixed quota as they keep increasing it," said Yadav Koirala, secretary at the Ministry of General Administration and Federal Affairs.<sup>345</sup> Though countries like India, the US, South Korea, Japan, and other European countries also provide scholarships and training programs for civil servants, China completely outnumbers the seats. The number of programs China is offering is more than double what it announced, according to the joint communiqué between Nepal and China

---

344 Robert D. Kaplan. 2010. "Monsoon: The Indian Ocean and the Future of American Power." Random House: pp 207.

345 Anil Giri. 2019. "China Offers a Record Number of Training Program and Scholarships to Nepali Civil Servants." The Kathmandu Post.

during Oli's visit in 2018.<sup>346</sup> These courses also include cultural exchange programs, students exchange programs, and tours to different parts of China. The country is not just deploying its soft power but absorbing the foreign culture too.

There is also a trend of academicians, scholars, and professors visiting Nepal to talk about China. International academicians researching about China are encouraged to visit Nepal to share their findings. People from Peking University, Sichuan University, Fudan University, and Jilin University mostly visit Nepal.

In March 2017, Nepal organized its first Investment Summit in Kathmandu to promote Nepal as a suitable investment destination. According to the Nepal Investment Board, 61% of the total pledged amount was made by China. The Chinese delegation, which had the largest number of investors, committed an FDI worth USD 8.2 billion during the two-day event.<sup>347</sup> Another two-day Investment Summit was held in Nepal in 2018. There were 250 Chinese officials attending the event out of 620.<sup>348</sup> Satish Kumar More, Director of Hongshi Shivam Cement Private Limited, told Xinhua post that there is a huge investment opportunity in Nepal as the country needs to develop its poor infrastructure. The investment climate in Nepal is also improving since the elections at local, provincial, and federal levels concluded in 2017. As a result, Chinese investors are getting attracted to Nepal.

As Nepal turned into a federal state, China started engaging with provincial governments as well. Chief Ministers from Province 3, Gandaki Province, Province 5, Karnali Province and Sudur Paschimanchal Province have visited China. The trend of building sisterly relations has also emerged between Nepal and

---

346 Ministry of Foreign Affairs. 2019. "Joint Statement between Nepal and People's Republic of China." Government of Nepal. <<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>

347 Shi Yinglun eds. 2017. "Chinese Investors Commit Highest Amount of FDI at Investment Summit in Nepal." Xinhuanet.

348 Shi Yinglun eds. 2019. "China Tops Participation in Upcoming Nepal Investment Summit." Xinhuanet.

China. Currently, the following cities and provinces have formally entered into the bond of sisterly relations:

- Nepal's Kathmandu city and China's Chengdu city in January 2017<sup>349</sup>
- Nepal's Pokhara city and Chinese Autonomous region of Tibet in October 2018<sup>350</sup>
- Nepal's Province 3 and Gansu Province of China in May 2019<sup>351</sup>
- Nepal's Province 5 and China's Sichuan Province in July 2019<sup>352</sup>

China's exchange visits focused to promote the country's economic engagement from a political level. During a discussion program at CESIF, a journalist from a leading Nepali daily newspaper informed that among 334 members of the Federal Parliament, 275 members have already visited China.

In a report from the ministry, 167 officers went for foreign visits, out of which 104 were to attend seminars on public administration and BRI. Other agendas of the visits targeted capacity building in disaster management, rural development, sustainable development, and local level administration.<sup>353</sup>

During the exchange visits, China flaunts the opportunities it has created for the world. The participants during the event are well received and are given the best possible service. The recreational activities during the program include visits to China's best technologically advanced cities with modern infrastructure.

---

349 "Nepal's Kathmandu and China's Chengdu Become Sister Cities." *Travel News Nepal*, 2017.

350 "Pokhara, Linjhu Bond as Sister Cities." *Rastriya Samachar Samiti*, 2018.

351 "Nepal's Province No. 3 and the Lanzhou of Gansu Province In China Turn into Sister Towns." *Nepal Daily Live*, 2019.

352 "Province 5 and China's Sichuan to Become Sister States" *Online Khabar*, 2019.

353 "एक वर्षमै १६७ विदेश पुगे, चीनमा मात्र १०४." *नागरिक*, २०७६.

These conferences address the country's policies, practices, and potentials. China has a culture of giving gifts to the participants at the end of the program. The gift may vary according to the designation and importance of the participants.

The maximum visits made by Nepali are for BRI and other infrastructural projects. Even the high-level visits of Nepali diplomats to China aims to establish advanced bilateral cooperation in infrastructure development, connectivity, trade, tourism, and people-to-people relations under BRI.<sup>354</sup> A member of the federal parliament, during a discussion program, said that BRI is not just a program to boost the Nepali economy, but it is a medium built by China to transmit its culture. Nepal has been taking equal initiatives to inform about its improved foreign policies to develop and maintain cordial relations with neighbouring countries.<sup>355</sup>

A senior officer who recently visited China to discuss the railway agreement confirmed that in the fiscal year 2018/19, 25 officers from the Ministry of Physical Infrastructure and Transport were in China for railway and engineering-related training. The officer also said that 20 more officers would be visiting China soon. On that reference, the senior officer also added that Nepali officers do not trust Chinese education and training. Officers go to China for short term visits merely for leisure.

China is making efforts to promote its economic involvement in Nepal through exchange visits and training. Through these programs, China is creating a group of Nepalis who are trained in the Chinese way of work. A journalist, close to China informed that China annually spends RMB 33 billion to sponsor visits of foreign participants.

---

354 "Nepal, China to Establish Mechanism on Chinese Aid Projects." Nepal Samachar Samiti, 2018.

355 "China Appreciates Nepal's Independent Foreign Policy." China Daily, 2018.

<b>Year</b>	<b>Information</b>
2004-5	In 2004, China had approved 88 institutions where international students could study under the Chinese Government Scholarship Program. In 2004-5, China provided scholarships to 20 Nepali students (six for undergraduates and 14 for postgraduates, those who had graduated from Chinese universities).
2005	20-25 scholarship seats for Nepali students
2008	500 Nepali went to China for a 15-day training program in hydropower and engineering. By 2007-8, about 45 Nepali students were receiving full Chinese scholarships under the Chinese Government Scholarship program.
2008/ 2009	A group of 14 participants comprising journalists, political leaders, and members from the student union visited China every week.
2018	160 Nepali scholarship students went to China
2018/ 2019	45 officers from the Ministry of Physical Infrastructure and Transport went for railway and engineering-related training
2018/ 2019	Out of the 167 officers who went for foreign visits, 104 were to attend seminars on public administration and BRI.
2018/ 2019	Out of 334 parliamentarians of the Federal Government, 225 have already visited China.

2019/ 2020	850 scholarships and training programs provided to Nepali civil servants.
---------------	---

*Fig: Available number of scholarships, training programs, and exchange visits.*

### **C. How Effective is China's Public Diplomacy in Nepal?**

The volume and intensity of China's public diplomacy in Nepal summarize its ultimate objective to have a good neighbour's image. The objective is supported by different tools that China favours in Nepal for varying groups of the public. Public opinion is an essential component for China to secure support for its motives, and the current events indicate positive results of China's public diplomacy: signing of various agreements, media writing positive about China, increasing diplomatic visits to China, increase in the number of Chinese speakers in Nepal, officers going to China for training, increasing business opportunities with Chinese companies, and increase in Nepali students in China.

As China's public diplomacy is state-controlled and the incentives given vary according to the profession and power of beneficiaries, the perception of China also differs in comparison to the length and motives of visits.

While interviewing 20 respondents, the following perceptions of China have been drawn. The respondents have been sorted into different categories.

## Perception of Nepali communities on China

### Scholarship students

- **Motives for going to China:**
  - To get a Chinese degree
  - To experience the rise of China
  - To build linkages with Chinese companies for starting a business in Nepal
- **Length of stay: At least a year**
- **Perception of China:** The scholarship students found China totally different from what they saw in the media. According to the respondents:
  - China is an emerging country where freedom for the public is practised; hence Chinese respect their politics and government system.
  - Scholarship students appreciated the behaviour of the Chinese around foreigners. Nepali students were impressed by the Confucius values of humbleness, respect, and helpfulness that the Chinese still carry. This group of visitors had more time and opportunities to directly contact Chinese people.
  - One of the reasons for Nepali students to be stunned by Chinese infrastructure is the fact that Nepal does not possess any technologically advanced infrastructure compared to China, and also because China is the first foreign country the students visited.
  - The respondents also said that "Nepal should learn to monetize like China, and the investments should only be done where needed."

## Media Persons

- **Motives for going to China:**
  - Attending events
  - Covering news and updates on media
- **Length of stay:** Varies according to the schedule of the event, but the visits usually last for a week.
- **Perception of China:** The opinions about China among media persons have mixed views. Some are sceptical about China, while some are over-enthusiastic.
  - The respondents noted that China aggressively came to Nepal after Xi became President. The involvement of China in Nepal at the beginning of Xi's leadership was focused on Kathmandu only, but the involvements have decentralized to other parts of Nepal now.
  - The increase of Chinese engagement through media is to facilitate its agendas in Nepal. Most of the visits of media persons are BRI related or to cover an important event for Nepal and China relations.
  - China has given priority to its language, and the activities related to the Chinese language have broadened; China sponsoring the salaries of teachers teaching Chinese, being one example.
  - Media persons also highlighted that Nepali media takes time to understand China's interests and intentions.
  - China sponsored visits are targeted to show the country's development, and the tours are framed. Chinese try to control the media content.

- o The respondents also added that going to China is not difficult now. There are multiple agencies that send Nepali media persons to China. The engagements of Nepali media and China have levelled up.
- o Chinese engagements have also started changing the characteristics of Nepali hospitality. The service sector of Nepal presents its services in Chinese ways. Tourist areas like Thamel, Patan, and Pokhara have adopted Chinese culture to attract more Chinese tourists.

### **Government Officers Going for Training**

- **Motives for going to China:**
  - o To learn from the training given by Chinese, mainly in engineering and railway
- **Length of stay:** Few months
- **Perception of China:**
  - o The government officers do not believe in and trust the Chinese education system, so they only prefer short-term training programs.
  - o The trainees said China is very particular about its public image in Nepal. China wants to promote its image through completion and coordination in projects. Any delay or change in the nature of Chinese projects in Nepal will worry them.
  - o Chinese prefer to not engage directly if they are dissatisfied but would rather put Nepal in a difficult position; as they did by not inviting Nepal for the BOAO forum because PM Oli once did not attend a program on China's invitation.

### Businesspersons

- **Motives for going to China:**
  - To find business opportunities in China
  - To find cheaper products with advanced technology for the Nepali market
- **Length of stay:** Approximately 10 days
- **Perception of China:** Their opinions on China have seldom changed after the visit. This group of people finances and plan their own visits most of the time. They thoroughly research about China before going for business-related activities. Businessmen and Women mostly visit commercial cities like Guangzhou.

### Political Leaders and Bureaucrats

- **Motives for going to China:**
  - Attending events
  - Signing and revising agreements
  - Official meetings
- **Length of stay:** One week
- **Perception of China:** Political leaders and bureaucrats of Nepal seldom speak negatively about China. During the interviews, they revealed activities that happened during events, either supporting the image of China or acting neutrally.
  - Most of the respondents under this category knew the historical linkages between Nepal and China. They said that China is truly rising economically and politically. China is systematic and methodical while

completing tasks. Chinese manner of conducting activities is appreciable.

- o Nepali political leaders and bureaucrats have shown faults in Nepal's policy for remaining underdeveloped and uncertain. The policies do not reflect national interests and aren't aware of their intentions with China. They said that Nepal should realize its potential and act maturely while engaging with China.
- o China wants to show that it is a responsible global actor and contributes to the world economy and peace. The country equally protects its culture as it knows that it is one of the tools to increase its soft power. However, some respondents had different views.
- o China's relation with Nepal is on the basis of China catering to what Nepali public wants. Looking at the current political scenario of Nepal, China is winning political support by using Nepal's weaknesses to its strength. Nepal has become a charity case for China. China satisfies the needs of the Nepalese and uses their reactions to its advantages. The sponsored visits have played the most important role to create a good image of China.

## D. Impact of China's Public Diplomacy in Nepal

<p><b>Inputs</b></p>	<p><b>Money</b></p> <p>China has put money in Nepal to regulate its public diplomacy activities. The money is used to run different public diplomacy tools in Nepal. The tools assist to show China's credibility and potential. The biggest chunk of Chinese money in Nepal is invested in infrastructure, communication, and connectivity projects.</p> <p><b>Media</b></p> <p>There are some China-funded Nepali media sources that promote China. Nepali media writes enthusiastically about China. The media community of Nepal has divided views on China. Media is an important instrument for the Chinese to manipulate the general public.</p> <p><b>People</b></p> <p>The public diplomacy of China has facilitated people-to-people relations between Nepali and Chinese. Chinese tourism in Nepal has played a huge role to transmit Chinese culture and values among the Nepali public.</p> <p>During interactions with the Chinese, Nepalis are seen developing curiosity about Chinese culture.</p> <p><b>Programs and institutions promoting Chinese culture</b></p> <p>China sponsors programs and institutions to promote Chinese culture in Nepal. The culture ranges from Chinese cuisines, languages, payment systems, fashion, and lifestyle. Most of the programs are hosted by the Chinese embassy in Nepal. The invitees for the programs are mostly from the elite class. Even the chair heads of China associated institutions are influencing leaders of Nepal.</p>
----------------------	---

<p><b>Activities</b></p>	<p>Sending state or non-state actors to Nepal for disseminating Chinese values, culture, and intentions among general and elite publics of Nepal.</p> <p>Receiving Nepali public to promote China's development on technology, infrastructure, communication, and politics.</p> <p><b>Awareness about China</b> The public diplomacy tools used by China have made the Nepali public aware of China's activities in Nepal. It has also disseminated China's position in the world. China has been informing its new inventions and developments to raise awareness.</p> <p><b>Interactions between Nepali and Chinese publics</b> Exchange visits, scholarship programs, and tourism have initiated interaction between the Nepali and Chinese public. The outcome of the interaction has triggered the transmission of Chinese culture in Nepal.</p> <p><b>Filtering information</b> The tools used by China for different Nepali communities target to filter the amount and quality of information about China. The information aims to promote the country's activities in Nepal and sometimes remodel public opinions.</p> <p><b>Debating issues</b> China holds frequent events to address issues aiming to falsify the contention. The influence that China has over Nepal has made Nepali communities' debate about issues like debt trap and human rights in China. Though international communities have made several claims against China, Nepali media and diplomats refrain from contributing to such strong negative opinions.</p>
--------------------------	--

<p><b>Outcomes</b></p>	<p><b>Public opinion favouring China</b></p> <p>China's public diplomacy has concluded to build a positive image of China among the Nepali public. The opinions of Nepali people have rallied support for China and only a handful of opinions are against China.</p> <p><b>Nepali public adopting Chinese culture</b></p> <p>Chinese tourism and sponsored programs made the transmission of Chinese culture inevitable. Nepali communities have started adopting Chinese culture for personal benefits, as the elements of Chinese culture like language, cuisines, and environs are high in demand. Engagements through BRI have also triggered the need and demand of Chinese culture in Nepal.</p> <p><b>Collaboration in jointly held events and projects</b></p> <p>One of the outcomes of China's public diplomacy is collaboration and coordination in jointly initiated projects and events. The public diplomacy instruments have influenced decision-makers to conduct projects and events for mutual benefits. Although the joint projects under BRI are yet to be disclosed, many other joint projects related to connectivity, communication, and infrastructure have been conducted.</p> <p><b>Signing agreements</b></p> <p>The impacts of China's public diplomacy have successfully won political support and public opinions. Different agreements have been signed with different tiers of government in Nepal. Though Nepal is dissatisfied with some of the agreements, both countries are taking initiations to revise them.</p>
------------------------	--

## Conclusion

China's public diplomacy activities in Nepal have accelerated with time. China has persuaded Nepal that China's resources and opportunities are at the disposal of Nepal which will further benefit Nepal. Nepal has been benefiting from China's foreign policies and public diplomacy schemes.

China has achieved its diplomatic goals in a way that Nepal has come under the influence. Nepali elite class rally supports for China through media, public speeches, and diplomatic actions. China has created a calculated number of Nepalis who support and appreciate China. The supporters take China as an inspiration, as someone who has economically and politically transformed to manage its internal and global affairs. China-targeted Nepalis are mostly people with knowledge, power, or skills. It may not even be incorrect to say that the selected group of Nepalese have not just been influenced by China, but their values, ideas, and characters have become similar to Chinese actors. Nepali perception about China is mostly positive and sometimes over-enthusiastic, but a part of the Nepali public is still suspicious about Chinese motives.

Nepalese who engaged with China have different perceptions of the country. Friends of China are targeted to promote China's economic and political engagements, while people having anti-China sentiments are targeted to remodel their image of China. The public diplomacy tools that China uses vary according to the targeted audience. Media, language institutions, and study centres target the general public to have supportive public opinions on China, whereas scholarship programs, training programs, and exchange visits are used for the elite class to sway support politically and for economy-related activities. The focus is on the decision-makers of today and tomorrow.

China has moved its focus from the central leadership to other bodies that can sway decision-makers. The increased visits of bureaucrats and provincial government officials have abled China to influence decisions at all levels.

Apart from leaders and decision-makers, China has started involving young Nepali students through Chinese language classes. Language as an instrument has allowed China to develop curiosity about the country among young students. China is trying to gain loyalty and patronage among young Nepali people.

The data and information on China's public diplomacy are scattered but are in huge numbers and difficult to access. The country itself is not transparent on the number of beneficiaries that it has engaged with and so the only way to measure its involvement is through the information produced on Chinese media.

China puts diplomatic and monetary pressure rather than physical ones in Nepal. China not inviting Nepal to BOAO Forum and the result of the Air Service Agreement of not permitting flights from Tribhuvan International Airport are some supporting examples. Though these results do not favour the development of Nepal, very little has been spoken against China in the media.

The transmission of Chinese culture in Nepal was natural, not a forced one. The high level of Chinese engagements made the demand for its culture a necessity. Nepali communities themselves were eager and attracted to Chinese culture so that they could be eligible for the opportunities China provided for Nepal. Chinese culture in Nepal entered through language, tourism, service industries, businesses, and visits to China. Even the government of Nepal welcomed and took the initiative to adopt the culture.

China may refrain from putting further efforts as most of the population is already under the influence. The nature of the current affairs of Nepal has started showing Chinese political characteristics of restrained public freedom. China is trying to create a cultural civilization of Chinese values in Nepal, infiltrating from all developmental and political sectors. Nepal's take in the United Nations on making Jerusalem the capital of Israel, and Nepal staying neutral on Doklam standoff despite having a strategic alliance with India shows that Nepal has started supporting China in international issues too. Foreign Minister, Pradeep Gyawali, called

the US an initiator of a trade war between China and the US and stated the US' decisions to be "unjust and unfair." This simply reflects China's successful diplomatic motives in Nepal.

As China is already ahead in gaining public support in Nepal, it will now engage more through economic and security means rather than through public diplomacy. The incentives that China is providing will soon become stagnant, and the numbers of diplomatic activities will not fluctuate drastically. China's public diplomacy will play a defensive role to maintain its current image in Nepal and now will focus on maintaining a sustainable relationship.

\*\*



## Chapter 5

# NEPAL-CHINA TRADE RELATIONS IN RETROSPECT

Bijendra Man Shakya

### **Background**

The importance of China in Nepal's trade increased with a meteoric rise in the northern neighbor's share in the Himalayan nation's trade volume since the mid-2000s. Nepal's import from China increased from relatively trivial Rs 4 billion in 2001-02 to Rs 53 billion in 2011-12 and to a whopping Rs 128 billion in 2018-19. This coincided with an upward shoot in trade liberalization in Nepal and the rapid growth of China, not to mention its rise as the world's manufacturing hub. But Nepal's export to China did not match the import trend as it took more than one and a half-decade to increase the figure from approximately Rs 1 billion in 2001-02 to Rs 2.3 billion in 2018-19. Amidst the change in pattern and volume of trade between the two countries, the bilateral trade regime has not changed substantially.

Nepal-China bilateral trade relations have been guided by the Trade & Payment Agreement, initially signed in 1974 and replaced by the agreement in 1981. But this agreement seems irrelevant with regard to the present context for two major reasons. First, the agreement has explicitly specified the traditional system of barter trade and the use of state trading enterprises in the respective countries to conduct trade between the two countries amidst the growing private sector participation and use of convertible currency. Second, it is based on the most-favoured

nation (MFN) treatment<sup>356</sup> with respect to customs duties, taxes, and other market access issues. WTO member countries already apply this treatment to both countries in reciprocity. Hence, the application of the WTO principle of MFN makes the bilateral trade agreement redundant as there is no reciprocal preferential treatment for market access between the two countries.

However, a series of understandings have been reached between the two countries as guidance for the promotion of bilateral trade:

- i. Bilateral Road Transportation Agreement (1994)
- ii. Agreement on Trade & Other Related Matters (2002);
- iii. MoU on Establishment of Nepal-Tibet Trade Facilitation Committee – NTTFC (2009);
- iv. Letter of Exchange for Granting Special Preferential Tariff Treatment (2010);
- v. Cooperation on Developing Border Infrastructure (2012);
- vi. Transit and Transportation Agreement (2016) and its Protocols-2019.
- vii. Agreement of Cooperation for Industrial Product Inspection between Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of China and Nepal Bureau of Standard & Metrology (NBSM) of Nepal

While the NTTFC has been mandated to coordinate and facilitate cross-border overland trade between the two countries, the understandings on developing border infrastructure and transit and transportation are complementary to trade relations with connectivity and logistic services. More importantly, the letter of exchange for granting special preferential tariff treatment has a special bearing on the bilateral trade as it provides unilateral duty-

---

356 The WTO most favored nation (MFN) treatment is based on the principle of trade without discrimination, requiring all member countries to grant each other the favorable treatment they give to other countries with regard to customs duties and charges.

free treatment for Nepal's exports in China, which will be further examined later in this report. But whether these arrangements have been effective or not is yet to be assessed.

Nepal-China bilateral trade relations have undergone several changes. The relation which started with traditionally based freedom of trade and commerce for the citizens of both countries in each other's territories, the desire to develop the traditional economic and trade relations on the principles of equality and the mutual benefit was established only after a comprehensive treaty of friendship in 1955 was signed. It was followed by an agreement on economic aid in 1960, which envisaged Nepal's trade with Tibet Autonomous Region, and "entrepot trade" in specific goods such as petrol and kerosene from Nepal.<sup>357</sup> There was brisk trade between the two countries through popular routes of Kuti and Kerung before the new trade route via Kalingpong, India was opened. Before that, conflicts between the two countries<sup>358</sup> occurred frequently over the control of trade routes to Tibet. Nevertheless, Nepal's trade with China flourished with a smooth rise in trade with the Tibet Autonomous Region despite the lack of transport and easier connectivity. It was facilitated after the construction of Kathmandu-Khasa highway in the mid-sixties<sup>359</sup> which was followed by the signing of a bilateral trade and payment agreement in 1974. The basis for the modern trading system between the two countries was thus laid in 1974.

### **Trade Composition and Direction**

Nepal's trade with China is tremendously import oriented in the face of sluggish export growth. The value of imports from China which was barely Rs 693 million in 1991-92 increased to Rs 234 billion in 2020-21 – an increase of 340 folds in the last 30 years.

---

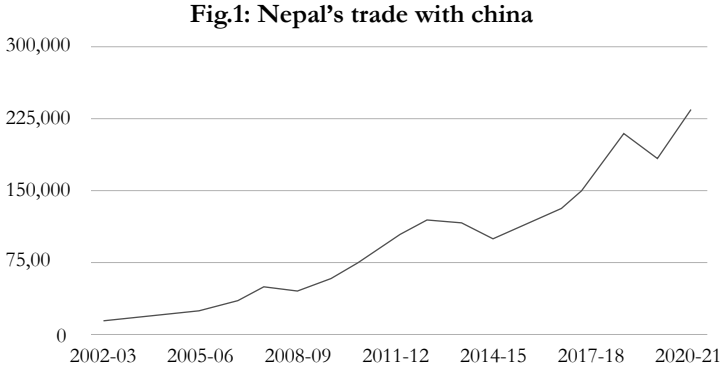
357 "Nepal-China Trade Relations." *The Economic Weekly*, 14th April 1962. (accessed 25 November 2019).

358 Conflict between Nepal and British India had cropped up from time to time over the control of the trade routes to Tibet.

359 Nepal and China signed an agreement for the construction of Kathmandu-Tibet highway on September 1, 1961.

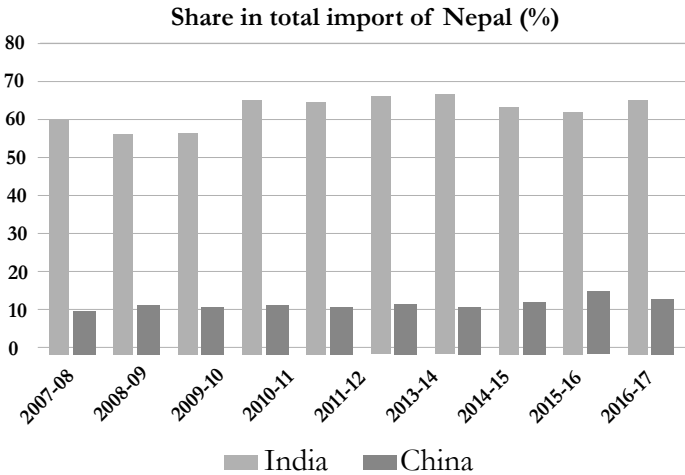
On contrary, Nepal’s export to China could not keep up to that pace as it increased by only five times from Rs 204 million to Rs 1 billion during the same period as can be seen in Fig. 1.

*Figure 1* Source: Department of Customs



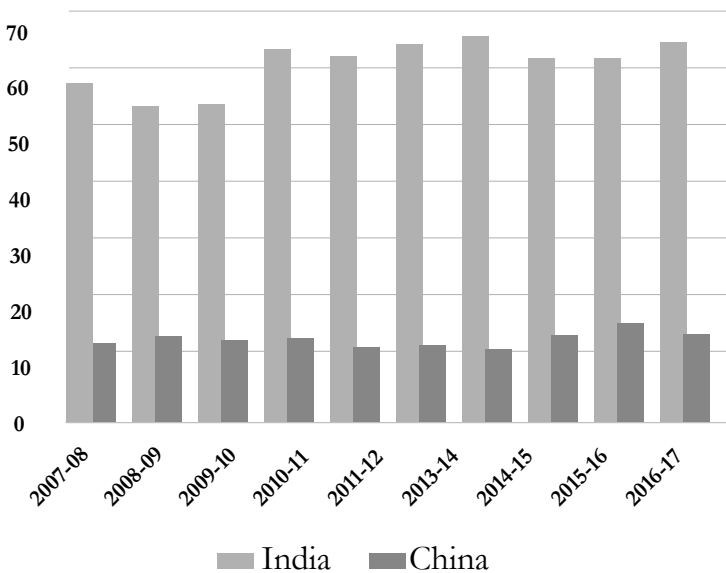
In the last ten years, China’s share in Nepal’s total export hovered at an annual average rate of 2.62% against the average of 12% of the import share. While the export growth trend seemed insignificant and irregular, the import trend witnessed exponential growth during the last ten years.

*Fig. 2: Share in total export and import of Nepal (%)*



It is interesting to observe a constant rise in the import share which increased from 9.9% in 2007-08 to 13.5% in 2016-17, while the share in total export could not cross the mark of 3.6%, which was the highest percentage share of China in Nepal's export trade between 2007-08 and 2016-17. This indicates China as the second-largest import trade partner of Nepal after India, but it remained behind the United States and several EU countries in terms of Nepal's export trade. Attributed to the rising trade imbalance with China, the trade deficit with this country has been in a constant growth trend. The trade deficit with China increased from Rs 23 billion in 2007-08 to Rs 125.7 billion in 2018-19, which increased by 540% between the two periods. China had contributed an annual average of 13.6 percent in Nepal's total trade deficit between 2007-08 and 2018-19 as against 62.33% with India during the same period.

*Fig. 3: Share in Nepal's trade deficit*



These figures suggest China as Nepal's key trading partner, but it is not for China if compared to the latter's trade volume which has reached USD 2.28 trillion worth of export and USD 1.8 trillion of import in 2017. It secured the top rank in the world's export trade with a share of 12.8%; up from barely 1% share with 30th position in the list of top exporting countries as late as in the 1980s.<sup>360</sup> More importantly, China has emerged as the world's second-largest economy with an 16% share in the global economy from 4% in 1990.<sup>361</sup> Consumption is booming in China as the consumer spending per person rose nearly eightfold in inflation-adjusted terms between 1990 and 2019. It is the world's biggest market for passenger cars, smartphones, luxury goods, and beer.<sup>362</sup>

China's success in trade had the prominence of its economic growth rate which remained sustained for more than two decades. It performed very strongly since 1995, outbidding even other large economies.

---

360 World Trade Report, 2013/WTO.

361 "The Global Centre." *The Economist*, 23rd February 2019 (accessed 25 November 2019).

362 "The billionaire factory." *The Economist*, 23rd February 2019 (accessed 25 November 2019).

**TABLE 1: Gross Domestic Product in Six Large Economies (%)**

Economy	Share of world GDP (2004 \$ and exchange rates)		Average annual real growth rates		Average contribution to world growth	
	2004	2020	1995-2004	2005-20	1995-2004	2005-20
China	4.7	7.9	9.1	6.6	12.8	15.8
India	1.7	2.4	6.1	5.5	3.2	4.1
United States	28.4	28.5	3.3	3.2	33.1	28.6
Japan	11.2	8.8	1.2	1.6	5.3	4.6
Germany	6.6	5.4	1.5	1.9	3.0	3.3
Brazil	1.5	1.5	2.4	3.6	1.5	1.7
World	100.0	100.0	3.0	3.2	100.0	100.0

*Source: Dancing with Giants, World Bank Report, 2007*

China's trade expansion since 1978 has been noteworthy, and since the early 1990s, its share of world goods and services trade exceeded its GDP share. With an annual growth rate of 7.8% over 2005-2020, China is expected to contribute an average of 15% in the world's export of goods and services as shown in Table 2. It is expected to be an average of 6.6% and 11% for the import of goods and services respectively during the same period.

**TABLE 2: Projected Trade in Goods and Services for Six Large Economies (In Percent)**

Economy	Exports of goods and services		Imports of goods and services	
	Projected growth rate (2005-20)	Share of growth 2005-20	Projected growth rate (2005-20)	Share of growth 2005-10
China	7.8	15.4	6.6	11.0
India	7.5	2.7	6.3	2.2
United States	3.4	9.9	3.5	15.4
Japan	4.2	6.3	3.5	4.4
Germany	1.8	3.8	2.0	3.9
Brazil	1.7	0.4	4.3	0.8

*Source: World Development Indicators*

*Note: Average contribution to growth for the period 2005-20 was calculated using projected average export growth rates.*

There had been a significant change in China's trade pattern and composition, which can be of greater importance in Nepal's trade potential. Various studies forecast greater competitive pressure from China at the lower end of the high-tech range products, such as automobiles, machinery, and electronics. Part of this upgrading reflects the import of more sophisticated components, but part of it almost certainly arises from local improvement suggesting the growing Chinese import of parts and components as well as intermediate goods for its export of finished products. As a result, China has been involved in the global production network at a greater speed. Although this is not really concerning to Nepal's export prospect, the growth in China's imports of primary products may be of greater significance for Nepal. Increasing demand for commodity and agriculture from China has resulted in its importance in world commodity and agriculture markets which helped stabilize world prices for these product categories.

It is worthless comparing Nepal's influence on China's overall trade, but it matters to Nepal as China is growing and integrating with the global economy at a faster pace. China's exceptional economic growth can affect Nepal through a variety of channels and trade, in particular. But China is not a direct competitor for Nepal's trade in a global market. But the impact of import from that country on Nepal's domestic market is not as threatening as India's as can be observed in Fig. 2.b. However, the constant rise in the deficit with China calls for urgent measures to promote export in this country.

### **Market Access and the Duty-Free Treatment**

There are still two major features that count vital in Nepal's trade with China. While the historical connection between the two countries had already laid a strong foundation for trading, the geographical proximity could offer Nepal a greater trade opportunity, at least theoretically. These are necessary, but not sufficient factors in the present context as China's import patterns and the market access opportunity for Nepal in China would be a decisive factor.

As mentioned earlier, China's trade pattern has undergone massive changes over some time. Against the general perception that its export trade dominating in the low-end manufactured products, the export of high-end products like the computer and electronic equipment under HS 84 and 85 had prominence in its export list and they accounted for about 50% in the country's export.<sup>363</sup> Looking at the current trade patterns, countries with exports similar to China are likely to suffer losses, whereas countries whose exports match China's imports are likely to receive a boost.<sup>364</sup> Nepal does not match in both the ways. Hence it has to start meticulously from scratch by identifying China's imports to exploit the opportunities there.

It is necessary to assess the change in China's comparative advantage, as it is gradually changing into comparative disadvantage due to the rise in wages in its major industrial hubs, particularly in coastal areas. This can be considered as an opportunity for Nepal. Yet for the lowest-income country like Nepal, without the wealth of natural resources and with a limited endowment of human capital, the challenge would be to develop manufacturing capacity in a low-wage, labor-intensive industry. The chances of such opportunities grow as China escalates relocation of production to inland centers, closer to assembly and market. Nevertheless, relocation of production to low-end factories from China to low-cost countries offers more opportunities for Nepal not only in trading but also for the prospect of attracting Chinese investment inflows.

Two factors will play a decisive role in Nepal's ability to exploit this opportunity. On the one hand, it will depend on how effectively Nepal will exploit the Chinese duty-free, quota-free (DFQF) market access which gives it a huge chance to use the rapidly growing Chinese market. China has offered DFQF up to 95% of products to more than 40 countries since 2010, and Nepal has

---

363 "Dancing with Giants." World Bank Report, 2007 (accessed 26 November 2019).

364 Ibid.

signed the Letter of Exchange for Granting Special Preferential Tariff Treatment with China in the same year. In 2012, exports from LDCs to China totaled USD 52 billions of which 81% were ores and petroleum and only 50% of agriculture products entered China duty-free.<sup>365</sup> While this is not an encouraging sign for Nepal's export prospects, it offers an immense opportunity for easier and competitive market access as the preferential scheme offers duty-free to 4,700 to 7,787 products, covering more than 90% of China's tariff lines, which is in conformity to the WTO target of DFQF access to 97% of the imports from the least-developed countries (LDCs) in the markets of developed and developing countries.

However, Nepal should not take the preferential scheme for granted. There are several limiting forces that need to be tackled. Among them, the preference is not exclusive to Nepal. There are 40 LDCs that are receiving similar treatment, covering almost 60% of China's tariff lines and more than 90% of current LDC exports. Among Asian LDCs, Cambodia, Laos, and Myanmar get duty-free for 90% of tariff lines under the China-ASEAN Free Trade Agreement. Bangladesh enjoys a similar privilege under the Asia-Pacific Trade Agreement. The number of LDCs getting this preference from China is likely to increase, meaning that Nepal will have to compete with them for a share of the gigantic Chinese market.<sup>366</sup>

This poses two pertinent questions. One, does Nepal's current export pattern include the products covered by the Chinese preference scheme? It is the preference utilization rate which is more crucial than the preference coverage to really benefit from the scheme. Regarding the preference coverage, the scheme excludes some major exportable items from Nepal, such as noodles, which have relatively better market prospects in the Tibet Autonomous Region. The exclusion of these products in the preference list

---

365 "World Trade Report- 2013." WTO (accessed 26th November 2019).

366 Bijendra M. Shakya. 2013. "Looking over the Himalaya." *The Kathmandu Post*.

indicates China's reluctance to grant a special privilege to Nepal, among other LDCs, is that the preferential scheme would remain meaningless unless Nepal's export interest is embraced.

On the other hand, the issue of preference erosion looks even more thought-provoking. The benefit of tariff advantage (as a result of zero duty) to Nepali exports will most likely be negated with an increase in the number of LDCs getting a comparable preferential scheme. The prospect of export enhancement for Nepali exporters will probably be small with the convergence of the export interests of most LDCs. Most of these countries export similar products –very few agricultural commodities or a handful of labor-intensive manufactured items. Similarly, the preference margin will erode as China reduces the MFN tariff rates which are applicable to all other trading partners of China.

Nevertheless, the preference margin for exports to China is still large enough to be meaningful. On average, exports to China under the duty-free system can gain a margin of 9% tariff advantage, but there is a wide discrepancy in tariff lines. The simple average applied tariff in China is still 9.6%, and it is 15.6% for agriculture and 8.7% for non-agriculture.<sup>367</sup> For selected Nepali export items that are largely shipped to China, the margin of preference ranges from 7 to 35%. The highest is explicitly applicable to jewelry items.<sup>368</sup> The margin of preference will remain favorable as long as China does not have to unilaterally cut its MFN tariffs. But Nepali exports will partially find it difficult to meet the preferential rules of origin which require the products to have undergone substantial transformation along with 40 percent value addition. That means the rules of origin criteria is more stringent in comparison to the preferential agreement concluded by Nepal with India.

Clearly, Nepal can benefit from the duty-free access provided by China, considering only the margin of preference it enjoys. But

---

367 WTO Statistics.

368 Institute of Foreign Affairs. 2013 "Promoting Nepal's Trade & Investment with India and China", Ministry of Foreign Affairs (accessed 26 November 2019).

it needs to take a lot of initiatives. Nepal remains an insignificant player in terms of Chinese imports from the LDCs. Nepal's annual exports to China have barely reached Rs 2 billion. There is not even a single export item crossing the Rs 1 billion mark, and all exports are concentrated on the Tibet Autonomous Region. Nepal's export to mainland China is virtually nil, whereas the export to Hong Kong, China is insignificant. Therefore, Nepal cannot maximize the rate of preference utilization without pursuing a strategy that is product-market compatible with three different export destinations. But that will again depend on the improved trade facilitation and the connectivity between the two countries. Moreover, it will also depend on the understanding of non-tariff issues, such as quarantine and food tests, and customs administration between the two countries. Bilateral agreements on these issues as mentioned at the beginning of the report are expected to facilitate overcoming these problems.

### **Connectivity and Trade Facilitation**

In the Bilateral Trade and Payment Agreement, Nepal and China have agreed to use three trading points along their frontier: Kodari/Nyalam, Rasuwa/Kyerong, and Yari (Humla)/Purang. Out of these, the trade link through Kodari and Rasuwa from Nepal's side functioned well with a gradual rise in trade flows from both ways. After having disconnected for nearly four years since the 2015 earthquake, both trading points recently resumed with under-construction border facilities. Three more border crossings: Olangchunggola-Riwa, Kimathanka-Riwa, and Nechung-Lizi were included as the additional entry-exit points at the late stage.

A dry port with a capacity of 158 container trucks has been built in Larcha, Sindupalchowk to facilitate the trade through Kodari/Kyerong transit point. Constructed under the Chinese assistance, this will be the first inland container depot (ICD)<sup>369</sup> to facilitate the trans-Himalayan trade and will be equipped with an

---

369 Nepal has four ICDs at the southern border: Karkarbhitta, Bhairahwa, Birgunj, and Biratnagar.

instrument to measure 60-100 ton container cargo at one time.<sup>370</sup> Similarly, an agreement has been signed between NITDB and Tibet Fuli Construction Group Co. Ltd. of China to construct an ICD at Timure of Rasuwa district, (situated at 2.5 km. from Nepal-China border) under the Chinese assistance of 124 million Yuan. With the capacity of parking 350 container trucks, the ICD will be equipped with customs clearance chambers and cargo warehouses. Additionally, both countries have agreed to upgrade the infrastructure and customs facilities and connect seven other trading points: Yari-Humla (Purang); Olangchung Gola, Taplejung-Riwa; Jumla-Penan; Mustang-Lizi; Larke, Gorkha-Tibet; and Kimathanka, Sankhuwasabha-Riwa.<sup>371</sup>

In other recent developments, the proposal for a cross-border railway link between the two countries has overshadowed the trans-Himalayan trade connectivity discourse in Nepal. The issue got prominence after it was embraced by China's popular Belt and Road Initiative (BRI) which was signed by Nepal in May 2017. The BRI initiative, which is both global and revolutionary, intends to revive the prospective Silk Road Economic Belt through Central Asia to the Black Sea, and the 21st century Maritime Silk Road from the South China Sea, through the Strait for Malacca, across the Indian Ocean to the eastern Mediterranean via the Red Sea.<sup>372</sup> Speculations are rife that this Chinese grand project which aims at a huge and diversified infrastructure building is to create a new order in world politics and economy. It will change mental maps separating continents as a bridge crossing the Caspian Sea and may make road transport between Europe and China fast and simple. But it is important that the geographic space, which is being transformed, must be connected before it can start to grow areas of economic activity; industrial parks along infrastructure routes are slowly integrated to establish regional value chains and

---

370 Kantipur, May 27, 2019 (accessed 26 November 2019).

371 Akhilesh Tripathi. 2016. "Nepal-China Trade: Prospects and Challenges." *New Business Age*.

372 Michael Spence. 2016. "China's Agenda for Global Growth." *China Daily*.

eventually<sup>373</sup> supporting China's rise to a technical superpower, leading the future transformations.<sup>374</sup>

If the global perception towards BRI is portrayed as a Chinese “hegemonic design”, Nepal’s participation in this Chinese ambitious plan has been marred by a wide perception of possible “debt trap” for Nepal pointing at a popular Sri Lankan case. The Sri Lankan case came into the surface after it sold 70% of the loss-making China-financed port in Hambantota to a Chinese company, prompting speculation that China had “orchestrated the whole fiasco”. But it was overstated as the Hambantota loans accounted for only a tiny share of the overall Lankan debt.<sup>375</sup>

Therefore, it is too early to disclose the possibility of Nepal being dragged into a debt-tap, but it is essential for Nepal to evaluate the rate of return from this mega multi-million dollar project in terms of trade. This overly hyped project has brewed a number of doubts. Chief among them is how soon the construction of 500-km Shigatse-Kerung railway within the Chinese side will complete materializing the Kerung-Kathmandu railway link which is still in a nascent stage. More importantly, the modality for financing this project is still unclear despite the Chinese government recently pledged Rs 2 billion grant for railway project in Nepal. As reported, the fund will most likely be poured only into the feasibility study.<sup>376</sup> Another important aspect is that the project is so complex due to Nepal’s topographic situation and requires a huge investment, which cannot be decided without a detailed study. Concerning the heightened euphoria in Kathmandu around the cross-border railway, Chinese Ambassador Hou Yanqui has cautioned over its materialization and indicated the requirement

---

373 <https://www.weforum.org/agenda/2018/12/what-you-need-to-know-one-belt-one-road/>

374 Bruno Macaes. 2018. “What we need to know to understand Belt and Road.” World Economic Forum.

375 Deborah Brautgam. 2019. “Is China the world’s loan shark?” The New York Times.

376 The Kathmandu Post, 7th June 2019.

of a long-duration with appropriate funding modality which is uncertain.<sup>377</sup>

The signing of the Protocol on Implementing Agreement on Transit and Transport<sup>378</sup> between the two countries is yet another development in recent years. Although this is not at all concerning to the bilateral trade, it facilitates Nepal's third country trade through China. This protocol allows Nepal to use Chinese seaports in Tianjin, Shenzhen, Lianyungang, and Zhanjiang, and land ports in Lanzhou, Lhasa, and Shigatse – for Nepal's trade with the third country.<sup>379</sup> These developments can complement Nepal's trade with China in the long run. But in the short run, Nepal should focus on enhancing its export to China, which is not possible without having a concrete export strategy backed by good governance, reduced bureaucratic obstacles, and reduced transaction costs. Connectivity is not a sufficient condition without products for export if Nepal wants to improve trade balance with China. One appropriate way of boosting Nepal's export to China could be linking trade with investment and technology transfer. This could encourage direct investment from China in product lines in conformity to Chinese demand and moving up the value chain of such products.

### **Trade-in Services and Investment**

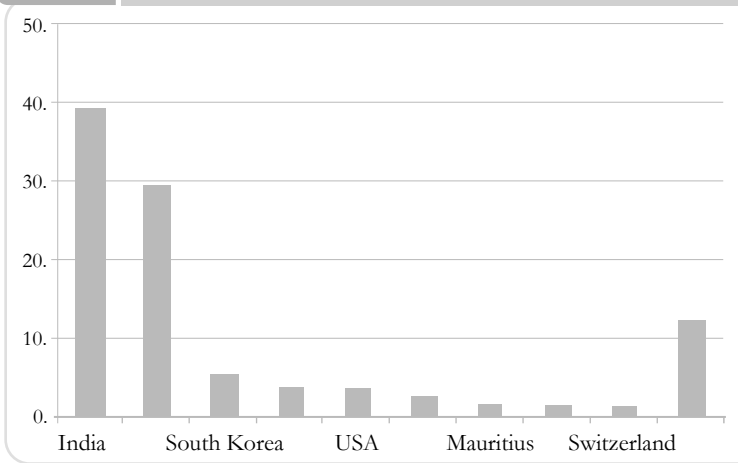
However, there is no direct link between the increased Chinese foreign direct investment (FDI) and trade despite an increasing trend of Chinese FDI flow in Nepal. On the basis of project cost, China stood second after India with 29.29% (including the FDI from Hong Kong) in the total FDI among the licensed industries in Nepal in 2016-17 as illustrated in

---

377 The Kathmandu Post, 2nd May 2019.

378 Nepal and China signed the Bilateral Transit and Transport Agreement in 2016.

379 The Kathmandu Post, 7th May 2019.

**Figure 4:** *Share of FDI in Nepal by country (2016-17)*

However, in terms of the number of units, China owns the largest number of industries as illustrated in Table 3. The commitment from Chinese investors has been encouraging as China accounted for a staggering 86.66% of FDI pledges received by Nepal in 2017-18. Out of the total FDI commitment of Rs 49.87 billion in 2017-18, Rs 43.22 billion came from China.<sup>380</sup>

**TABLE 3: Foreign Investment by Country**

Country	No. of industries	FDI (in Rs. million)	Cost-based (%)	Employment
India	772	93,496	39.12	72,280
China	1,462	111,458	29.29	67,645

SOURCE: ECONOMIC SURVEY, MINISTRY OF FINANCE (2018-19)

It is interesting to note that the Chinese FDI is concentrated on very specific service sectors, such as hydropower, telecom, and tourism. Nepal's telecom sector has been dominated by the Chinese telecom giants – Huawei and ZTE – in the Nepali telecom duopoly of Nepal Telecom and Ncell. Huawei has bagged the

380 Sanjeev Sharma. 2018. "Dancing with the Dragon: The Road ahead to Nepal-China Economic relations." New Business Age.

contract from Nepal Telecom to provide 10 million cell phones in the country. Recently, Nepal Telecom and China Telecom Global worked jointly for the expansion of fiber optic cable connection for internet service.<sup>381</sup> While the Chinese investment in telecom appears relatively large, the nature of investment in the tourism sector looks different as they are mostly concentrated on tourism outlets operated under joint ventures. The number of outlets in tourism sub-sectors, particularly restaurants and hotels, had increased visibly with the growing number of Chinese tourists since early 2000.<sup>382</sup> The number of Chinese tourist arrival quadrupled between early 2000 to mid-2010. The number increased from 8,715 in 2002 to over 113,000 in 2013 as shown in Table 4. And the number crossed the 13,000 mark in 2018 which accounted for 13.10% of the total tourist arrival in the country.

**TABLE 4: Arrival of Chinese Tourists**

Year	Number of tourist arrival	Percent in total arrival
2002	8,715	3.2
2005	22,377	6.0
2010	46,360	7.7
2011	61,917	8.4
2012	71,861	8.9
2013	113,173	12.4
2014	123,805	15.7
2015	66,948	12.0
2016	104,005	13.89
2017	104,664	11.1
2018	153,633	13.10
2019	169,543	14.24

*Source: Nepal Tourism Statistics – 2013, Ministry of Culture, Tourism and Civil Aviation*

381 <<https://nepalmattersforamerica.org>>. (accessed 27 November 2019).

382 Ibid.

Another service sector that has seen massive investment are hydropower projects. Apart from the involvement of Chinese contractors in these projects, there is an increasing trend of joint ventures in this flourishing sector. Four joint ventures with 897 megawatts and amounting to Rs 10 billion have been agreed between Nepali and Chinese investors recently.<sup>383</sup> The growth of Chinese FDI in these sectors suggests their gradual penetration in the service sectors, which look promising in the domestic market. This is partly associated with the strategy of first-mover advantage and take advantage of preempt rivals and capture demand by establishing a strong brand name.

Unlike in the service sector, the Chinese investment in manufacturing is minimal and concentrated to cement only. Already two mega joint venture projects in this sector are in the offing. While a joint venture between China's Hongshi and Nepal's Shivam have already signed multi-million dollar projects with a daily capacity of 12,000 tons of cement, a Chinese firm Huaxin plans to build a new venture in this sector.<sup>384</sup> The lack of Chinese FDI in the manufacturing sector somehow suggests the low prospect of the host country's export promotion. However, China's interest in promoting special economic zones (SEZ) and industrial parks in Nepal indicates its interest in the networking of production.

In addition to the SEZs built under the Chinese official grants, an understanding has been reached between the two countries to construct an industrial Park in Damak, Jhapa district in eastern Nepal in 2016. A detailed project report (DPR) on this mega project is already underway. Initiated under the BRI programme, this modern and eco-friendly industrial park will spread over 1,490 hectares of land in Jhapa and estimated to cost Rs 333 billion.<sup>385</sup> With the basic objective of clustering the manufacturing

---

383 Sanjeev Sharma. 2018. "Dancing with the Dragon: The Road ahead to Nepal-China Economic relations." *New Business Age*.

384 <<https://nepalmattersforamerica.org>>. (accessed 27 November 2019).

385 *My Republica*, 29th December 2017.

units based on electric goods, textiles, foods, and agriculture, the investment for the project will be channeled mainly through Chinese investors.

The Chinese interest in SEZ and the industrial park has two major implications on Nepal. As mentioned earlier, this could be the strategy to substitute import trade through establishing networking of production and ultimately leading to the outsourcing of manufacturing by the Chinese investors. It will force Nepal to come up with manufacturing capacity in low-wages; labor-intensive industries can compete with these industries in China today as the wage in China rises. Rising wages in China should be seen as an opportunity in Nepal. Next, it can be a means of penetrating the booming consumer market in South Asia through Nepal. China has extensive experience in SEZ as its economic reform began with the creation of SEZs which provided some freedoms of the market economy. The success of the SEZ strategy was the surge in economic growth which spread to the whole of China by the 1980s. Yet the success of China-sponsored SEZ in Nepal will depend on the role of private sector participation through joint ventures or other strategic alliances with the Chinese investors.

### **Role of Private Sector**

Nepal's trade with China, which began with the state-owned enterprises (SOEs) over five decades ago, has now predominantly become a private sector business now. Nepal's private sector involvement in trade with China boomed with economic reforms in the country. The rise of private-sector virtually threatened the monopoly of public enterprise in trade with China. Equally important is the increased role of Chinese private sectors in promoting it. But there is a threat of competition and predatory pricing from Chinese traders to Nepali counterparts as the private sector in China is exuberant and vital to China's success, although China is not a full market economy. Today, officials describe the private sector in China as a "56789" formula: it accounts for 50%

of tax revenue, 60% of GDP, 70% of innovation, 80% of jobs, and 90% of companies.<sup>386</sup>

Nepal-China trade has been affected by other hidden setbacks. The problem of the payment system is yet to be resolved. The practice of under-invoicing has become widespread due to high tariffs and arbitrary customs evaluations at the Nepal customs. This has discouraged the payment system through a letter of credit (LC), and ultimately lacked transparency in the business at the private sector level. There is the networking of “mafia” in the transport sector on both sides without whom a businessman cannot have access to the business easily. The export to China is not without flaws as well. Despite the facility of duty-free, quota-free access, Nepali exporters have to face many hurdles, including documentation, customs valuation, and the application of value-added tax (VAT) in China. Although the exports from Nepal enjoy preferential treatment, they are subject to 8-17% of the VAT in China. Hence, the existing trading system has to be reconsidered from all angles to promote bilateral trade.

In terms of investment, the recent FDI trend indicates a gradual growth in the Chinese private sector investment with the expansion of connectivity and trade facilitation. The Chinese interest will initially be on substituting import of manufacturing goods such as construction materials, electronic equipment, telecom, and mobile, which are growing at faster rates in Nepal. There is a possibility of outsourcing from the Chinese firms at the later stage. As the larger scale of production takes place and the advantage of the scale economies occur, there is a potential of export promotion through penetration to the regional markets.

\*\*

---

386 “China’s Future: Means of Production.” *The Economist*, 23rd February 2019 (accessed 27 November 2019).



## Chapter 6

# PRACTICAL COOPERATION

Milan Karki

During his visit to Nepal, Chinese President Xi Jinping made it clear that China wants to broaden practical cooperation. Practical cooperation primarily emphasizes a Trans-Himalayan Multi-Dimensional Connectivity Network (THMDCN), and China's support for business investment “in the four priority cooperation areas of trade and investment, post-disaster reconstruction, energy, and tourism.” Development cooperation under the Belt and Road Initiative focuses on “vital components as ports, roads, railways, aviation, and communications” within the framework of the THMDCN.<sup>387</sup> Although the Trans-Himalayan connectivity network is mentioned as part of the four-point blueprint for Nepal-China relations, practical cooperation also serves to support China's strategic interests. According to Xi, the network “will serve not just our two countries but also the region as a whole.” This means that the Trans-Himalayan connectivity network is intended to connect the region as a whole, which would require India's partnership and cooperation.

China is portraying itself as a stronger proponent for Nepal's social and political development. It has promised to jointly push forward the Belt and Road Initiative with a special mention of the THMDCN in order to transform Nepal from a land-locked country

---

387 Ministry of Foreign Affairs. 2019. “Joint Statement Between Nepal and the People's Republic of China.” Government of Nepal. <<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>>.

to a land-linked country.<sup>388</sup> However, there was no mention of the railway project, merely a commitment to expand connectivity which in its vagueness could mean only road connectivity or may even extend to a rail link. Chinese Ambassador to Nepal Wang Yi also outlined that the Chinese side is looking forward to working “jointly” with the Nepali government to deepen such ties. This would mean that Nepal must not participate in such talks with an expectation of being a sole beneficiary but propose it as a cooperative project between the two countries.

In January 2019, PM Oli told the federal parliament that Nepal was working with China and India to develop four railways: one linking Gyirong (Kerung) with Kathmandu, another linking Raxaul with Kathmandu, and two domestic railways linking Kathmandu with Lumbini and Pokhara. Work also started on a dry port in Chovar, which PM Oli said would “have a positive impact especially on Nepal-India and Nepal-China trade relations.”<sup>389</sup> Similarly, construction started on the USD 140 million Huaxin Cement Industry.<sup>390</sup>

Currently, Chinese contractors and investors are involved in several high profile projects significantly enhancing China’s presence in Nepal, and these events have been used by the Chinese Ambassador in Nepal for public diplomacy. In March, China Construction Seventh Engineering Division started work to upgrade a section of the East-West Highway.<sup>391</sup> Chinese disbursement of development assistance from 2010-2022.<sup>392</sup>

---

388 [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1696656.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1696656.shtml) (accessed November 24 2019).

389 ZD eds. 2019. “Nepal begins construction of international dry port in Kathmandu.” Xinhuanet. <[http://www.xinhuanet.com/english/2019-01/18/c\\_137754511.htm](http://www.xinhuanet.com/english/2019-01/18/c_137754511.htm)>.

390 ZH eds. 2019. “Foundation stone laid for 140 mln USD worth of Sino-Nepal joint venture in cement industry.” Xinhuanet. <[http://www.xinhuanet.com/english/2019-03/02/c\\_137862298\\_2.htm](http://www.xinhuanet.com/english/2019-03/02/c_137862298_2.htm)>.

391 ZX eds. 2019. “Chinese company starts expansion work of Nepal’s longest highway.” Xinhuanet. <[http://www.xinhuanet.com/english/2019-03/23/c\\_137918192.htm](http://www.xinhuanet.com/english/2019-03/23/c_137918192.htm)>.

392 <https://amis.mof.gov.np/>

<b>Project Name</b>	<b>Commitments (USD)</b>	<b>Disbursements (USD)</b>
Tatopani Frontier Inspection Station Project	1,36,37,514	1,37,18,628
South- South and Triangular Cooperation Project: Improving maternal and women's health services	6,37,500	5,95,682
Pokhara Regional International Airport	21,29,16,857	11,80,28,183
Procurement of Aircrafts from China (1 MA 60 3 Y12E )	3,09,50,910	3,20,50,894
Emergency Relief Goods (Three Batches)	2,25,46,181	2,25,46,181
Emergency Medical Supplies and Epidemic Prevention Supplies	32,20,883	32,20,883
Medical Equipment for B.P. Koirala Memorial Cancer Hospital	0	22,54,030
Medical Equipment for National Ayurveda Research and Training Center	0	24,79,433
Emergency Petrol Products	0	17,71,486
Upper Trishuli 3A - Kathmandu 220kV Transmission Line and 132kV Line Bay Extension Works Project	2,43,35,542	1,36,84,691
Targeted cash assistance for Nepal's Reconstruction	1,00,00,000	50,93,531
Livelihood Recovery for Peace (LRP) Project	40,00,000	38,10,139
Budgetary Support (China)	13,32,19,143	11,32,19,143
Nepal National Armed Police Academy	3,26,24,831	2,69,56,161
Donation of security equipment	0	42,41,228
Economic and technical cooperation (small projects)	23,04,68,032	12,53,89,359
Upper Trishuli 3A Hydroelectric Project	8,20,38,123	12,59,81,490
Improvement of Kathmandu Ring Road in Nepal	3,45,09,884	3,31,54,069
Post-Disaster Reconstruction Aid Project Plan	48,31,37,602	1,26,63,652
Comprehensive Disaster Risk Management Programme (CDRMP)	2,96,455	2,96,455
<b>Total</b>	<b>1,31,85,39,457</b>	<b>66,11,55,318</b>

Then in April, China National Aero-technology International Engineering Corporation took charge of the runway rehabilitation project of Nepal's only international airport in Kathmandu.<sup>393</sup> The Chinese Ambassador posted a tweet with several photographs, saying "City asleep at night, rehabilitation of runway and taxiway of TIA are in full swing! My respect to all the Chinese and Nepali stakeholders for this crucial project. Wish a great success!"<sup>394</sup> Similarly, Sinohydro Corporation is currently constructing what the Chinese Ambassador called "The Biggest Hydropower Project in Nepal under Construction."<sup>395</sup>

In the same month, the US and China competed in public diplomacy to praise the breakthrough in the Bheri-Babai Diversion Multipurpose project. While the tunnel boring machine (TBM) was American, the contracting company was China Overseas Engineering Group Co. Ltd.<sup>396</sup>

### **China's Economic Assistance**

China also had the heaviest representation in the Nepal Investment Summit, 2019. Out of the total of 620 investors from 38 countries who participated, 250 were Chinese.<sup>397</sup> Notably, China's economic assistance to Nepal, after 2015, were intended to lessen Nepal's dependence on India and a reward for maintaining a "neutral" and "independent" foreign policy. An extended rationale was the need to maintain the government's stability. And the government's stability is directly linked to the stability of the ruling party-Nepal

---

393 Yurou eds. 2019. "Nepal's sole int'l airport starts runway upgrade." Xinhuanet. <[http://www.xinhuanet.com/english/2019-04/04/c\\_137947523.htm](http://www.xinhuanet.com/english/2019-04/04/c_137947523.htm)>.

394 Hou Yanqi, 2019. <<https://twitter.com/PRCAmbNepal/status/1142838617104011265>>.

395 Hou Yanqi, 2019. <<https://twitter.com/PRCAmbNepal/status/1143522767712636928>>.

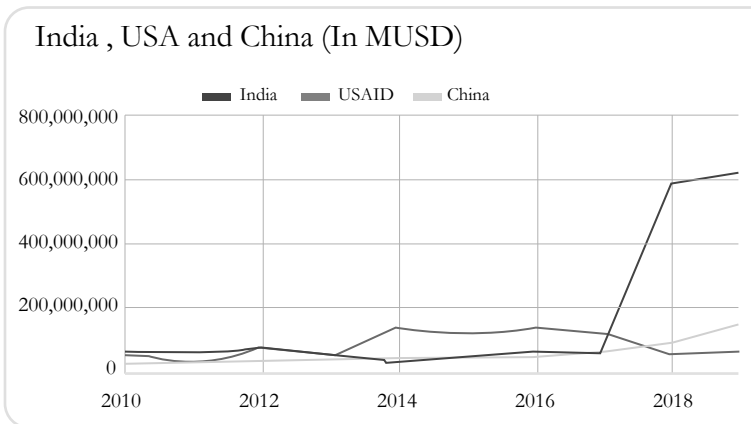
396 Mingmei. 2019. "China-constructed multipurpose project achieves breakthrough in Nepal." Xinhuanet. <[http://www.xinhuanet.com/english/2019-04/16/c\\_137982663.htm](http://www.xinhuanet.com/english/2019-04/16/c_137982663.htm)>.

397 Shi Yinglu. 2019. "China tops participation in upcoming Nepal Investment Summit." Xinhuanet. <[http://www.xinhuanet.com/english/2019-03/22/c\\_137915950.htm](http://www.xinhuanet.com/english/2019-03/22/c_137915950.htm)>.

Communist Party (NCP) and continuity of PM K P Oli. Chinese state-owned enterprises are at the forefront of Chinese diplomacy in Nepal and may have been used to engage with political parties and other stakeholders.

Remarkably, Chinese disbursement has seen a steady increase through the years with a bump in 2018 and 2019.<sup>398</sup> China's modes of assistance are grants and loans. Through 2012-2019, 90% of China's ODA was on-budget. Until 2014, China's aid remained unfragmented. Since then, it is becoming more fragmented with a score of 0.38 in the Herfindahl Index in 2019. In 2012, China started out with seven projects and six counterpart ministries; however, by 2018, it still had only seven projects but 11 counterpart ministries. This indicates that Chinese resources are being stretched out thin in too many ministries and can be put to better use by concentrating on fewer projects and ministries.

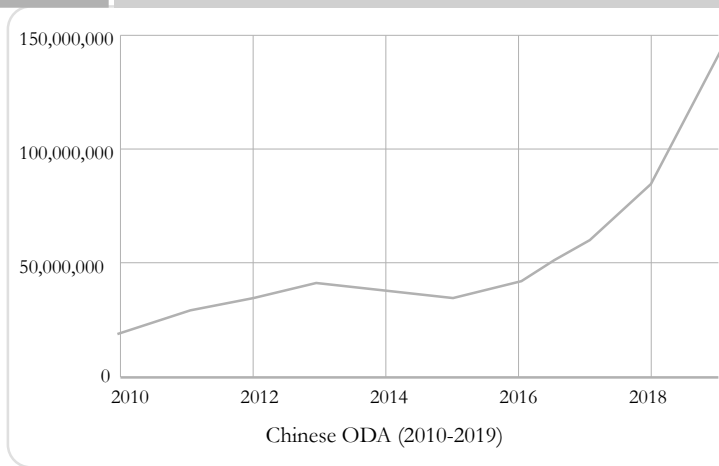
*Figure 1: ODA from India, USA and China in MUSD in between 2010-2019*



398 Kedar Dahal. 2019. “नेपालमा चिनियाँ लगानी ९ गुणाले बृद्धि, भारतीय लगानी ध्वात्तै घट्यो” Kathmanduexpress. <<https://kathmandupress.com/headlines/investment-china>>.

Sector-wise, China's ODA is focused on the Ministry of Physical Infrastructure and Transportation and the Ministry of Energy and Electricity. The Upper Trishuli 3A Hydroelectric Project has remained one of the most important projects attracting the highest amount of disbursement from China in the sector. This project was later supplemented with a commitment to a Transmission Line and the Bay Extension Works Project. In the transportation sector, China's key project has been the Kathmandu Ring Road, again warranting the highest disbursement in the sector. Some other projects have been the Syaprubesi-Rasuwagadhi Road Project and the Tatopani Frontier Inspection Station.

Figure 2: ODA from China in MUSD in between 2010-2019



After the 2015 earthquake, China made large amounts of contributions to the health and housing sectors. It carried out the distribution of emergency relief goods and also set up the Comprehensive Disaster Risk Management Programme. Other notable projects which found Chinese contribution are the Banepa Polytechnic School, security equipment to the National Armed Police Academy, and Pokhara Regional International Airport. Apart from these projects that are officially recorded, China has spearheaded technical assistance to the Government of Nepal through scholarships, training, and study tours which is

not reflected in the total estimated amount of Chinese assistance. Chinese aid is likely to increase exponentially in the coming years if the BRI moves ahead and if there is a favorable environment in Nepal and India for the trans-Himalayan connectivity initiative.

The amount disbursed in the energy and the transportation sector showed a drop coinciding with the Nepal earthquake in 2015 which created serious problems of procurement, which reflected in the overall drop in the disbursement of material goods for the construction of physical infrastructure. Other reasons that could have affected the disbursements are the problems in land acquisition, negligence of contractors, and obstructions created by local beneficiaries.

Nevertheless, from 2014 onwards, China has proven itself to be a significant contributor to Nepal's development effort. It has more often than not found itself in the top five development partners and has remained an active contributor in the region. Furthermore, the China International Development Cooperation Agency (CIDCA) has recently pledged to undertake to uplift 15 northern districts by addressing their development needs.<sup>399</sup> The districts share their border with China's Tibet Autonomous Region (TAR) and require social, economic, as well as infrastructure development. Additionally, 30 Chinese NGOs are set to work in Nepal for a period of three years as per an MoU signed between the Social Welfare Council Nepal and China NGO Network for International Exchange.<sup>400</sup> These developments bolster the claim that Chinese assistance in Nepal is on the rise and will continue to grow in the current political climate.

---

399 Anil Giri. 2019. "Chinese development agency to aid 15 northern Nepali districts." *The Kathmandu Post*. <<https://kathmandupost.com/news/2019-03-30/chinese-development-agency-to-aid-15-northern-nepali-districts.html>>.

400 Rewati Sapkota. 2018. "30 Chinese NGOs all set to work in Nepal." *The Himalayan Times*. <<https://thehimalayantimes.com/nepal/30-chinese-ngos-all-set-to-work-in-nepal/>>.

### **Special Programme in Northern Border Districts<sup>401</sup>**

Added to the food supplies and other essentials worth over 200 million Yuan in the past five years from the Government of TAR, CIDCA is providing development assistance in 15 northern districts of Nepal which share a common border with China's Tibet Autonomous Region. A team from CIDCA, during their visit, held talks with Prime Minister KP Sharma Oli and other senior government officials where they made a proposal to support food supply and other essential goods to Darchula, Bajhang, Humla, Mugu, Dolpa, Mustang, Manang, Gorkha, Dhading, Rasuwa, Sindhupalchok, Dolakha, Solukhumbu, Sankhwasabha, and Taplejung. As per the agreement signed between the two countries, China was to provide 10 million Yuan (USD 1.63 million) every year from 2014 to 2018. Further, during PM Oli's visit to Beijing in 2016, the Chinese government committed to helping the infrastructure as well as social and economic development in those border districts.

The Agency will provide demand-based developmental and logistic support for the next five years. As per the support arrangement, local governments in the districts forward their request to Nepal's consular general office in Lhasa. The consular office will then forward the request to CIDCA for the release of requested support.

### **Upgrade Civil Service Hospital**

Another example is the upgrade of the civil service hospital. The hospital for the employees of Nepal Government was set up in September 2008 with China's support. Outpatient service in the 132-bed hospital started on March 29, 2009. After the earthquake in 2015, the Chinese government promised to help Nepal implement 25 post-disaster reconstruction projects in five major areas such as healthcare, including five projects in

---

401 Anil Giri. 2019. "Chinese development agency to aid 15 northern Nepali districts." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2019-03-30/chinese-development-agency-to-aid-15-northern-nepali-districts.html>>.

the medical and health field and upgrading the Hospital.<sup>402</sup> The plan to upgrade and expand the Civil Service Hospital follows an agreement signed by the governments of Nepal and China. The renovation project cost is estimated to be around Rs 1.30 billion. The upgraded hospital will have 270 beds, 115 in the new surgical building along with operation theatre, neurosurgery, plastic surgery, and cardiothoracic surgery departments. The renovation of the existing three blocks and system accessories of the hospital would also be carried out.<sup>403</sup>

### **Belt and Road Initiative**

The Belt and Road Initiative (BRI) is an ambitious effort to improve regional cooperation and connectivity on a trans-continental scale aiming to strengthen infrastructure, trade, and investment links between China and 65 other countries that account collectively for over 30% of global GDP, 62% of the population, and 75% of known energy reserves.<sup>404</sup>

Nepal joined the initiative in May 2017. Not much progress has been observed since then, except an agreement to build a railway linking Kathmandu with Xigatze on June 22, 2018, as part of a broader Trans-Himalayan connectivity network that includes ports, railways, highways, aviation, and telecommunications.<sup>405</sup> However, according to Shen Shiwei, CGTN, the Gyirong railway and transmission line are expected to be completed in two years.<sup>406</sup> China and Nepal also conducted the fifth cross-border railway meeting in November 2019 and reached an agreement allowing three stages of the feasibility study and the division of responsibilities between China and Nepal.

---

402 <https://kathmandupost.ekantipur.com/printedition/news/2018-09-27/civil-service-hospital-upgradation-begins.html>

403 <https://www.civilservicehospital.org/about/> (accessed November 24 2019).

404 <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative> (accessed November 24 2019).

405 Hu Yongqi. 2019. "Railway Project to link Tibet, Nepal." Belt and Road Portal. <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/58489.htm>>.

406 [https://twitter.com/shen\\_shiwei/status/1296328637231140864?s=20](https://twitter.com/shen_shiwei/status/1296328637231140864?s=20)

Furthermore, according to Hou Yanqi, China is also supporting Nepal's Department of Roads for the third phase of the opening maintenance project of the Araniko Highway. It is also urging Nepal to complete the demolition work of Syaphrubesi-Rasuwagadhi Highway as soon as possible.<sup>407</sup>

During the visit of Prime Minister KP Sharma Oli's to China in June, Nepali Government prepared a list of 35 different projects in areas like infrastructure, energy and power, north-south corridor upgradation, free trade areas, and construction of integrated check posts at various Nepal-China border points, which have now been trimmed to nine listed below.

1. Upgradation of Rasuwagadhi-Kathmandu Road
2. Kimathanka-Hile road construction
3. Dipayal to the south border with China
4. Tokha-Bidur Road
5. Galchhi-Rasuwagadhi-Kerung 400kv transmission line
6. Keyrung-Kathmandu rail (feasibility study)
7. Tamor hydroelectricity project (762MW)
8. Phukot Karnali Hydro Electric Project (426MW)
9. Madan Bhandari Technical University

An official at the Ministry of Industry, Trade, and Commerce remarked that the BRI activities have gained some momentum after the BRF. He agreed that not much has happened since the MoU in 2017. But Nepal has no choice other than to use the opportunity in its best interest. Taking due consideration of the "debt trap" argument over Chinese investment, Nepal has the option not to be in the BRI, with a realistic assessment of Nepal's interests and needs. The official, who was earlier the local person from the India-China desk at the ministry is now focusing solely on Nepal-India relations. India too has its own interest in supporting Nepal. China would have its own as well. It is upon us to make the deal in our best interest, he quipped.<sup>408</sup>

---

407 <http://np.china-embassy.org/eng/News/t1729496.htm>

408 Based on conversation with Under-Secretary at MoICS.

### **Ongoing Key Infrastructure Projects**

China is engaged in Nepal's key infrastructure projects. According to the Chinese Ambassador to Nepal Hou Yanqi, 14 Chinese companies are currently working on 24 projects in Nepal.<sup>409</sup> The key focus is on connectivity with increased investments and partnerships in roads, cross-border rails, and telecommunications. Service Industry, Tourism, Mineral extractions among others are areas of Chinese engagement.

### **Water Resources/Hydropower**

The government of Nepal declared 17 key infrastructure projects as National Pride in the fiscal year 2011/13. Four other projects were added to the list in the following year. Eight of the pride projects are related to water resources and hydropower. China's state-owned companies are involved in half of the projects listed below.<sup>410</sup> China is engaged in four of the 8 national pride projects in the hydropower sector.

1. Sikta Irrigation Project,
2. Bheri-Babai Diversion Project,
3. Ranijamara Gulariya Irrigation Project
4. Bheri Babai Diversion Multipurpose Project
5. Upper Tamakoshi Hydroelectricity Project
6. Budhigandaki Hydroelectricity Project
7. West Seti Hydroelectricity Project
8. Melamchi Water Supply Project

### **Budhi Gandaki HEP**

The feasibility studies conducted by Tractebel Engineering-France estimated USD 2.55 billion (including USD 580 million for environmental cost) for the 1200-MW reservoir project. National Planning Commission indicated that if the project is built through a special purpose vehicle, the government may provide Viability Gap Funding of USD 940 million. The developers will have to

---

409 <https://www.spotlightnepal.com/2019/06/25/energy-minister-pun-urges-more-chinese-investment/> (accessed November 24 2019).

410 National Planning Commission progress report on National Pride Project for FY 2017/18.

invest USD 1.76 billion for the construction.<sup>411</sup> China Gezhouba Group Corporation (CGGC) has proposed to construct the project at USD 2.5 billion.<sup>412</sup> In August 2016, Gezhouba forwarded its interest in constructing the project and bagged the contract under the engineering, procurement, construction, and finance model in May 2017. Energy Minister Janardan Sharma and a representative from the Chinese company signed the agreement paper for the mega project at NCP Chairman Dahal's residence.<sup>413</sup> The project came under controversy over the decision to award the contract to CGGC without any competitive bidding.<sup>414</sup> Later in November 2017, Energy Minister Kamal Thapa announced that the deal with Gezhouba was scrapped.<sup>415</sup> Two weeks later on November 27, the government-appointed Nepal Electricity Authority as the project's new developer, and plans for construction remain unknown.<sup>416</sup>

### **West Seti HEP**

The West Seti project with an estimated cost of USD 1.8 billion is in the hands of China Three Gorges Company (CTGC) since 2011. Government of Prime Minister Dr Baburam Bhattarai, in February 2012, awarded West Seti to China's Three Gorges Corporation (CTG) through direct negotiation.<sup>417</sup> The deal was

---

411 <https://kathmandupost.ekantipur.com/printedition/news/2018-02-17/rs94b-viability-gap-funding-okayed-for-budhi-gandaki.html> (accessed November 24 2019).

412 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/67094.htm> (accessed November 24 2019).

413 <http://kathmandupost.ekantipur.com/news/2017-06-04/govt-signs-agreement-with-chinese-company-for-budhi-gandaki-construction.html> (accessed November 24 2019).

414 <https://thehimalayantimes.com/business/cggc-contract-budhigandaki-controversy/> (accessed November 24 2019).

415 Gregory Poindexter. 2018. "Nepal Prime Minister to "revive" 1,200-MW Budhi Gandaki project." *HydroReview*. <<https://www.hydroworld.com/articles/2018/02/nepal-prime-minister-to-revive-1-200-mw-budhi-gandaki-project.html>>.

416 Ibid.

417 <http://www.ibn.gov.np/project/west-seti-hep> (accessed November 24 2019).

“hurriedly pushed through without a proper bidding process” generating questions about the relationship between Maoist leaders and China.<sup>418</sup> Despite some level of public controversy, a parliamentary committee endorsed the decision.<sup>419</sup>

Three gorges had received the license after an Australian firm, Snowy Mountains Engineering Corporation, which held the permit for over a decade, failed to raise funds for it. In November 2017, CTGC with a 75% stake, signed a joint venture agreement with the Nepal Electricity Authority. However, there has been no progress as CTGC demanded to factor in pre-construction expenses the company made so far as paid-up capital and preferential power purchase rates from authority guaranteeing the rate of return of 17%. Eventually, the project has collapsed as the Chinese have announced it was financially unfeasible.<sup>420</sup>

### **Bheri-Babai Diversion Multipurpose Project**

The project aims at providing round-the-year irrigation in 51 thousand hectares of land in Banke and Bardiya districts in Province 5 and generates 46.8 MW of electricity by transferring 40 m<sup>3</sup>/sec of water from Bheri River to Babai River (water surplus basin to water deficit basin).<sup>421</sup> The contract between China Overseas Engineering Pvt. Ltd had stipulated that the tunnel construction would be completed by the end of March 2020, but the breakthrough was achieved a year earlier.<sup>422</sup> The Chinese company was contracted at NRS 10.57 billion for the 12.210 kilometre-long tunnel that starts from Hattikhil of Bheriganga Municipality in Karnali Province and ends in Chiple across the

---

418 Dewan Rai. 2012. “About Time.” *Nepali Times*. <<http://archive.nepalitimes.com/news.php?id=19084#.XPeMEtMzbPA>>.

419 Dewan Rai. 2012. “Green light to West Seti.” *Nepali Times*. <<http://archive.nepalitimes.com/blogs/thebrief/2012/04/02/green-light-to-west-seti/>>.

420 <https://kathmandupost.ekantipur.com/news/2018-09-21/the-west-seti-fiasco.html> (accessed November 24 2019).

421 <https://www.bbdmp.gov.np/> (accessed November 24 2019).

422 <https://thehimalayantimes.com/nepal/bheri-babai-tunnel-completed/> (accessed November 25 2019).

Chure range in Province 5. The tunnel was constructed ahead of schedule while the civil works continue<sup>423</sup>

### **Melamchi Drinking Water**

The water supply project that started in the fiscal year 1998/99 has a target to bring in 170 million litres/day of raw water to Kathmandu from Sindhupalchowk through a 26.3 km long tunnel. Two decades on, the fate of the project hangs in a balance once again as the Italian company, Cooperativa Muratorie Cementisti (CMC) di Ravenna, which was building the project, abandoned it due to its worrisome financial state.<sup>424</sup> The Italian company had taken the job after the government terminated the previous contract with China Railway 15 Bureau Group following their slow work. The Chinese company had started the works in 2010 after receiving the contract for construction of head-works and tunnel on 19 February 2009 with the intended completion date of 2 September 2013.<sup>425</sup> As the Italian contractor quit, fate remained uncertain.<sup>426</sup> However, Chinese company Sinohydro has been awarded the contract for completing the remaining works of the construction of the tunnel of Melamchi.<sup>427</sup>

### **Upper Trishuli 3A Hydropower Project and Transmission Lines**

As the first of its two turbines roared, 30 MW was injected into the national grid in May, nine years after the construction began in 2010.<sup>428</sup> The plant will add another 30 MW when the second unit

---

423 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/86104.htm> (accessed November 25 2019).

424 <https://thehimalayantimes.com/nepal/italian-contractor-abandons-melamchi-water-project/> (accessed November 25 2019).

425 <http://www.melamchiwater.gov.np/components/infrastructure-development/melamchi-diversion-scheme/> (accessed November 25 2019).

426 <https://thehimalayantimes.com/nepal/italian-contractor-abandons-melamchi-water-project/> (accessed November 25 2019).

427 <https://thehimalayantimes.com/nepal/chinese-firm-sinohydro-gets-mwsp-tender/> (accessed November 25 2019).

428 <https://kathmandupost.com/money/2019/05/17/upper-trishuli-3a-hydroelectric-project-starts-churning-out-30-mw>

operates. The transmission line and Trishuli 3A hydel plant were built with concessional loans amounting to \$114.7 million from China's Exim bank. An interest rate of 1.75%, with a repayment period of 20 years from the date of commercial operation.<sup>429</sup> until 2017, citing heavy damage to access road and dam during the 2015 earthquake.

Construction of 220 kV Trishuli-Kathmandu double-circuit line to carry electricity from the plant to the Matatirtha substation has also been completed. The 45-km transmission line has started evacuating power to Kathmandu making the valley's power supply more reliable as compared to the existing Hetauda-Kulekhani-Syuchatar transmission line.<sup>430</sup> The plant will produce around 45 MW even during the winter which will help maintain the demand-supply equilibrium in Kathmandu," he said.

Apart from relaying the power produced by the Upper Trishuli 3A project, the NEA will use the transmission lines to evacuate power from schemes in the Trishuli corridor.

### **Railway and Transportation**

Nepal government's 20-year plan aims to build 4,000 kilometres of rail services that include linking tracks from the northern Tibetan plateau in China to the flood plains of the Ganges in India. A technical team of the China Railway First Survey Design Institute Group was involved in the pre-feasibility study of the trans-Himalayan railway network connecting Kerung with Kathmandu.<sup>431</sup> According to the latest Chinese report, the section is expected to be completed latest by 2025.

---

429 Prahlad Rijal. 2019. "Upper Trishuli 3A hydroelectric project starts churning out 30 MW." The Kathmandu Post. <<http://kathmandupost.com/news/2019-05-17/upper-trishuli-3a-hydroelectric-project-starts-churning-out-30-mw.html>>.

430 <https://kathmandupost.com/money/2019/05/17/upper-trishuli-3a-hydroelectric-project-starts-churning-out-30-mw>

431 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/54819.htm> (accessed November 25 2019).

According to the pre-feasibility report, the cost of construction has been estimated at Rs 3.55 billion/km. China has expressed its commitment to conduct the DPR for the cross-border railway project, however, it is yet to agree on the financing modality. The government of China is availing the funds for the feasibility study and DPR under the BRI. The Chinese government has expressed concerns over unnecessary discussions going on in Nepal with regard to cross-border rail.

The 73-km-long Nepali portion of the Nepal-China railway, which would cost \$2.65 billion, is generating more questions than answers. They are economic and commercial benefits; the maintenance and operation capacity of the Nepal government; the geological and environmental concerns; and technical difficulties. All of these questions require sustained cooperation and relationship with China. Another major question is the role of India. China's primary purpose in building the network is to link with India. However, the Chinese are worried that "India has a strong influence on Nepal's government, which prevents the Himalayan country from getting closer to China." But they are willing to wait, and bide the time for enough "strategic mutual trust."<sup>432</sup>

While reporting on railway connectivity, Chinese media and experts have outlined the multiple contexts that make the railway link between Nepal and China significant.

First, the Sino-Nepali railway would help China "strengthen its influence in South Asia" while lessening Nepal's "economic and diplomatic dependence on India." According to the People's Daily, "China's help and the recent Sino-Indian standoff have shown Nepal a promising way to shake off India's control, encourage it to seize the chance to build the railway, and establish closer ties with China."

---

432 Huang Ge. 2019. "Improved railway connection to help Tibet 'go out' under BRI." Global Times. <<http://www.globaltimes.cn/content/1143619.shtml>>.

Second, the highway system has reached its full capacity and is in bad condition. So, there is a need for a new mode of connectivity.

Third, China was already planning to extend the railway from Shigatse to Gyirong.

Fourth, the railway would promote economic cooperation between Central Asia and Tibet, while connecting Tibet to South Asia, thus, lowering the locals' living costs.

Fifth, the Sino-Nepali economic corridor, would support Nepal's political stability and improve the people's livelihood. And sixth, "China can also use the chance to strengthen its presence in South Asia, urging India to build a prosperous South Asia together."<sup>433</sup>

Apart from the cross-border rail, a Chinese company, China Railway 25th Bureau Group Co. Ltd. (CRCC), is preparing a DPR of Kathmandu's monorail project at its own cost after signing an MoU with the Kathmandu Metropolitan City on December 20, 2018. The company hopes to receive the contract for the construction of the monorail as well.<sup>434</sup> Earlier, the company had taken the initiative to conduct a feasibility study and had submitted the report in September 2018. Earlier, China CAMC Engineering Co. Ltd also conducted a feasibility study of the proposed Kathmandu-Pokhara Railway.<sup>435</sup>

## AIRPORTS

### **Pokhara International Regional Airport**

A detailed project report of the Pokhara International Airport was prepared in 1989 in association with JICA, proposing a 2,500meter long runway with a terminal and cargo building. At that time, the airport was estimated to cost USD 39.6 million.

---

433 Kou Jie & Bianji. 2017. "Sino-Nepali cross-border railway to reshape geopolitical pattern in South Asia: Experts." *En.People*. <<http://en.people.cn/n3/2017/0912/c90000-9267944.html>>.

434 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/75269.htm> (accessed November 25 2019).

435 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/70691.html> (accessed November 25 2019).

On May 22, 2014, Nepal signed a construction agreement with China CAMC Engineering Company in Kathmandu.<sup>436</sup>

The construction of the airport moved forward during the tenure of Maoist Prime Minister Baburam Bhattarai in 2011. The Tourism Ministry secretly signed an MoU with China CAMC Engineering Company on September 20, 2011, which stated that a tender would be called later for which Nepal shall provide CAMC with solid and substantial support. Following the deal, the Ministry of Finance instructed CAAN to invite a bid to develop the airport. CAAN continued with the process and invited bids for the construction of the airport under the EPCF model in February 2012, setting a very short deadline for the bidders. CAAN's tender evaluation committee finally opened the financial proposals for the project in July 2012.<sup>437</sup> Minister for Tourism and Civil Aviation Post Bahadur Bogati announced that 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.<sup>438</sup>

Although the government had estimated the project to cost USD 180 million, the lowest bidder, China CAMC Engineering, quoted a price of USD 305 million. Two other Chinese firms, both with strong links to Nepali contractors, agents and politicians, Sinohydro Corporation and China International Water and Electric Corporation, quoted USD 337.82 million and USD 349.28 million respectively.<sup>439</sup> Several politicians alleged irregularities in the selection of the Chinese company without transparent

---

436 [http://www.china.org.cn/world/Off\\_the\\_Wire/2014-05/22/content\\_32464449.html](http://www.china.org.cn/world/Off_the_Wire/2014-05/22/content_32464449.html) (accessed November 25 2019).

437 <http://kathmandupost.ekantipur.com/printedition/news/2013-05-31/pokhara-international-airport.html> (accessed November 25 2019).

438 <http://kathmandupost.ekantipur.com/news/2012-09-25/pokhara-airport-wont-be-constructed-soon-bogati.html> (accessed November 25 2019).

439 <http://kathmandupost.ekantipur.com/printedition/news/2012-08-30/pokhara-locals-drop-strike-plan-after-govt-assurance.html> (accessed November 25 2019).

competition. As the opposition mounted, the ruling Maoists organized a series of protests and demonstrations in Pokhara, where the locals demanded the construction of the airport. The then Minister for Tourism and Civil Aviation Posta Bahadur Bogati framed the issue as “a matter of the relation between the two countries” adding that “there is no alternative than to start it after holding talks.”<sup>440</sup>

Later, the then Finance Minister Ram Sharan Mahat, in March 2014, said CAMC’s bid of USD 305 million was “outrageous” compared to another international airport being built with ADB funds—Gautam Buddha International Airport in Bhairahawa—and instructed the Civil Aviation Ministry to re-estimate the costs of the airport.<sup>441</sup>

On April 7, 2014, the CAAN board meeting chaired by Tourism Minister Bhim Acharya approved the project under the revised cost of USD 215.96 million. The price tag was recommended by a three-member independent panel.<sup>442</sup> Interestingly, CAMC agreed to develop the airport at the government-estimated cost of \$216 million.

On March 23, 2016, the Export-Import Bank of China (China EximBank) announced it would fund the construction of the airport without specifying the amount.<sup>443</sup> A month later, on April 13, 2016, PM KP Oli laid the foundation stone of the airport. On June 5, 2016, Nepal’s Finance Ministry and CAAN signed a

---

440 <http://kathmandupost.ekantipur.com/news/2012-09-25/pokhara-airport-wont-be-constructed-soon-bogati.html> (accessed November 25 2019).

441 <http://kathmandupost.ekantipur.com/printedition/news/2014-03-07/cost-of-pokhara-airport-project-unrealistic-mahat-260130.html> (accessed November 25 2019).

442 Sangam Prasain. 2014. “China CAMC wins contract for new Pokhara airport.” Kathmandu Post. <<http://kathmandupost.ekantipur.com.np/news/2014-05-23/china-camc-wins-contract-for-new-pokhara-airport.html>>.

443 [http://www.china.org.cn/china/Off\\_the\\_Wire/2016-03/23/content\\_38096742.html](http://www.china.org.cn/china/Off_the_Wire/2016-03/23/content_38096742.html) (accessed November 25 2019).

subsidiary loan agreement with China.<sup>444</sup> The project claimed that the airport seems to come into operation before the set deadline of July 2021.<sup>445</sup> China is touting the Pokhara International Airport being constructed by China CAMC Engineering as one of the major achievements in the Nepal-China relationship.<sup>446</sup> The airport construction is expected to complete on schedule.<sup>447</sup>

### **TIA Runway Rehabilitation**

CAAN had signed a memorandum of understanding with the Chinese Company, China National Agro Technology International Engineering Corporation for the rehabilitation of the runway at Nepal's only international airport. The agreement of Rs 3.75 billion was signed with the company for the tarmacking of the runway at TIA.<sup>448</sup> Of the four international firms that had submitted their applications for the rehabilitation project at TIA, the Chinese company was the lowest bidder.<sup>449</sup> The rehabilitation that began in the first week of April is in full swing.<sup>450</sup>

### **Gautam Buddha Airport**

A Chinese contractor is building Bhairahawa's Gautam Buddha Airport. Of the total project cost, the Asian Development Bank provided USD 58.50 million (USD 42.75 in loans and USD

---

444 [http://www.china.org.cn/world/Off\\_the\\_Wire/2016-06/05/content\\_38607529.htm](http://www.china.org.cn/world/Off_the_Wire/2016-06/05/content_38607529.htm) (accessed November 25 2019).

445 <https://www.spotlightnepal.com/2019/04/18/the-construction-of-runway-of-pokhara-regional-intl-airport-completed/> (accessed November 25 2019).

446 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/86161.htm> (accessed November 25 2019).

447 <http://np.china-embassy.org/eng/News/t1729496.htm>

448 <https://thehimalayantimes.com/kathmandu/runway-rehabilitation-begins-at-tribhuvan-international-airport-flight-service-smooth/> (accessed November 25 2019).

449 Sujan Dhungana. 2018. "Chinese firm to rehabilitate TIA runway, taxiway." *The Himalayan Times*. <<https://thehimalayantimes.com/business/chinese-firm-to-rehabilitate-tia-runway-taxiway/>>.

450 Hou Yanqi, 2019. <https://twitter.com/PRCAmbNepal/status/1142838617104011265>.

15.75 million in grants) and the OPEC Fund for International Development provided USD 15 million loans. The rest of the cost would be counterpart funding from the Civil Aviation Authority of Nepal.<sup>451</sup>

The civil works contract worth Rs 6.22 billion was awarded to China's Northwest Civil Aviation Airport Construction Group in November 2013. The blockade in 2015 delayed the upgradation works by six months, and its operation deadline was revised to June 2018. A dispute over payment between the Chinese contractor and Nepali sub-contractor stalled works resulting in the extension of the deadline many times.<sup>452</sup> The delay plagued national pride project has achieved 73% physical progress with the completion of the 3,000-metre long and 45meter wide asphalt paved runway and taxiway, which are near completion.<sup>453</sup>

#### **Case Study on Chinese planes.**<sup>454</sup>

In May 2005, newspapers in Nepal reported about buy-two get one free offer by China to sell MA-60 aeroplanes manufactured in China. The Nepal Army and NAC were planning to buy the Chinese aircraft at Rs 700 million each. Later China decided to gift one MA 60 and one Y-12e as gifts for the purchase of one MA 60 and three Y-12s by NAC. The first MA 60 landed in Nepal in

---

451 Sangam Prasain. 2019. "Gautam Buddha Airport contractor stops work after not getting paid." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2019-05-13/gautam-buddha-airport-contractor-stops-work-after-not-getting-paid.html>>.

452 Sangam Prasain. 2019. "Another larger terminal to be built at Bhairahawa Airport." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2019-04-01/another-larger-terminal-to-be-built-at-bhairahawa-airport.html>>.

453 Madhav Dhungana. 2019. "Construction of runway at Bhairahawa Airport completed." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2019-05-23/construction-of-runway-at-bhairahawa-airport-completed.html>>.

454 Zhangjunmian eds. 2017. "China-made planes handed over to Nepal's national flag carrier." Belt and Road Portal. <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/6659.htm>>.

April 2014, and the other in July. The remaining MA-60 and three Y-12 Harbin aeroplanes were delivered in 2017.

The first batch of two 17-seater Y12e aircrafts remained grounded for more than two months after arrival due to a lack of pilots. The corporation received another two Y12e aeroplanes in February 2018.<sup>455</sup> NAC was in dire need of captains to fly its new 17-seater Y12e aeroplanes that arrived from China on February 13.<sup>456</sup>

Sugat Ratna Kansakar, former managing director of NAC, said that the plane supplier had assured them of providing English-speaking Chinese captains. According to him, NAC has produced only three captains and an instructor pilot to fly the Y12e aircraft in the last three years. However, for reasons unknown, the national flag carrier has four Y12e aircraft in its fleet, but only one captain to fly them.<sup>457</sup>

The purchase of Chinese aircraft followed Nepal's negotiations with China's Exim Bank for the Pokhara International airport. During the first seven months of operation, the MA 60 was grounded for 75 days and more than Rs 20 million was spent on maintenance. The spare parts were rarely delivered on time and the aircraft had to remain grounded for days. Given the problems with its take-off weight, the aeroplane could not operate at full capacity. Despite being a 56-seater, it could fly only with about 54 passengers while taking off from Kathmandu, and only about 34 passengers while flying back to Kathmandu. The Y-12s had a similar issue. The insurance cost of MA-60 was 4.7% of the aircraft's total cost. Normally, the insurance costs of new aeroplanes are less than two percent.

---

455 Sangam Prasain. 2019. "Nepal Airlines grounds Chinese-made planes for lack of instructor pilot." *The Kathmandu Post*. <<https://kathmandupost.ekantipur.com/news/2019-04-21/nepal-airlines-grounds-chinese-made-planes-for-lack-of-instructor-pilot.html>>.

456 <https://kathmandupost.ekantipur.com/news/2018-02-23/chinese-planes-sit-idle-as-nac-looks-for-pilots.html> (accessed November 25 2019).

457 *Ibid*.

By the end of 2018, both MA-60s were flying on and off, and since January 2019, one remains grounded and all four planes of the Y-12e Harbin series have been stranded at the tarmac as well.<sup>458</sup> NAC announced that it was going to sell or lease the six Chinese aeroplanes instead of incurring losses in their maintenance, insurance, parking charge, and other essential costs.<sup>459</sup> However, in a twist of events, NAC has now claimed that the grounded Y-12e planes will take to the air again by the end of July this year.<sup>460</sup>

## ROADS

### Kathmandu Ring Road

The Kathmandu ring road was built in the 1970s with Chinese assistance. After around 40 years, the expansion of the Ring Road was carried out, also with the support from the northern neighbour.<sup>461</sup>

In February 2011, China agreed to provide grant assistance worth USD 40 million for the first phase of upgrading and widening of Kathmandu Ring Road. In December 2012, the Department of Roads and Chinese contractor Shanghai Construction Group Company signed an agreement for the improvement of the 9-km stretch. Koteshwor-Kalanki section of the Ring Road Improvement Project has been handed over to the Nepal government after completion.<sup>462</sup>

---

458 h <https://www.nayapatrikadaily.com/news-details/17367/2019-06-19> (accessed November 25 2019).

459 Ibid.

460 Sangam Prasain. 2019. "Grounded Chinese Planes to take the skies gain by July." *The Kathmandu Post*. <<https://kathmandupost.ekantipur.com/news/2019-05-12/grounded-chinese-planes-to-take-to-the-skies-again-by-july.html>>.

461 <http://kathmandupost.ekantipur.com/printedition/news/2013-06-25/china-aided-ring-road-expansion-begins.html>

462 Xuxin eds. 2018. "Koteshwor-Kalanki section of Ring Road Improvement Project completed in Nepal." *Xinhuanet*. <[http://www.xinhuanet.com/english/asiapacific/2018-12/09/c\\_137661429\\_3.htm](http://www.xinhuanet.com/english/asiapacific/2018-12/09/c_137661429_3.htm)>.

### **Butwal-Narayanghat Expansion**

A Chinese company, China Construction Seventh Engineering Division, won the contract to expand the Nawalparasi-Butwal Section of the East-West Highway. The company is a subsidiary of China State Construction Engineering Corporation and the contract is USD 153 million.<sup>463</sup>

The project is being implemented under the ADB Loan on South Asia Sub-Regional Economic Cooperation Roads Improvement Project.<sup>464</sup> Of the estimated USD 256.5 million for the project, ADB financing will be USD 186.8 million and the GoN will chip in the remaining amount. The percentage of financing from ADB for civil work contracts under the project is 84.50%.

### **Upgradation of Syaprubensi-Rasuwegadhi Road**

Nepal and China signed NRs 15.7 billion (RMB 1 billion) bilateral assistance agreement in December 2016 to repair and improve the Syaprubesi-Rasuwegadhi section of the highway besides upgrading and renovating the Civil Service Hospital and post-disaster reconstruction projects.<sup>465</sup>

### **Upgradation of Kodari Highway and Restoration of Bordering Bridges**

As per the pact, the Chinese side has completed upgrading the nine-kilometre-long road from Khasa to Miteri Bridge. CRCC has also repaired the damaged highway. The Chinese company commenced repairing the most damaged and high-risk regions of the road section.

Likewise, the Nepal-China bordering bridge at the Rasuwagadhi border point in Rasuwa district was formally opened to traffic

---

463 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/83912.htm> (accessed November 25 2019).

464 Based on email communication with an official at ADB Kathmandu Office.

465 Bibek Subedi. 2018. "Rasuwegadhi highway set to be upgraded." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2018-01-23/rasuwegadhi-highway-set-to-be-upgraded.html>>.

after restoration through Chinese aid. The old bridge was damaged in the 2015 earthquake. The new bridge was built by Tibet Engineering Company Limited's Tan Sun Road and Bridge. The company had also dismantled the old bridge<sup>466</sup>

### **Koshi-Lhasa Highway**

Another proposed connection to India is the Koshi-Lhasa highway. The 362-km Koshi-Lhasa Highway, which follows the Arun River to China through the Kimathanka transit point, is one of the shortest routes linking China with India. Of the total length, Nepal has already completed most of the work. However, Nepal is worried about the embankment constructed by the Chinese near the Kimathanka border which will make it difficult for Nepal to develop customs and border-related infrastructure on this side.<sup>467</sup> During President Bidhya Devi Bhandari's visit in April 2019, China and Nepal signed a Trade and Transport Agreement, which allows Nepal to carry out trade through six transit points in the border: Rasuwagadhi, Kodari, Yari, Kimathanka, Olangchungola, and Nechung<sup>468</sup> although only two of them are in operation now.<sup>469</sup>

---

466 Balam Ghimire. 2019. "Friendship bridge in Rasuwagadhi comes into operation." The Kathmandu Post.

<https://kathmandupost.ekantipur.com/news/2019-06-07/friendship-bridge-in-rasuwagadhi-comes-into-operation.html>.

467 Anil Giri & Dipendra Shakya. 2019. "Chinese construction along the Nepal-Tibet border puts strategic land at risk." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2019-01-13/chinese-construction-along-the-nepal-tibet-border-puts-strategic-land-at-risk-20190113190207.html>>.

468 Rajesh Khanal. 2019. "China deal offers Nepal more options for third country trade." The Kathmandu Post. <http://kathmandupost.ekantipur.com/news/2019-05-08/china-deal-offers-nepal-more-options-for-third-country-trade.html>

469 <https://timesofindia.indiatimes.com/world/china/china-opens-dual-use-highway-to-nepal-via-tibet/articleshow/60733840.cms> (accessed November 25 2019).

## DRY PORTS

### Larcha (Tatopani) and Timure (Rasuwagadi) Frontier Inspection Station Project

Earthquakes and floods damaged the Tatopani-Piplang road, Liping road, Friendship Bridge, and other infrastructure along the Araniko Highway, forcing the closure of the Tatopani crossing, and the commercial traffic was diverted to the Rasuwagadhi-Kerung transit point further west to the Nepal-China border.<sup>470</sup>

As the reconstruction work of China government-assisted Inland Clearance Depot (ICD) in Larcha has been completed under the China-Aid Post Disaster Recovery of Tatopani Frontier Inspection Station Project, the crossing has come back to life again. The depot was ravaged by floods and earthquakes when the construction work was underway. The government of China awarded construction contracts to the China Railway 14th Bureau Group, while the Beijing Institute of Architectural Design was hired as a consultant for the project. The earlier contractor Beijing Real Estate Development Group vanished after the earthquakes inflicted damages to the already built structures.

The reconstruction cost was expected at around 147 million Yuan.<sup>471</sup> The dry port spreads over 27.5 million square feet of land and includes parking bays for 200 lorries, agricultural quarantine, and other infrastructure. (<https://kathmandupost.com/national/2018/09/02/nepal-china-to-study-tatopani-border>) The dry port has an inspection building, cargo warehouse, litigation warehouse, and a parking lot with a capacity of accommodating at least 158 large containers and 33 cars.<sup>472</sup>

---

470 <https://kathmandupost.ekantipur.com/printedition/news/2019-04-13/reconstruction-work-at-tatopani-border-nearing-completion.html> (accessed November 25 2019).

471 <https://thehimalayantimes.com/business/inland-clearance-depot-larcha-to-open-for-business-within-a-year/> (accessed November 25 2019).

472 Sanjeev Giri. 2018. "Pact resumes Tatopani Port work." The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2018-05-04/pact-resumes-tatopani-port-work.html>>.

Further, China also commenced construction of Frontier Inspection Station, a dry port project. In the allotted 6900 square meters of land at Timure village of Rasuwa district, the International Container Depot (dry port) will include an integrated inspection building, accommodation, a cargo warehouse and parking lot, and a flood protection levee, along with the customs office and inspection equipment.<sup>473</sup>

### Telecommunications

China Telecom Global (CTG) and the Nepal government's telecom company Nepal Telecom have signed a deal for additional Internet bandwidth to Nepal via a newly launched terrestrial fibre cable that connects China and Nepal through the Jilong (Rasuwa) border gateway. The deal provides an additional bandwidth transit service through existing cables that link Nepal and India.<sup>474</sup> A press release of CTG said the 'China-Nepal route could provide service to Nepal and transit service from India.' As the use of the internet has been increasing rapidly in the country, the connectivity through China since January 2018 has been taken as an alternative source for Nepal to meet the ever-increasing bandwidth demand ending Nepal's sole dependence on India for internet bandwidth.<sup>475</sup>

Further, Nepal Telecom contracted two Chinese companies for the expansion of nearly Rs 19 billion fourth-generation (4G) LTE expansion projects throughout the country. Nepal Telecom selected the Chinese companies within two months of the global bidding process on which a case was filed at the anti-graft body. After a year-long probe, the CIAA directed the Ministry of Communications and Information Technology to go ahead with the plan.<sup>476</sup>

---

473 <http://kathmandupost.ekantipur.com/printedition/news/2015-04-10/china-to-build-rasuwa-dry-port.html> (accessed November 25 2019).

474 <https://www.ibn.gov.np/nepal-telecom-china-telecom-global-sign-deal-for-internet-bandwidth> (accessed November 25 2019).

475 Liuyue eds. 2018. "Nepal-China cross-border optical fiber link starts operation." Belt and Road Portal. <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/44053.htm>>.

476 <https://kathmandupost.ekantipur.com/news/2019-02-04/two-chinese-firms-roped-in-for-4g-lte-expansion-project.html> (accessed November 25 2019).

### Solar Plants

The Chinese government handed over the one-megawatt photovoltaic solar system located at Singha Durbar to the Nepal government. The generated power is connected to NEA's grid. China provided a grant of Rs 600 million (37 million Yuan) for the installation of the plant in Singha Durbar.<sup>477</sup> China donated over 32,000 sets of solar power generation systems to Nepal in 2015. According to the Nepali government, the goods will be distributed by the Alternative Energy Promotion Centre in the districts yet to be connected by the national electricity grid and highly affected by the devastating earthquake in 2015.<sup>478</sup>

### COVID-19 and Chinese Support in 2020

Since the outbreak of the novel Coronavirus, China has pledged to support Nepal and other countries by providing public goods in response to the virus. China had also offered to conduct phase three trials in Nepal among the workers at Hongshi Cement. A sub-regional video conference attended by the foreign ministers of China, Afghanistan, Pakistan and Nepal reached a consensus on five points:

- a. adhering to multilateralism and rejecting politicization of the epidemic,
- b. enhancing joint containment mechanisms,
- c. ensuring continuity of economic partnerships,
- d. promoting BRI (including Trans-Himalayan Multi-Dimensional Connectivity Network), and
- e. supporting the international system with the UN as the core.

---

477 <https://thehimalayantimes.com/business/china-hands-over-1mw-solar-system-in-singha-durbar/> (accessed November 25 2019).

478 Liangyu eds. 2018. "China donates solar power generation system to Nepal." Xinhuanet. <[http://www.xinhuanet.com/english/2018-01/21/c\\_136913167.htm](http://www.xinhuanet.com/english/2018-01/21/c_136913167.htm)>.

Meanwhile, Indian experts interpreted this meeting as an attempt to isolate India. India also viewed the meeting between the four nations as a repetition of the SAARC meeting. Thereafter, *Global Times* reported that the fight against Covid-19 is “more important than illusory geopolitical game in South Asia.”

Furthermore, despite the global pandemic, China’s FDI pledge to Nepal has increased by 89% compared to last year. The major surge is due to the investment in hydropower projects. Moreover, the agreements signed during Chinese President Xi Jinping’s visit are still in limbo raising questions whether the COVID-19 pandemic or cooling down of political interests are responsible for the delay. Nepal’s Ambassador to China Mahendra Pandey integrated the importance of implementing the agreements and that the railway project will accelerate once the virus is under control.

Likewise, the pandemic erected trade challenges as well for the bilateral trade relations due to border closure. The two border points— Tatopani and Rasuwagadhi were closed and reopened after six-eight months to resume cross-border trade.<sup>479</sup>

Nonetheless, Nepal was continuously receiving medical equipment from China to combat the COVID-19 global pandemic. The provincial government of China and private enterprises also extended support in form of medical equipment to Nepal.<sup>480</sup> These efforts by China have been condemnable but might play a more crucial and complicated role in the geopolitical spectrum. For instance, when the world was alleging China to have spread the virus, Nepal assured its commitment to support the southern neighbour.

### **Analysis and Conclusion**

India’s cooperation and trust are essential for China’s expansion into Nepal and South Asia and China will adopt a strategy to take India into confidence. China’s primary rationale for projects of connectivity

---

479 [http://www.xinhuanet.com/english/2020-10/30/c\\_139476946.htm](http://www.xinhuanet.com/english/2020-10/30/c_139476946.htm)

480 [http://www.xinhuanet.com/english/asiapacific/2020-05/11/c\\_139048414.htm](http://www.xinhuanet.com/english/asiapacific/2020-05/11/c_139048414.htm)

is to link Tibet and Western China with South Asia. Without India's trust and cooperation, such projects of connectivity will not give economic returns. According to Zhao Gancheng, director of the Centre for Asia-Pacific Studies at the Shanghai Institute for International Studies, the railway "will play a crucial role in facilitating the Chinese region to further 'go out' and integrate into regional cooperation under the Belt and Road Initiative (BRI)." He says the railway will connect Tibet with Nepal and India, boosting trade between South Asian countries with China.<sup>481</sup>

Chinese involvement in the infrastructure sector raises significant questions about Nepal's national priorities and interests, including the economic rate of returns, justice, environment, sustainability, impact on the local population and commercial viability. In addition, China's pursuit of its strategic interests, however, may come into conflict with the geo-strategic interests of other countries like the US and India, straining Nepal's ability to balance these multiple forces while pursuing its national interests. It is too early to disclose the possibility of dragging Nepal into a debt-tap, but it is essential for Nepal to evaluate the rate of return from this mega multimillion-dollar project in terms of trade. This overly hyped project has brewed a number of doubts. Chief among them is how soon the construction of 500 km. Shigatse-Kerung railway within the Chinese side will complete materializing the Kerung-Kathmandu railway link which is in a nascent stage. More importantly, the modality for financing this project is still unclear despite the Chinese government having recently pledged Rs. 2 billion grants for railway projects in Nepal.

### **The political dimensions of Nepal-China Railway: Selling dreams and counterbalancing India**

Nepal's dream of linking to China through a railway goes back to the times of Chairman Mao Zedong and King Birendra.

---

481 Huang Ge. 2019. "Improved railway connection to help Tibet 'go out' under BRI." Global Times. <<http://www.globaltimes.cn/content/1143619.shtml>>.

According to Chinese Ambassador Hou Yanqi, China at that time was planning to link Qinghai with Lhasa with a railway, and when the two leaders met in Beijing in 1973, they talked about extending the railway from Lhasa to Kathmandu in the future.<sup>482</sup>

At the turn of the 21st century, Nepali politicians were already conscious of the development taking place in Tibet and Western China including the proposed plans to integrate the region through connectivity projects. China, however, was focused on developing Tibet, preventing anti-Chinese activities in Nepal and creating economic opportunities for the development of the western region rather than on addressing Nepal's priority needs.

China's Go West Strategy saw a surge in infrastructure development and connectivity in Tibet. In the five year from 2001-2005, China had invested about US\$181 billion on building and upgrading roads and highways in Tibet and was planning to invest another 700 million from 2006. This was in addition to the Qinghai-Tibet line which opened in July 2006.<sup>483</sup>

Around 2002-3, King Gyanendra hoped to develop closer relations with China to counterbalance India's influence and Nepali planners were "excited by the construction of a railroad from the Chinese heartland to Lhasa, hoping the Chinese government can be persuaded to extend it toward the main Sino-Nepal border crossing point at Kodari."<sup>484</sup> In an interview to *The Kathmandu Post* in September 2002, the Chinese Ambassador said that Nepal would benefit once a railway link between mainland China and Tibet became operational. "Although China has no immediate plans to extend the railways southwards to Nepal, he said that it couldn't be ruled out rightaway if the situation so demanded."<sup>485</sup>

---

482 Huang Ge. 2019. "Improved railway connection to help Tibet 'go out' under BRI." *Global Times*. <<http://www.globaltimes.cn/content/1143619.shtml>>.

483 [http://www.chinadaily.com.cn/bizchina/2006-03/24/content\\_584699.htm](http://www.chinadaily.com.cn/bizchina/2006-03/24/content_584699.htm) (accessed November 24 2019).

484 [https://wikileaks.org/plusd/cables/03KATHMANDU2098\\_a.html](https://wikileaks.org/plusd/cables/03KATHMANDU2098_a.html) (accessed November 24 2019).

485 Bhasin 2005: 3335.

The railway dream took a new turn in August 2006 when the then Deputy Prime Minister K P Oli visited Tibet. Qiangba Puncog, chairman of the Tibet Autonomous Region said that China planned to extend the newly built Qinghai-Tibet railway to neighbouring Nepal to expand trade with South Asia. According to Puncog, Tibet was “looking forward to constructing a new passage to South Asia to tap the huge potential for bilateral trade.” A new highway connecting Xigaze and the Nepalese border is also under construction. Oli, who was on an eight-day formal visit to China, was excited by the prospect and said the “the two countries will co-operate on the construction.”<sup>486</sup>

There was a gap between China’s and Nepal’s priorities and interests. In 2008, China was preparing to extend the Qinghai-Tibet railroad from Lhasa to Shigatse. Citing a Nepali Consul based in Lhasa, a US Embassy cable said that Nepal had officially requested China to eventually extend a railway spur from Shigatse to the Nepal-China border. “The consul also noted, however, such a line would likely result in more Chinese goods going into Nepal.”<sup>487</sup> During this period, Nepali leaders were talking about Nepal becoming a transit point between India and China and expected more assistance from the Chinese. Nepal’s request, however, had not made it into China’s planning until December 2009 and Chinese businessmen were mostly interested in investing in Nepal’s hydropower. While Nepal was “enthusiastic on the prospects for increased trade and aid links” Chinese officials called it “just a beautiful dream in Nepalese hearts.” China’s only interest at this point was preventing Tibetans causing an unrest.<sup>488</sup>

---

486 Guan Xiaofeng. 2006. “Qinghai-Tibet Railway may extend to Nepal.” China Daily. <[http://www.chinadaily.com.cn/cndy/2006-08/29/content\\_676273.htm](http://www.chinadaily.com.cn/cndy/2006-08/29/content_676273.htm)>.

487 [https://wikileaks.org/plusd/cables/08CHENGDU43\\_a.html](https://wikileaks.org/plusd/cables/08CHENGDU43_a.html) (accessed November 24 2019).

488 [https://wikileaks.org/plusd/cables/09CHENGDU283\\_a.html](https://wikileaks.org/plusd/cables/09CHENGDU283_a.html) (accessed November 24 2019).

In January 2012, Chinese premier Wen Jiabao visited Nepal, and despite China's distrust of PM Bhattarai, both countries discussed plans for a railway line connecting Nepal and the Tibet Autonomous Region (TAR), and agreed to have more frequent high-level visits.<sup>489</sup> Around 2012, China was investing heavily in Zhangmu and Gyirong as ports of entry into Nepal. China and Nepal opened the Gyirong-Rasuwa transit point in December 2014 following a request by China.<sup>490</sup>

In December 2014, Chinese Foreign Minister Wang Yi formally requested Nepal to conduct a feasibility study for the railway project.<sup>491</sup> Then in March 2015 Chinese President Xi Jinping announced Rs14.5 billion economic package to Nepal, primarily aimed at upgrading the 115-km Araniko Highway and develop the transport infrastructure.<sup>492</sup> China continued to talk about the railway links to Nepal. For example, in April 2015, China Daily reported that the proposed rail link from Qinghai to Nepal border would boost bilateral trade and tourism.<sup>493</sup>

Things progressed in May 2017, during the first Belt and Road Forum for International Cooperation held in Beijing attended by Deputy Prime Minister Krishna Bahadur Mahara. During the event, 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. During Mahara's visit to China, Nepal signed two MoUs, one on

---

489 Ananth Krishnan. 2012. "China boosts trade with Nepal." *The Hindu*. <<https://www.thehindu.com/news/international/china-boosts-trade-with-nepal/article3273935.ece>>.

490 <https://kathmandupost.ekantipur.com/news/2014-11-03/rasuwa-transit-point-to-open.html> (accessed November 25 2019).

491 <https://kathmandupost.ekantipur.com/news/2015-04-02/china-to-extend-railway-link-by-2020.html> (accessed November 25 2019).

492 Nirmal Shrestha. 2015. "Xi announces Rs 14b in new aid." *The Kathmandu Post*. <<http://kathmandupost.ekantipur.com/news/2015-03-29/xi-announces-rs-14b-in-new-aid.html>>.

493 Zhao Lei. 2015. "Rail line aims for Nepal and beyond." *China Daily*. <[http://www.chinadaily.com.cn/cndy/2015-04/09/content\\_20033780.htm](http://www.chinadaily.com.cn/cndy/2015-04/09/content_20033780.htm)>.

Cross Border Economic Zones and the other on upgradation of the Rasuwagadhi-Syaprubeshi Road.<sup>494</sup> Immediately after the signing Chinese Foreign Minister Wang Yi said the railway was a “strategic” cooperation plan raised jointly by Nepal and China’s leaders.

The Deuba-led government was under pressure from China to move ahead with BRI projects.<sup>495</sup> Although Nepal government was leaning towards India, a Chinese 23-member delegation led by Zheng Jian, the deputy director (Vice-Minister) of National Railway Administration of the People’s Republic of China, visited Nepal to study the railway,<sup>496</sup> the cost of which was put at Rs 275 billion.<sup>497</sup> However, China was cautiously watching Nepal’s upcoming elections, the results of which would have a bearing on the future of the railway project.<sup>498</sup>

After becoming the Prime Minister again in 2018, Oli visited China in June 2018 and sought to take further credit for the railway link. The joint-statement released on June 21 “underscored” the MOU on Cooperation for Railway Connectivity as “the most significant initiative in the history of bilateral cooperation and believed that it would herald a new era of cross-border connectivity between

---

494 Sangeet Sangroula. 2017. “China agrees to provide financial assistance for cross-border railway link.” My Republica. <<https://myrepublica.nagariknetwork.com/news/20110/>>.

495 Anil Giri. 2017. “Nepal scraps award of 1200-MW hydropower project to Chinese firm.” Hindustan Times. <<https://www.hindustantimes.com/world-news/nepal-scraps-award-of-1200-mw-hydropower-project-to-chinese-firm/story-V4KUxkWb9xg8qtfM26hePL.html>>.

496 <http://kathmandupost.ekantipur.com/printedition/news/2017-11-07/chinese-team-to-hold-railway-studies.html> (accessed November 25 2019).

497 Rudra Pangani & Santosh Neupane. 2017. “100-km Kerung-Kathmandu railroad to cost Rs 275b.” My Republica. <<https://myrepublica.nagariknetwork.com/news/30488/?categoryId=81>>.

498 Zhang Yiqian. 2017. “As China, Nepal try to clear last hurdles for new train route, India’s anxiety is aggravated.” Global Times. <<http://www.globaltimes.cn/content/1078811.shtml>>.

the two countries.”<sup>499</sup> On his return, PM Oli sought to take further credit for the agreements.<sup>500</sup>

On 12 May 2016, China sent its “first combined transport service (rail and road)” to Nepal. An international freight train departed from Lanzhou, the capital city of northwestern China’s Gansu province, for Kathmandu. Nepali officials in Beijing and Kathmandu, however, said they were not aware of the developments.<sup>501</sup> The freight was the beginning of what was to become a strategic move by China. In October 2018, China started a similar initiative linking Lanzhou with Islamabad.<sup>502</sup> According to experts, Lanzhou was “the most important transportation hub connecting north-western China with Xinjiang and Central Asia” and Nepal’s TTA with China would have unforeseen benefits in the long term.<sup>503</sup> While the sea route from west China takes 40 days to reach South Asia, the land route takes 10 days at the same cost. As a result, Lanzhou’s trade with BRI countries reached US \$713 million in the first three months of 2018, an increase of six percent from the previous year.<sup>504</sup>

---

499 Ministry of Foreign Affairs. 2018. “Joint Statement between Nepal and the People’s Republic of China.” Government of Nepal. <<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china/>>.

500 <https://kathmandupost.ekantipur.com/news/2018-06-25/pm-hails-rail-pact-with-china.html> (accessed November 25 2019).

501 Sanjeev Giri. 2016. “Beijing ‘sends’ freight train for Nepal.” The Kathmandu Post. <<http://kathmandupost.ekantipur.com/news/2016-05-13/beijing-sends-freight-train-for-nepal.html>>.

502 <https://www.thenews.com.pk/latest/384965-china-launches-new-rail-road-cargo-linking-lanzhou-with-islamabad> (accessed November 25 2019).

503 Gao Liang. 2018. “Fast lane ahead.” The Kathmandu Post. <<https://kathmandupost.ekantipur.com/news/2018-10-08/fast-lane-ahead.html>>.

504 Li Xia eds. 2019. “Across China: Logistics links boost trade between China’s west and B&R countries.” Xinhuanet. <[http://www.xinhuanet.com/english/2019-04/29/c\\_138022237.htm](http://www.xinhuanet.com/english/2019-04/29/c_138022237.htm)>.

The 73-km-long Nepali portion of the railway, which would cost \$2.65 billion, is generating more questions than answers. They are economic and commercial benefits; the maintenance and operation capacity of the Nepal government; the geo-logical and environmental concerns; and technical difficulties. All of these questions would require sustained cooperation and relationship with China. Another major question is the role of India. China's primary purpose of building the network is to link with India. However, the Chinese are worried that "India has strong influence on Nepal's government, which prevents the Himalayan country from getting closer to China." But they are willing to wait and bide the time for enough "strategic mutual trust."<sup>505</sup>

\*\*

---

505 Huang Ge. 2019. "Improved railway connection to help Tibet 'go out' under BRI." Global Times. <<http://www.globaltimes.cn/content/1143619.shtml>>.

## Chapter 7

# CHINA'S BUDDHISM POLICY IN NEPAL

Natasha Todi

### **China Re-Shaping It's Ideological Framework to Accommodate Religion**

In the 1970s, the Chinese communist party declared all forms of religion as feudal superstitions and declared itself an atheist state. However, in the last decade China has turned away from this extreme policy<sup>506</sup>. Viewing religion as a force to reckon with, Chinese authorities have historically forced religious organizations to shut down. This has been done using a variety of coercive methods from public hearings, declaring various institutions 'enemies of the state' to even burning down valuable manuscripts during the Cultural revolution. Today China has made vast advances economically and people have more money they could have ever dreamt off. With Deng Xiaoping's famous words "Poverty is not socialism, to get rich is glorious", the Chinese people have reached the echelons of economic prosperity. Money and material goods have brought an upheaval in the Chinese way of life. In order to keep their moral compass centered in this confusing lifestyle, a wide section of people is looking at spiritual guidance for help<sup>507</sup>.

---

506 André Laliberté, The Communist Party and the Future of Religion in China, The Immanent Frame, <https://tif.ssrc.org/2013/10/04/the-communist-party-and-the-future-of-religion-in-china/>

507 John Sudworth, China's Super Rich Communist Buddhist, BBC, <https://www.bbc.com/news/magazine-30983402>

Considering this shift in public opinion even the Communist Party of China has made a crucial change in its policy on religion. While China remains an atheist state and continues to repress communities like the Uighur Muslims and Christians, China has created a distinct policy for Buddhism outside its borders. China has astutely realized the ‘social capital’ that can be enhanced by embracing its Buddhist history. Establishing this policy as early as 2006, China had hailed Buddhism to be an ancient Chinese religion and hosted the World Buddhist Forum to invite all the neighboring countries to establish a shared Buddhist heritage<sup>508</sup>. Buddhism then became a tool to pursue countries to sign off the Belt and Road Initiative. The language of interaction has been rife with ideas of preservation and revival of the Buddhist heritage and promoting ancient Buddhist sites in the world. This policy has clearly manifested in Pakistan through the Gandhara Trail and the Buddhist center in Myanmar’s capital along with funding to carry out Buddhist studies<sup>509</sup>.

Nepal is of great strategic significance to China in its policy of co-opting Buddhism. Nepal is seen as the “jumping off<sup>510</sup>” point for Tibet and thus is a potential security threat due to its close border, cultural and religious ties with the Tibetan community. Furthermore, India considers Nepal to be under its sphere of influence and has used its shared religious and cultural identity to pave the way for close-knit bilateral relations. In the recent years, Income has become the “antagonistic brother<sup>511</sup>” imposing economic blockade to Nepal, while China is seen to be the friendly northern neighbor whose non-interference policy seems more plausible than India’s. China has been trying to affirm the shared

---

508 Krithika Varagur, The Coming Fight for the Dalai Lama’s Soul, Foreign Policy, <https://foreignpolicy.com/2019/01/22/dalai-lama-reincarnation-beijing-politics-tibet/>

509 Varagur, The Coming Fight for the Dalai Lama’s Soul.

510 Jackson, Lauren, China is winning the war for Nepali Buddhism, The Diplomat, <https://thediplomat.com/2019/03/china-is-winning-the-war-for-nepali-buddhism/>

511 Jackson, China is winning the war for Nepali Buddhism.

Buddhist heritage with Nepal. It intends to use this newfound influence primarily for its strategic interests and second, further its ambitious Belt and Road Initiative disguised under the blanket of a building a 'harmonious' Buddhist society.

### **Resurgence of Northern Relations: China's Untapped Potential**

With the emergence of an apathetic India, Nepal's policy departure is in tandem with its bid to diversify its foreign policy, indicating a surge in northern relations. The rise of the Maoist leadership and their induction into peaceful politics has created a favorable situation that allows China to deal with a group that they are ideologically aligned with. Nepal's friendly relations with India are at its lowest point, post the unofficial economic blockade in 2015, creating a vacuum that China has ensured to move into. First, this chapter will question why China in recent discourse has been painted in an overtly positive light. Second, I will explore the reasons why China considers Nepal to be strategically important and has moved to make incursions into the country and what this means for Sino-Nepali relations.

Over the years China has managed to keep cordial relations intact with all factions of the Nepalese leadership from the monarchy to even the Nepalese Congress<sup>512</sup>. Before Nepal's transition to a democracy, China's interest in the country had been nominal. Popular opinion for China up surged at the same time as India's perception plummeted. From the Nepali standpoint, the Chinese have managed to portray themselves to be the polar opposite of India in their dealings with Nepal. When India imposed an unofficial economic blockade to Nepal, the Chinese army cleared the blocked northern roads and provided a steady flow of essential goods<sup>513</sup>. Similarly, when India merely took a note of the historic 2015 constitution, the Chinese government welcomed it with high praise.

---

512 Adhikari, Monalisa, 'Between the Dragon and the Elephant: Nepal's Neutrality Conundrum', *Indian Journal of Asian Affairs*, vol. 25, no. 1/2, 2012, pp. 83-97. See p.93.

513 Singh, Bawa, 'India's Neighbourhood Policy: Geopolitical Fault Line of Its Nepal Policy in the Post-2015 Constitution', *Journal of International and Area Studies*, vol. 23, no. 1, 2016, pp. 59-75. See p.71.

These actions were crucial as it sent out a positive message, especially at a time when the anti-Indian sentiment was rampant in the wider public. China's continuous promise for economic support coupled with its deft diplomacy and ideological base (albeit at a cursory level) paved the way for Chinese influence in Nepal both psychologically and socially. China has since taken this supportive change in climate and applied two key policies. First, it has developed a dynamic and result inducing plan for investment into Nepal and second, most crucial for perception, it has tried to portray itself to follow a strict policy of non-interference in Nepal's internal affairs<sup>514</sup>.

To illustrate the extent of China's determination, China and Nepal have signed agreements to develop hydropower projects, cement plants, and agri-food parks worth 2.5 billion dollars. China's Foreign Direct Investment has surpassed that of any other countries and constitutes 84% of the 515 million dollars of FDI<sup>515</sup>. Furthermore, China has attached itself to key projects like Kamali bridge, Kathmandu Ring Road, as well as the Koshi, Karnali and Gandaki Economic corridors<sup>516</sup>. The Chinese Development Cooperation Agency has promised developmental assistance in 15 northern districts of Nepal, an area that hardly receives political limelight within Nepal<sup>517</sup>.

Amidst all of this, China has now enveloped Nepal into the Belt and Road Initiative and has promised to intensify implementation of the MoU on Cooperation to enhance connectivity. All eyes

---

514 PK Balachandran, How is China Getting Nepal into its Orbit, News In Asia, <https://newsin.asia/how-china-is-getting-nepal-into-its-orbit/>.

515 Tom Vater, Laure Siegel, Belt and Road Reaches Nepal's Wild North, Winning China Influence, The Nikkei Asian Review, <https://asia.nikkei.com/Spotlight/Belt-and-Road/Belt-and-Road-reaches-Nepal-s-wild-north-winning-China-influence>.

516 Balachandran, How is China Getting Nepal into its Orbit.

517 Anil Giri, Chinese Development Agency to aid 15 Northern Nepali districts, The Kathmandu Post, <http://kathmandupost.ekantipur.com/news/2019-03-30/chinese-development-agency-to-aid-15-northern-nepali-districts.html>.

are on the promise of the Trans-Himalayan railway that would connect Shigatse to Kerung at the Nepali border and then a hundred more kilometers to Kathmandu, eventually even to Lumbini. Many are skeptical of the viability of this project, as it would invoke a severe monetary burden with ninety percent of the track in Nepal going through bridges and tunnel<sup>518</sup> .

Despite reservations, China has already started sending cargos through a combination of freight train till Shigatse and then trucks to reach Kathmandu. Furthermore, Chinese presence in the border has created opportunities for the people living there with the Free Border Citizen card and the permission to travel, work and shop within thirty kilometers of the border<sup>519</sup>. Whether the railway link pans out or not, China has demonstrated a well-thought-out plan and has made assurances to Nepal that it has both the will and the capacity to provide Nepal with the connectivity and the markets it so desperately needs. This alone has been enough to create a stirring change in the view of the north with a scathing juxtaposition of India's lack on the same end.

For China, Nepal represents a crucial security chink. Tibet and Nepal have shared historic ties and after the exodus in 1950, a large number of Tibetans have settled in Nepal. With the Tibetan Khampas operating out of Mustang, the Tibetan presence in Nepal has shown itself to be problematic. China has recognized that the Himalayas can longer be relied on for security, and has started high profile visits to Nepal. Furthermore, the overwhelming presence of Western aid agencies and diplomats is seen as a threat to China as it feels these external players have a role to play in the unrest in Tibet<sup>520</sup>.

---

518 Vater, Siegel, Belt and Road Reaches Nepal's Wild North, *Winning China Influence*.

519 Vater, Siegel, Belt and Road Reaches Nepal's Wild North, *Winning China Influence*.

520 Adhikari, 'Between the Dragon and the Elephant', p.91.

As a part of its plan to secure its strategic interests, China has a looming presence in Nepali tourism, trade and development. Lumbini, the birthplace of the Buddha has found itself the recipient of seventy billion dollars' worth of developmental aid. It now boasts an airport, hotels, a Buddhist university and has become a tourism hub. Through this project China aims to control accessibility to the site and through the vast aid package is trying to court the Sherpa Buddhist population. All of this will culminate in a larger control of Buddhism by China through which it eventually aims to control the succession of the next Dalai Lama<sup>521</sup>. Soft power too has been perpetuated through the growing number of Confucian centers, Chinese language centers and Chinese scholarships for Nepalese students all of which will cement popular support among the populace.

Not only has Nepal recognized its need to reduce its dependency on India, China has until now depicted itself to be a reliable stepping ladder for Nepal's mobility in the world order. The Chinese have carefully cultivated an image of benevolence and respect when it comes to its dealings with Nepal. It has shown efficiency and quality in the execution of its projects and has won over the hearts of many for whom the pros of dealing with China vastly outnumber the cons. For now, it seems to be the two countries have sidestepped any differences they may have and have affirmed a common Buddhist heritage to enter this new era of friendly relations<sup>522</sup>.

### **Creating a Desirable Buddhism Package for Nepal**

China's Buddhism policy in Nepal has been possible because China has followed a shrewd two-fold policy that makes the Chinese advance a welcome change. First, it has led agreements with vast connectivity and developmental projects and second these projects seem to target areas that are ripe with Buddhist heritage to attract tourists from all over the world. Thus, by spearheading

---

521 Jackson, China is winning the war for Nepali Buddhism.

522 Jackson, China is winning the war for Nepali Buddhism.

their religion policy with a much-needed revival and connectivity push, China has created an irresistible package that Nepal simply cannot not refuse.

The Asia Pacific Exchange and Cooperation Foundation is a quasi-governmental organisation that is led by Xiao Wunan, a leading Chinese official who heads the National Development and Reform Commission. It is also the organisation responsible for carrying out China's quest to be seen as the world's leading Buddhist country. Despite a controversial beginning in Lumbini, China has been able to take Lumbini the birthplace of the Buddha and build an airport, a highway, convention centers, rebuild temples and even create a Buddhist university. This massive project cost 3 billion dollars which accounts for at least ten percent of Nepal's entire GDP<sup>523</sup>. Not only did the Chinese organisation carry out revival work to restore the Buddhist site but also laid out much needed electricity and communication lines. This along with the construction of a highway and the international airport is sure to create a boom in Nepal's tourism industry.

The Lumbini project is aimed to divert 23 million tourists from the state of Bihar in India. This will be possible by creating a more powerful narrative emphasizing the greater significance of Lumbini, the birthplace of the Buddha over Bodhgaya, where Buddha attained enlightenment<sup>524</sup>. While tourism remains on the forefront of China's plan for religious sites, it is also strongly backed by development and connectivity. While a railway project is yet to be set in stone, If China will be able to connect the Tibetan Autonomous Region to Kathmandu, it will open a two-way pilgrim traffic to and from Buddhist sites in Nepal and China<sup>525</sup>.

Thus, China's policies have been widely welcomed by Nepal as it promises three key factors. First, China promises non-interference

---

523 Aljazeera Reporter, The Lumbini Project: China's 3 Billion Dollars For Buddhism, <https://www.aljazeera.com/blogs/asia/2011/07/52211.html>.

524 Rinzin Dorjee, The Dalai Lama and China's Quest for Buddhist Soft Power, The Diplomat <https://thediplomat.com/2018/10/the-dalai-lama-and-chinas-quest-for-buddhist-soft-power/>

525 Dorjee, The Dalai Lama and China's Quest for Buddhist Soft Power.

in internal affairs and this promise comes at the crucial time of peak distrust created by India's over-interference<sup>526</sup>. Second, China has proven itself to be one the highest investors in Nepal's development especially when it comes to infrastructure and energy. Not only has China been the largest representative at the Nepal Investment Summit, but also has two large hydropower schemes in place and is constructing an international airport for better access to Lumbini.

Furthermore, with key projects like the Karnali bridge, the Kathmandu Ring Road, the Koshi and Gandaki Economic corridors, public opinion is at an all new high for China. Using soft power tactics like introducing Mandarin at all educational levels, while providing jobs and scholarships for Nepalis to study in China has paved the pathway for better Nepal-China relations. Lastly, what ties together this attractive package is the large amount of aid promised by China to preserve ancient Buddhist sites which will boost Nepali tourism to new levels. All of these factors combined presents an opportunity to elevate its developmental dreams and establish itself as an active player in the international community.

### **Where does Tibet fit into all this?**

#### **Tibet and its Connection to China's Newfound Buddhism Policy**

Tibet and the Tibetan struggle for self-determination lies central to China's entire policy of co-opting Buddhism across the world. The Tibetan region's claim to freedom is one of the most contentious issues of South Asia and remains unresolved with little progress towards a solution. China's economic clout has become mammoth propelling as the only real contender to American hegemony. Despite China's rise, the Fourteenth Dalai Lama have used the spiritual teachings of Buddhism and the story of Tibetan suppression to garner global support for free Tibet movement. With the Dalai Lama's health deteriorating due to his old age, China patiently awaits his impending death as a real chance for it to control the narrative emanating from Dharamshala.

---

526 Balachandran, How is China Getting Nepal into its Orbit.

The 14th Dalai Lama Tenzin Gyatso celebrated his 84th Birthday in the first week of June with Tibetans all over the world celebrating their spiritual leader's life and leadership. The Dalai Lama's birthday gave rise to the pertinent question yet again as he makes his way into old age; what will come after he passes away? Will China be successful in appointing their authority over this line of succession? Or will the Tibetan struggle succeed in garnering international support to freely choose the next reincarnation of the Dalai Lama?

Keeping these questions in mind, the succession question propelled under the limelight when a Chinese official and a member of a Beijing based think tank told some visiting Indian journalists that China will reject any Dalai Lama that is born outside its territory and among the Tibetans-in-Exile<sup>527</sup>. While this comment sparked widespread condemnation from the international community and from the Central Tibetan administration, it is important to first understand why China felt it had the authority to make such a statement. China successively failed to instate a reincarnation of the Karma Pa and the Panchen Lama. A similar scenario was encountered before with the Panchen Lama in 1995 when the Chinese authorities allegedly kidnapped the Tibetan chosen representative who was a mere six years old and appointed another Panchen Lama in his place<sup>528</sup>. The Chinese appointed Panchen Lama has still not been accepted by the Tibetan community as he is considered a Chinese controlled mouthpiece.

Furthermore, to its surprise even after two decades of the Dalai Lama fleeing to India, there was unwavering support for him within the Tibetan region. The Chinese then understood that in

---

527 Vineeta Pandey, China Can't Pick the New Dalai Lama Say Tibetans, The Asian Age, <https://www.asianage.com/india/all-india/230719/china-cant-pick-the-new-dalai-lama-say-tibetans.html>

528 Chakmo Tso, Singeri Sonam Lhamo, Dalai Lama Representative Dismisses Chinese Pressure on India over Reincarnation, Nepal 24 Hours, <https://www.nepal24hours.com/dalai-lama-representative-dismisses-chinese-pressure-on-india-over-reincarnation/>

order to be able to ‘Sinicize’ the Tibetan community they must earn legitimacy first, which would only come if they could control the next Tibetan spiritual leader<sup>529</sup>. The Third Tibet Work Forum was the landmark strategic forum after which China’s State Administration for Religious Affairs issued its “State Religious Affairs Bureau Order no-5<sup>530</sup>”. This order essentially made the Chinese stamp of approval non-negotiable in order to choose a reincarnate.

Tsewang Gyalpo Arya a CTA official responded to the Chinese statement saying that “As said by His Holiness the Dalai Lama, a lama is reincarnated on his free will to fulfill the incomplete task of the former. If he is born in a repressive country, where he cannot contribute, then the very purpose of the reincarnation is lost<sup>531</sup>.” He also added that Tibetans would not accept the Chinese chosen Dalai Lama but also all Buddhists along the Himalayan border from Nepal, Mongolia, China and other devotees would not accept him.

The Chinese statement came after it rejected an American attempt initiated by US ambassador Terry Branstad to engage Beijing in a dialogue with the present Dalai Lama to resolve their differences<sup>532</sup>. More recently Democratic Congressman Jim McGovern, introduced a bill into the Senate to curb Chinese encroachment into Tibetan territory and place financial and economic sanctions on China based on the Global Magnitsky Human Rights Accountability Act<sup>533</sup>.

---

529 Vijay Kranti, China’s Conspiracy to Install its Puppet as Tibet’s Next Dalai Lama, News Intervention, <https://www.newsintervention.com/chinas-conspiracy-to-install-its-puppet-as-tibets-next-dalai-lama/>

530 Kranti, China’s Conspiracy to Install its Puppet as Tibet’s Next Dalai Lama

531 Pandey, China Can’t Pick the New Dalai Lama Say Tibetans.

532 Pandey, China Can’t Pick the New Dalai Lama Say Tibetans.

533 Reporter, US Congressman Warns China not to Meddle in Dalai Lama’s Succession, Taiwan News, <https://www.taiwannews.com.tw/en/news/3750153>

From recent developments and escalating tensions, it seems that China and Dharamshala are both poised to appoint their own Dalai Lama. While the possibility of two parallel Dalai Lama's remains conceivable, it is also understood that there may be no 15<sup>th</sup> Dalai Lama at all. Beijing will shoot down any successor chosen by Tenzin Gyatso and vice versa, thus it seems highly unlikely that either will be able to choose a Dalai Lama due to the ensuing political deadlock. Additionally, India can also be seen to play a crucial role in this choice as it could loan legitimacy by deciding which choice to side with. To conclude, the next Dalai Lama could either resolve China's long standing security concerns from Tibet or he/she could be the first step towards Tibetan self-determination.

By linking heritage revival and Buddhism as an integral part of BRI, China is essentially laying the groundwork to assign itself the legitimacy to choose the next Dalai Lama<sup>534</sup>. By bringing Nepal under the umbrella of the BRI, China is determined to ensure Nepal will follow its One China Policy. This reflects in realpolitik by Nepal not recognising Tibet's claim to independence and eventually shunning the CTA chosen Dalai Lama. Even today, every single country that is dependent on China for foreign aid and heavy investments bows down to pressure and does not invite or allow the fourteenth Dalai Lama out of fear.

China has invoked Buddhism as its tool to resolve its security crisis in Tibet by renewing its policy to include religion to enhance social capital. Once having formed this policy, the Chinese foreign policy has aggressively portrayed itself as a world leader in bringing together the various forms of Buddhism under one umbrella. This allows them to add to their legitimacy while also selectively choosing to leave out the Tibetan form of Buddhism from this

---

534 N.S Venkataraman, Who is China to Appoint the Next Dalai Lama, Nepal 24 Hours, <https://www.nepal24hours.com/who-is-china-to-appoint-next-the-dalai-lama/>

535 Krithika Varagur, The Coming Fight for the Dalai Lama's Soul, Foreign Policy, <https://foreignpolicy.com/2019/01/22/dalai-lama-reincarnation-beijing-politics-tibet/>

dialogue isolating it even further<sup>535</sup>. Drawing from their Buddhist history, the Chinese have then extended a hand of friendship to Nepal promising unprecedented levels of development and trade. Having co-opted Buddhism in Nepal, China can then pave the way to get rid of all security threats from Tibet and from the Tibetan community within Nepal and India.

### **Methods and Tools of Suppression**

Regarding the tools of oppression used to suppress the human rights of Tibetans in Nepal, their refugee status is the most visible one. There are currently 15,000 to 20,000 refugees living in Nepal, a huge number of this were from the first wave of refugees who arrived from Tibet after the uprising at Lhasa in 1949. Nepal had issued Refugee cards to Tibetans coming to Nepal but abruptly stopped in 1989<sup>536</sup>. Post 1989, the government has not issued any identity cards even to children born in Nepali territory from the Tibetan refugee parents. This denial of accepting the identity of the Tibetan refugee through basic documentation, the Nepali government under pressure from the Chinese government is systematically creating an oppressed stateless populace.

The ways in which the denial of the Refugee Cards isolates the Tibetan community within Nepal is threefold. First, it bars young Tibetan from obtaining education as many educational institutes require a Nepali citizenship or equivalent as ID proof to enroll as students. Even if one is able to finish college and wishes to apply for a white-collar job, not having any identification creates yet another barrier in the path of getting a work permit. Second, Tibetan refugees have no right to own property on Nepali territory. It is necessary to understand the instability its denial can create in one's life. Without the ability to own property, Tibetans cannot buy land to build their own houses. Instead, they must throughout their lives live at the mercy of a rented apartment or living space, which leaves them at the mercy of their landlord.

---

536 Situation of Tibetans, The Ref World, <https://www.refworld.org/docid/550c36f64.html>

Third, they are denied Refugee Cards. If provided, it would have been an acceptance on the Nepali government's part that Tibetan refugees live within Nepal and their children too will continue to live here. Instead, the denial is a long-term plan to behave as though these stateless individuals simply do not exist, at least for all official government records. This allows a form of negligence where the Nepalese government does not feel obligated to look after the welfare or even basic human rights of these people.

For example, most basic health services to the Tibetan community are provided through organizations like the Snow Lion Foundation, an NGO registered in Nepal. Its health coordinator, Tenzin Nima, a 29-year-old nurse, says it is a constant struggle to work around bureaucratic hurdles<sup>537</sup>. Similarly, without a refugee card, there is no official record of the individual in question, making her or him a very easy target for the police. They can be thrown in jail or taken away for questioning without much legal aid at their disposal.

### **Internal Pressure from Local Civilians - Protests hamper tourism and business**

With a plethora of sites in Kathmandu that hold major significance in Tibetan Buddhist narratives, the Boudha stupa as well as the Swayumbhu are perhaps the most important. A large number of tourists visit these sites and provide a much-needed impetus to the Nepali economy. They are not only religiously significant for Tibetan refugees but are also economically irreplaceable for the Nepalese government. Taking Boudha as our primary example, the surrounding of the stupa is a melting pot of the shrinking Tibetan community, the Nepalese locals and their tourism related businesses as well as an increasing community of foreigners who frequently visit this holy site.

Boudha has also long been known by the government to be the hotbed of Tibetan activism with frequent peaceful protests as well

---

537 Chris McCall, Tibetans in Nepal Struggle to Access Health Care, *The Lancet*, [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(14\)61712-8/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(14)61712-8/fulltext)

as incidents of self-immolation having been carried out. It is now the first target for police forces before any major Chinese visit or even around the Dalai Lama's birthday or other significant dates. The Nepali government has changed its tone and language when it refers to the Tibetans residing within Nepal. From the previous humanitarian terms that were used to describe the Tibetan situation, it has now deteriorated to a 'law and order' approach<sup>538</sup>. This implicates that the Tibetans involved in said situation are a hindrance to the society and are even potentially dangerous.

Echoing this same change in tone set by the government, the Nepalese locals too have created their own 'us and them' narrative. Respondent 1 recalled an incident when he was having dinner at a restaurant in Boudha, when a peaceful Tibetan protest led by monks and the Tibetan youth was broken up by the police<sup>539</sup>. As usual the police used unnecessary brute force and used their sticks on the unarmed protestors as well as tore their signs<sup>540</sup>. When the people in the restaurant got up to see where all the noise was coming from, one of the Nepalese waiter's praised the Nepali police and said that it was a relief that they got rid of the wretched 'Bhutias'. He further went on to say that their protests were an impediment to the flourishing day to day business in Boudha. If such protests were not put down, tourists would stop coming and their source of livelihood would be cut off.

Let's unpack this statement made by a waiter who is simply reflecting the larger narrative that emanates from the center. What we can understand is that even locals have turned a blind eye to the atrocities being committed by the armed forces. Nepal's economy has always been heavily dependent on tourism and after

---

538 International Campaign For Tibet, An Uncertain Welcome, Save Tibet, <https://savetibet.org/an-uncertain-welcome-how-chinas-influence-impacts-tibetans-in-nepal/>

539 Respondent 1

540 Emily Walker, China's Influence in Nepal Endangers Tibetan Refugees, Newint, <https://newint.org/features/web-exclusive/2016/01/11/chinas-influence-in-nepal-endangers-tibetan-refugees>

the 2015 earthquake, even that took a hit. Considering the rise of unemployment and poverty, it is foreseeable that a layman would choose to look towards a foreign force that has promised immeasurable development and job opportunities. For that matter, Tibetan protests are simply a nuisance to the peace and will be an obstacle to him earning his daily wage. He/she will not be able to understand that these protests signify a crucial tool in the global power struggle that exists between the Tibetan and the Chinese narrative. The use of the slur *Bhutia* is also a deeply entrenched problem that emanates from the perception that a true Nepali looks a certain way and every other resident is a second-rate occupant of the country.

### **Immense Chinese Pressure**

The Human Rights Watch report mentioned that China decided to “significantly scale up its economic and political engagement with Nepal” after the 2008 uprising provoked by the Beijing Olympics. The culmination of those efforts was a January 2012 visit to Nepal by Wen Jiabao, the then Chinese prime minister<sup>541</sup>. Before the 21st century, Nepal and China had nominal bilateral relations with the Himalayan ranges proving to be both a physical as well as a psychological barrier to a deeper relationship. Post 2008, China recognized that Nepal is a significant chink in its security armour, and the thousands of Tibetan refugees residing within would pose a threat to its core interests. Since then, China’s bilateral relations with Nepal have been spear headed with huge announcements of developmental schemes and announcements of having reached a deeper level of friendship. However, if observed closely, each of these interactions is always either preceded or followed by statement that reiterates that Nepal must or is following the One-China policy.

During the recent series of meetings between Foreign Minister Wang Yi, with almost all leaders of the country, statements

---

541 Edward Wong, Bhadra Sharma, Tibetans Repressed in Nepal, Rights Group Finds, New York Times, <https://www.nytimes.com/2014/04/02/world/asia/rights-group-documents-repression-of-tibetans-in-nepal.html>

released by Xinhua, China's official mouthpiece, the reportage includes a note of thanks from Yi's side to the leader in question for upholding the one-China policy and for not allowing any forces to engage in anti-China separatist activities. If such a template is not followed, then the report usually claims that the Nepali representative brought up Nepal's determination to enforce the 'One China Policy' with resounding conviction<sup>542</sup>.

Taking such rhetoric, a step further, during the Chinese premier Xi Jinping's visit to Nepal, he was quoted to have said," anyone attempting to split China in any part of the country will end in crushed bodies and shattered bones<sup>543</sup>." With the on-going clash between Mainland China and the students in Hong Kong, most of the world took this to be a clear message for the protestors. Additionally, the fact that the Chinese leader felt comfortable enough to make such a visibly aggressive statement within a foreign territory goes on to show that the level of control China has on the Nepali leadership. It is unsurprising that leaders such as Prachanda would declare unwavering support and publicly vow to put an end to all anti-China activities in Nepal. Politicians who do not follow such measures are then made an example out of, as was done with Samajbadi Party lawmaker Pradip Yadav when he attended a Free Tibet conference in Riga, Latvia<sup>544</sup>.

While the above were statements made by leaders, the real ramifications of such statements can be seen across different modes of social life. First of all, the way in which Tibetan activities are reported is vastly different from the narrative a decade ago. There has been a "noticeable pattern of negative news coverage" of Tibet in Nepal with the focus being on Chinese concerns of

---

542 Xinhuanet, [http://www.xinhuanet.com/english/2019-09/10/c\\_138381436.htm](http://www.xinhuanet.com/english/2019-09/10/c_138381436.htm)

543 Reporter, Xi Warns China Adversaries Crushed Bodies Shattered Bone, Aljazeera, <https://www.aljazeera.com/news/2019/10/xi-warns-china-adversaries-crushed-bodies-shattered-bones-191014015858714.html>

544 Tenzin Dharpo, Nepalese Lawmaker Suspended from Party for Attending Conference on Tibet, Phayul, <http://www.phayul.com/news/article>

Tibetan activities in Nepal and less of the violations being carried out against the Tibetans. Such coverage is also unsurprising as the Nepali government has now begun to censure the media for its earlier so-called “biased” writing on Tibet. Anil Giri, a foreign affairs correspondent from the Kathmandu Post told VOA news that journalists are tacitly being coerced into not writing any articles that mentions Tibetan refugees in a positive light<sup>545</sup>. He even went on to say that Chinese officials host junkets for journalists hoping to win them over to the Chinese side.

Another example of the immense Chinese pressure on the Nepali government is the scandal that broke in July 2019 when Penpa Tsering a man of Tibetan origin holding US citizenship was deported back to the US. His name matched a name on a blacklist provided by the Chinese government to the immigration authorities barring certain Central Tibetan Administration officials from entering Nepal. Despite telling the officials repeatedly that they had apprehended the wrong person, he was held for six hours and then deported. Even after the authorities realized that they had the wrong person, they still deported Tsering, wanting to be on the “safe side”, implying that they would have faced consequences if he had been the same Tsering in question. Looking at this incident closely, we can deduce two things. First, the Nepalese immigration officials must have felt a considerable amount of fear that they would make the mistake of allowing a Chinese blacklisted individual into the country. Second and perhaps a more important deduction is that, the Chinese authorities have enough hold on Nepal’s government to ban an entire list of individuals from entering the country. Keep in mind that Nepal is a sovereign nation and claims to follow a non-aligned stance, the officials seem to have readily accepted these directions due to insurmountable pressure on them.

---

545 Yeshe Dorjee, Rajani Tamang, Nepalese Journalists Pushed Avoid Reporting China Tibet, Voa News, <https://www.voanews.com/south-central-asia/nepalese-journalists-pushed-avoid-reporting-china-tibet>

## **Crackdown on Tibetan Rights by the Government Forces**

Tibetans have been historically gathering peacefully in March every year to commemorate their struggle against the Chinese government. Earlier, these gatherings were largely left undisturbed and were even covered freely in the Nepali news. In the last decade, March brings a dangerously tense atmosphere in the capital especially in Boudha. With an influx of police officials keeping a watchful eye for any demonstrators, Tibetans are regularly detained and carried away to Boudha police station both preemptively as well for portraying a ‘security threat’<sup>546</sup>. Other police stations that have found itself flooded with Tibetan detainees has been Jawalakhel Police Station with many assembling outside the United Nations office nearby and Swayabhu Police station.

While the detainment itself is problematic what is even more worrying is the alleged treatment of the detainees within the police stations. Reports from both Reuters and the Human Rights Watch have documented instances of excessive use of force, threats, intimidations and other forms of abuse meted out to detained Tibetans<sup>547</sup>. Most of these protestors are arrested for posing a ‘security threat’ and then are taken to face beatings within the station. There have been reports of protestors being physically abused for hours resulting in broken limbs, fractures and other serious afflictions. Furthermore, there have been instances where after this ordeal, the detainees are forced to sign under duress a document that they will not participate in any further protests<sup>548</sup>. It paints a picture of the protestors posing a real danger to their surroundings with signs of violent behavior. However, in reality they are simply being arrested for voicing their right to self-determination.

---

546 Nepal: End Attacks Arbitrary Arrests and Harassment and Tibetans, Human Rights Watch, <https://www.hrw.org/news/2008/03/20/nepal-end-attacks-arbitrary-arrests-and-harassment-tibetans>

547 Edward Wong, Nepal Detains Tibetans Traveling to India, New York Times, <https://www.nytimes.com/2016/11/18/world/asia/nepal-detains-tibetans-traveling-to-india.html>

548 Nepal: End Attacks Arbitrary Arrests and Harassment and Tibetans, Human Rights Watch

Another form of suppression used is deportation which is perhaps the most dangerous form of punishment as those refugees who have been deported are rarely ever heard from again. Protestors are often threatened that if they continue to participate in protests or demonstrations, the police would find a way to deport them and hand them over to the Chinese authorities across the border<sup>549</sup>. It may seem that this threat is simply a tactic to instill fear, however it is important to understand that for a Tibetan detainee who does not hold a citizenship of any country, who is not allowed to own anything or even exist on official documents, this threat can easily become a reality. A Tibetan's statelessness would allow the government to cover up any human rights violations as well as possible deportations without anyone's knowledge.

Since Nepal does not recognize Tibetans who entered Nepal after 1989, it conveniently dubs all refugees who come after that to be illegal migrants who have infiltrated Nepal's territory. Until very recently the Nepalese government and the UNHCR worked together following an unofficial 'Gentlemen's agreement' allowing such Tibetans safe passage to India via Nepal<sup>550</sup>. If Nepalese authorities caught Tibetans, they would simply hand them over to the UNHCR who would then make arrangements for them to travel to India safely. Now however since China's rapprochement with Nepal there have been continuous border security meetings between Chinese and Nepalese officials with the latest one being conducted in October 2019<sup>551</sup>. Instead of now honoring the agreement with the UNHCR, Tibetans caught crossing the border are handed back to Chinese authorities with

---

549 Damakant Jayshi, Nepal: Tibetans Warned of Deportation to China, Inter Press Service News Agency, <http://www.ipsnews.net/2008/04/nepal-tibetans-warned-of-deportation-to-china/>

550 Tibet Justice Center (TJC). Tibetan Arrests in Nepal on the Rise: Gentleman's Agreement Breaking Down, Press Release, <http://www.tibetjustice.org/press/03.01.22-nepal.html>

551 Saba Aziz, China, Nepal Sign Trade, Infrastructure and Security Deal, Al Jazeera, <https://www.aljazeera.com/news/2019/10/china-nepal-sign-trade-infrastructure-security-deals-191013074901324.html>

such reports emanating sporadically in the news. While such news does resurface, it is known that the authorities do not want such deportations to become public knowledge and warn local residents of 'dire consequences' if they speak to someone from the press<sup>552</sup>. According to a confidential U.S. embassy cable published by WikiLeaks in 2010, China allegedly rewarded Nepalese forces by providing financial incentives to officers who handed over Tibetans attempting to exit China<sup>553</sup>. Another cable stated that Beijing has asked Kathmandu to step up patrol to and make it more difficult for Tibetans to enter Nepal.

The last form of crackdown on the Tibetans is an extreme curtailment of their right to assemble as well as developing surveillance to track their numbers and movement within the country. In January 2005, the government closed the Office of the Representative of his Holiness the Dalai Lama as well as the Tibet Welfare Office, a clear violation of religious freedom after a fairly recent declaration of secularism<sup>554</sup>. After that it deregistered the Bhota Welfare Group as well. The official reason cited was that they were not fully registered as an organisation in Nepal. Another form of suppression is a refusal to provide permits to gather for common Tibetan holidays or events. Most recently the Tibetan association was denied a permit to gather for His Holiness the Dalai Lama's birthday in 2019<sup>555</sup>. Even cultural events and performances that depict Tibetan culture can be cancelled on short notice<sup>556</sup>.

---

552 Kusang Tenzin, Nepal Deports 6 Tibetan Asylum Seekers to China, Radio Free Asia <https://www.rfa.org/english/news/tibet/nepal-deport-09092019064318.html>

553 Niharika Mandhana, As China Squeezes Nepal, Tibetan Escape Route Narrows, Time, <http://world.time.com/2012/07/17/as-china-squeezes-nepal-tibetan-escape-route-narrows/>

554 Nepal: End Attacks Arbitrary Arrests and Harassment and Tibetans, Human Rights Watch

555 Jagdishor Panday, Government Halts Dalai Lama Birthday Celebration, The Himalayan Times, <https://thehimalayantimes.com/nepal/government-halts-dalai-lama-birthday-celebration/>

556 Wong, Sharma, Tibetans Repressed in Nepal, Rights Group Finds.

Lastly, there has been noticeable monitoring of Tibetans through new forms of surveillance. Boudha, the hot bed for Tibetan activity in Kathmandu has had security cameras installed which has been deemed as a step to monitor possible signs of unrest on the Buddhist site<sup>557</sup>. Additionally, there have also been reports of a database that is in the process of being created to collect details of all those Tibetans who live in Nepal. This measure is meant to be a preventative tactic to not allow any further influx of Tibetans into Nepal and will effectively block the route for more refugees from Tibet to Nepal<sup>558</sup>.

### **Conclusion**

This sustained increase in Chinese suppression of Tibetan rights in Nepal have been attributed to a multitude of factors that have to do with Nepalese complacency as well as Chinese aggression. However, it would have not been possible for such a scenario to emerge unless crucial environmental factors had not nudged the world to recede from the human rights paradigm. It has become increasingly clear that morality is no longer a priority for most countries or governments across the world. Countries across the world have moved to repeal civic rights and have moved away from its democratic ideals. There has been an exponential increase of autocracy all over and the ugly head of rightwing populism has replaced democratic and libertarian values. Free speech and media have been impinged upon like never before and the rule of law has been weakened by extra-constitutional sources of power<sup>559</sup>.

India is one of the only countries with enough influence in the region to pose a challenge to China, is now nowhere to be seen on the horizon. A country that had once been a beacon of human

---

557 Thubten Sangyal, Nepal Buddhist Site Closely Watched, Radio Free Asia, <https://www.refworld.org/docid/50879edc28.html>

558 Tenzin Dharpo, Nepal Ramps Up Control on Tibetan Refugees, Develops Database in a Surveillance Bid, Phayul, <http://www.phayul.com/news/article.aspx?id=41245&t=1>

559 Tony Barber, Rise of Autocracies Spells End to the West's Global Supremacy, Financial Times, <https://www.ft.com/content/cc420908-e910-11e9-aefb-a946d2463e4b>

rights and the founder of the non-aligned movement has now found itself in the center of turmoil over its draconian measures. The United States, the world's supposed hegemon has also found itself in the middle of crisis both in its internal politics as well as international diplomacy. With the most recent US strike to kill Iranian General Qassim Soleimani, on foreign soil in Iraq, an action akin to a war crime. The United States has shown that its president often acts rashly while the administration follows after him trying to keep up the appearances of a semblance of a directed foreign policy<sup>560</sup>.

The most important point that is that there have been many instances in history where human rights have been repressed and one or more countries have been at the helm of such heinous acts. From Stalin's state purges to Nazi Germany to even Pol Pot's regime in Cambodia, there have been no dearth of such blemishes in our history. The critical difference lies in the way the world has received such injustices. In each of the aforementioned examples, there has been a clear opposition that has stood resolute in its fight against the oppressor. This opposition is what is clearly lacking today. China's massive economic and diplomatic clout follows it wherever it goes and countries that are economically bound with it have no choice but to comply. Taking the example of Xinjiang and the repression as well state internment of Uighur Muslims in the region, we have seen a deafening silence from most Muslim majority countries like Turkey, Pakistan and other Saudi Arabian countries<sup>561</sup>. Every single time the National Security Council has pushed economic sanctions on China over this, trade deals have been given a priority. It seems that China holds a key link to keep the world's economy from teetering and the economic development will always take precedence over human rights violations.

---

560 Julian Barnes, Catie Edmondson, Pressed for Details on Suleimani Strike, Trump Administration Gives Few, *The New York Times*, <https://www.nytimes.com/2020/01/07/us/politics/trump-soleimani.html>

561 Janes Perlez, China Wants the World to Stay Silent on Muslim Camps, *The New York Times*, <https://www.nytimes.com/2019/09/25/world/asia/china-xinjiang-muslim-camps.html>

The repression of Tibetan rights in Nepal and China's involvement in that violation, it is difficult to see a foreseeable reprieve for those suffering under such a regime. Nepal has found itself like most countries, economically bound to China after having faced numerous problems due its own land-locked nature and the big brother tendencies of India. The Nepalese leadership in their bid to diversify their own options has decided that its own development must come at any cost even if hampers Nepal's religious tolerance and peaceful nature. From a distance, China's foray into Nepal seems to be for the purpose of infrastructural development, economic ties and a revival of Buddhism and its relics. However, it becomes clear that this Buddhism policy is driven by its own security interests to neutralize the threat that emanates from the Tibetan refugee presence in Nepal.

\*\*



## Chapter 8

# CHINESE FDI IN NEPAL

Ajaya Bhadra Khanal

In order to deliver prosperity in the form of visible infrastructure mega-projects, Nepal needs to attract a massive amount of FDI as Nepal's internal investment capacity is too shallow to meet the needs. The stated purpose of prosperity<sup>562</sup> requires investment in infrastructure—the major one being roads/transportation of goods—and has also generated intense discussions about railways, ships, airports, and air routes. The government appears intent on addressing key constraints to growth in Nepal, particularly energy, transport, and labour.

Nepal has a severe shortfall in investment capacity. When compared to Nepal's gross domestic product, the FDI figure is above the world average FDI to GDP ratio. Despite this, Nepal needs to increase FDI dramatically to fill the investment gap and the overall development of the country.<sup>563</sup> According to the Nepal Banking Association, the amount available for hydropower over the ten years period in the domestic banking sector is approximately USD 2 billion. Development Finance Institutions (DFIs) may be able to allocate around USD 2.5 billion, with IFC

---

562 PM Oli's slogan is 'Samriddha Nepal, Sukhi Nepali' or 'Prosperous Nepal, Happy Nepali.'

563 Maha Prasad Adhikari interviewed by Sujan Dhungana. 2018. "The entire nation should acknowledge need of FDI for Economic growth." *The Himalayan Times*. <<https://thehimalayantimes.com/business/entire-nation-acknowledge-need-foreign-direct-investment-economic-growth/>>.

dominating. Assuming domestic equity participation at USD 3-4 billion, this leaves an additional financing gap of more than USD 10 billion.

In order to attract FDI, Nepal has prioritized investment in infrastructure and connectivity, and Nepal is looking towards India and China, rather than the West, to achieve this objective. China's BRI and India's "neighbourhood first" policy ("Sabka Saath, Sabka Vikas") remain particularly attractive modalities for funding Nepal's infrastructure needs.

### **Natural Resources Extraction**

FDI from China is being injected also into the natural resources extraction sectors.

### **Cement**

For the construction of huge infrastructure projects, the country needs to produce cement on its own as well. CEO of Investment Board Nepal, Maha Prasad Adhikari, and vice president of Huaxin Cement of China, Xu Gang, signed the project investment agreement between the Investment Board of Government of Nepal and Huaxin Cement Narayani Private Ltd. The Chinese will inject 144 MUSD of FDI to generate 3,000 metric tonnes of cement per day.<sup>564</sup>

Nepal endorsed an FDI proposal worth USD 360 million made by China's Hongshi Holdings Limited to establish a cement plant in partnership with Nepal's Shivam Cement.<sup>565</sup>

The Chinese company has pledged to inject a total FDI of USD 359.18 million, making it the largest FDI in the country's cement industry. Hong Kong Red Lion Cement No-3, a subsidiary under Hongshi Holding Limited, has a 70% stake and Nepal's Shivam Holding has a stake of 30%.

---

564 <https://kathmandupost.ekantipur.com/news/2018-06-20/pms-china-visit-mou-signed-to-develop-eight-different-projects.html> (accessed November 24 2019).

565 <http://www.ibn.gov.np/nepal-approves-140-mln-usd-investment-from-chinese-firm> (accessed November 24 2019).

Recently, a consortium of Nepal's five commercial banks approved credit worth NRs 16 billion (USD 140.48 million) to the Nepal-China joint venture company. The loan is one of the largest ever financings pledged by Nepali commercial banks to any project. The joint venture has already received approval to inject FDI worth USD 86.22 million from the Nepal Investment Board and the central bank. The Nepal-China joint venture company, Hongshi Shivam, has already started producing cement here.

Likewise, Huaxin China is bringing the second largest FDI in Nepal's cement sector with the IBN on December 20, 2015, approving the company's FDI pledge of USD 140 million. Initially, it will be producing 3,000 tons of cement per day, according to the IBN.<sup>566</sup>

Hongshi tied up with Nepal's Shivam Cement hoping that the involvement of a local partner would remove bureaucratic hurdles along the way, but in vain. Despite the government's assurance to Hongshi Cement factory of a road, transmission line, and other infrastructure, it has not kept its promise.<sup>567</sup> The government hence needs to be facilitative in the days to come to turn the FDI commitment to investments in real terms.

### **Acquisition of Land/Real Estate**

Nepal signed an MoU with China to construct a cross-border Special Economic Zone (SEZ) to facilitate trade and investment between the two countries.<sup>568</sup> The plan is to construct an SEZ in Rasuwagadhi near the Nepal-China border. Construction of SEZ is expected to reduce Nepal's soaring trade deficit with China and create a win-win situation

---

566 Liuyue eds. 2017. "Chinese company to set up cement factory in Nepal." Belt and Road Portal. <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/41698.htm>>.

567 Yuvaraj Shrestha. 2019. "Going is tough for Chinese investor in Nepal." Nepali Times. <<https://www.nepalitimes.com/latest/going-is-tough-for-chinese-investor-in-nepal/>>.

568 <https://thehimalayantimes.com/business/nepal-china-construct-cross-border-special-economic-zone/> (accessed November 24 2019).

Similarly, high-level Chinese officials have also visited the proposed site of the China-Nepal Eco-Industrial Park in Damak Municipality-10 of Jhapa district in eastern Nepal.<sup>569</sup> The DPR of the park will be completed in a few months, and the land acquisition process is underway, said Bhaskar Raj Rajkarnikar of OBOR International Trade Platform Nepal Committee, an international non-government organisation established in Nepal as a national coordinating agency to collaborate with similar organisations from other countries in the OBOR network. The OBOR platform has been established to support Chinese President Xi Jinping's BRI through the integration of chambers of commerce (private sector organisations) of the OBOR-supporting countries.<sup>570</sup>

More than 22,000 Chinese manufacturers are connected with the OBOR network through 100 centres in China. He added that export-oriented manufacturing industries, mostly with Chinese investment will be established in the park. The amount of FDI that would come to the park is yet to be ascertained. The MoU for the park was signed between the two countries in Chengdu during Prime Minister Oli's visit to China in 2016.<sup>571</sup>

### Private Sectors

According to official figures, Chinese firms are currently working on various hydropower projects in Nepal. Nepal has received considerable investment in the sector since the Chinese government prioritised hydropower in its 1999 'Going Out' strategy.<sup>572</sup> "Two China-invested hydropower projects—50-MW Upper Marsyangdi

---

569 Ritu Raj Subedi. 2018. "Nepal, China set to enter new era of economic cooperation." China.org. <[http://www.china.org.cn/opinion/2018-04/06/content\\_50813987.htm](http://www.china.org.cn/opinion/2018-04/06/content_50813987.htm)>.

570 <https://thehimalayantimes.com/business/platform-established-support-one-belt-one-road-obor-initiative/> (accessed November 24 2019).

571 Modnath Dhakal. 2017. "Chinese investment in Damak Industrial Park." Mod Dhakal blogspot. <<http://moddhakal.blogspot.com/2017/03/chinese-investment-in-damak-industrial.html>>.

572 <https://www.economist.com/free-exchange/2009/07/21/chinas-going-out-strategy> (accessed November 24 2019).

in western Lamjung district and 25-MW Upper Madi in western Kaski district have already come into operation.<sup>573</sup>

Based on a conversation with private developers in Nepal, there are a number of upcoming projects with Chinese FDI (Table 1 below). Among the 12 projects, four are already in the construction phase while the rest are in the MoU stage. On completion of all those projects, an estimated 1938 MW of energy will be added to the national grid. The estimated cost (FDI) for the projects will be as much as 2584 MUSD.

**TABLE 1: UPCOMING PROJECTS WITH CHINESE FDI**

S.N	Name of Project	MW	Investor	Cost in million USD	Remarks
<b>Under Construction (PPA Done)</b>					
1	Mandu Hydropower	20	Chinese (60%)	24	
2	Super Nyadi	40	Chinese	70	
3	Langtang	20	Chinese (EPCF)	40	
4	Khimti Hydropower	48	Chinese	90	
	TOTAL	128		224	
<b>At MoU Stage</b>					
1	Rashuwagadi Bhotekoshi	120	Chinese	240	
2	Kali Gandaki Gorge	180	Chinese	360	
3	Langtang	200	Chinese	400	
4	Bheri 4	300	Chinese	600	
5	Bhajhang Seti	140	Chinese	280	

573 <https://eng.yidaiyilu.gov.cn/qwyw/rdxw/70691.htm> (accessed November 24 2019).

6.1	Upper Marshyandi 2	600	Chinese (BPC)	480	Only 300 MW after design review and maintaining 40% Flow
6.2	Lower Manag Marshyandi	135	Chinese (BPC)		
6.3	Manang Marshyandi	135	Chinese (BPC)		
		1810		2360	

Further, agreements were signed between the government and private companies of Nepal and Beijing in the presence of Prime Minister Oli to develop hydropower projects, cement industries, and fruit industries among others, at a function organized at the Embassy of Nepal in Beijing. The ones with the private sector from Nepal are listed below.

Sectors	Agreement	FDI/Project
Fruit Industry	MoU between FNCCI and Chinese Investors	USD 46 million
Energy	Yunnan Xinhua Water Conservancy and Hydropower Investment Company, Hydrosolutions Group and Shanghai Investigation, Design and Research Institute	164-MW Kaligandaki Gorge Hydropower in BOOT Model
Energy	Siuri Nyadi Hydropower Plant Project and National Electric Engineering Company signed the MoU	40.27-MW Siuri Nyadi Hydropower Plant Project in the EPCF model.

---

574 <https://www.nepalmountainnews.com/pms-china-visit-mous-signed-to-develop-8-projects/> (accessed November 24 2019).

Energy	Framework Agreement for on Marsyangdu cascade between Butwal Power Company and Sichuan Investment Group Company, Chengdu Xingcheng Investment Group Company and Sichuan Qingyuan Engineering Consulting Company.	Marsyangdi Cascade Hydropower Project of 600 MW
Energy	Cooperation Framework Agreement for the Construction of Trishuli Galchhi Hydropower project in between Nepal's Siddhakali Power Company and Dongfang Electric International Corporation	75-MW Trishuli Galchhi Hydropower Project in EPCF Model
Handicrafts	Nepal Pashmina Industries Association and One Belt One Road International Trade Platform of CIC Mutual Trade Investment Company.	The purchase order from China would be between 200,000 to 500,000 pieces every year.

### **China-Nepal Non-Governmental Cooperation Forum**

Set up in 1996, the forum connects apex business associations in Nepal and China and seeks to develop relations between the private sectors. It is led by the president of the Federation of the Nepali Chambers of Commerce and Industry (FNCCI) from the Nepali side and the vice head of the All-China Federation of Industry and Commerce (ACFIC) from the Chinese side. The speakers mentioned that South Asia was "a huge emerging market in which mutually beneficial cooperation can be carried out." The forum was a "new experiment to develop bilateral economic and

trade relations and to represent a new form of cooperation in studying, discussing, and exploring new ways to expand the non-governmental ties in this area.<sup>575</sup>

### Asian Infrastructure Investment Bank Loans

AIIB began operations in January 2016 and has now grown to 97 approved members worldwide. AIIB's Board of Directors has approved a loan of up to USD 90 million for the Upper Trishuli-1 Hydropower Project. The Bank has also provided Nepal with USD 900,000 for the proposed Tamakoshi V Hydroelectric Project and USD one million for the proposed Power Distribution System Upgrade and Expansion Project.<sup>576</sup> The bank is investing in sustainable infrastructure and other productive sectors, mainly in the energy and urban development sector as presented in the table below.

SN	Name of Project	Cost (in million USD)	AIIB	
1	Nepal: Power Distribution System Upgrade and Expansion Project	107	100	7 (NEA)
2	Tamakoshi V Hydroelectric Project (TV-HEP)	165	112	53 (NEA)

575 Bhasin 2005: 3431. Speech of the Chinese Representative at the Third Meeting of China-Nepal Non-Governmental Cooperation Forum, Kathmandu, 22-29 December 1999.

576 ZX eds. 2019. "AIIB approves first investment in Nepal." Xinhuanet. <[http://www.xinhuanet.com/english/2019-06/10/c\\_138131347.htm](http://www.xinhuanet.com/english/2019-06/10/c_138131347.htm)>.

3	Urban Infrastructure Investment Project			
a	Component 1: Priority Infrastructure Improvement	94	72	15+7 (GoN+LGs)
b	Component 2: Implementation Support and Capacity Building	6	4	2 (GoN)
4	Urban Governance and Infrastructure Project			
a	Component 1: Municipal Infrastructure Investment.	250	125	125 (IDA-WB)
b	Component 2: Institutional Capacity Development.	35	17.5	17.5 (IDA-WB)
c	Component 3: Project Management, Coordination and Monitoring	15	7.5	7.5 (IDA-WB)
5	Upper Trishuli-1 Hydropower project	647.4	Equity: 194.2	

## **Nepal: Power Distribution System Upgrade and Expansion Project**

**The project consists of the following components:**

- 1: Construction of new 33kV or 11kV substations, related lines, and facilities;
- 2: Upgrading and rehabilitation of existing 33kV or 11kV substations, related lines, and facilities;
- 3: Construction of new integrated compact substations, related lines, and facilities, where applicable
- 4: Capacity Building, Project Implementation Support, and Technical Assistance

## **Tamakoshi V Hydroelectric Project**

Tamakoshi V Hydroelectric Project is a proposed 101-MW run-of-the-river hydro-generation project. The project is being developed by Tamakoshi Jalvidjyut Company Limited, a company currently wholly owned by the Nepal Electricity Authority (NEA).

## **Nepal: Urban Infrastructure Investment Project**

The proposed project is to improve the provision and quality of key infrastructure and basic services in the participating municipalities of Nepal's Terai region. It will contribute to the GoN's efforts to develop the less-developed Terai region and enhance, the economy, liability, and resiliency of the region. The project consists of two components: Priority Infrastructure Improvements; and Implementation Support and Capacity Building.<sup>577</sup>

## **Nepal: Urban Governance and Infrastructure Project**

The proposed project will support Nepal's urban development through (i) financing strategic infrastructure investment and (ii) providing institutional and capacity development support to the participating (https://www.aiib.org/en/projects/details/2019/proposed/Nepal-Nepal-Urban-Governance-and-Infrastructure-

---

<sup>577</sup> [https://www.aiib.org/en/projects/proposed/2018/\\_download/nepal/urban-infrastructure-investment.pdf](https://www.aiib.org/en/projects/proposed/2018/_download/nepal/urban-infrastructure-investment.pdf)

Project.html) local governments. The project consists of three components: 1: Municipal Infrastructure Investment, 2: Institutional Capacity Development, and 3: Project Management, Coordination, and Monitoring. The project will include nine local governments in Eastern-Terai in Provinces 1 and 2; and 8 local governments in the hills in Provinces 4 and 5.<sup>578</sup>

### **Upper Trishuli-1 Hydropower project**

A 216-MW run-of-the-river hydropower plant on the Upper Trishuli River is being developed by Nepal Water and Energy Development Company Private Limited (NWEDC). The company is a special purpose vehicle incorporated under the laws of Nepal. The project is developed under a 35-year (including a five-year construction period) build, own, operate, and transfer (BOOT) model.<sup>579</sup>

### **Looming Problems on China's Engagement**

Nepal's relations with China are beset by the extraction of rents and corruption, with the potential involvement of private contractors. The case of Budhi Gandaki and Pokhara International Airport are two such examples.

Even as the controversy over corruption and financial feasibility mounted in the parliament, China listed Budhi Gandaki as one of the projects to be funded under its Belt and Road Initiative (BRI).<sup>580</sup> Before the controversy, China was pressing the government to select projects for BRI. The cases of Budhigandaki and the Nijgarh Fast Track showed that even development projects have the potential to exacerbate domestic political conflict when they are associated with geostrategic issues. Before the controversy.

---

578 <https://www.aib.org/en/projects/proposed/index.html> (accessed November 24 2019).

579 Ibid.

580 Bibek Subedi & Binod Ghimire. 2017. "Budhi Gandaki listen as component of BRI." The Kathmandu Post. <<http://kathmandupost.com/printedition/news/2017-09-05/budhi-gandaki-listed-as-component-of-bri.html>>.

Likewise, officials who have participated in various negotiations with the Chinese side claim that not only the huge funds required for the construction but Nepal's expertise and experience in rail services remain a key issue but the fate of cross-border rail projects depends on the Chinese commitment. Rail will not arrive here if the Chinese do not want. And if they want, it will come even if we don't want to.<sup>581</sup> Budhi Gandaki and West Seti projects are small in terms of size and investment for CTG and Gezhouba, two of the biggest dam-makers in China. But as the fate of the two projects remains unclear, the destiny of China's engagement in infrastructure development remains doubtful, regarding these two and others as well.

According to B.B. Deoja, infrastructure specialist and former secretary at the Ministry of Culture, Tourism, and Civil Aviation (MOCTCA), Pokhara International Airport, among other airports, is not economically viable and CAAN was not yet clear who was going to "pay the gap between repayments and revenue" for the airport, among other problems.<sup>582</sup>

Questions about commercial viability and national interests also came to the fore when the Exim Bank of China insisted that an escrow account should be opened into which the CAAN would deposit the income generated from all its airports.<sup>583</sup> The workover airport construction was thus delayed for months in early 2017 over this issue.

Former vice-chairman of the National Planning Commission Jagadish Chandra Pokharel says that the Pokhara International

---

581 Anil Giri. 2019. "Inclusion of railway in China's Belt and Road renews optimism in Nepal." *The Kathmandu Post*. <<https://kathmandupost.ekantipur.com/news/2019-04-29/inclusion-of-railway-in-chinas-belt-and-road-renews-optimism-in-nepal.html>>.

582 See CAAN (2013, p. 14). <https://www.caanepal.org.np/publication/New%20CAAN%20Final%20Souvenir%202013.indd.pdf>

583 <http://kathmandupost.ekantipur.com/news/2017-06-26/pokhara-intl-airport-construction-set-to-begin-from-thursday.html> (accessed November 24 2019).

Airport's actual cost was only USD 132 million. "It could have even been built at a cost of USD 100 million," he says.

The purchase of Chinese aeroplanes appeared to have been motivated by the need to appease the Chinese and not by Nepal Airline Corporation's business plan. The operating cost of Chinese aeroplanes is causing the NAC to lose millions every year. The 56th annual audit report of the Office of the Auditor-General recently reported that NAC had been operating the Y12e and MA60 aircraft. The Chinese-made MA60 aircraft made an income of Rs 206 million this fiscal year compared to its operating and other indirect expenses, which were Rs 313 million and Rs 212 million respectively, incurring total losses worth Rs 316.4 million annually.<sup>584</sup> Similarly, from the Y-12e, the corporation earned Rs 25 million in income this year and its operating and indirect expenditures were Rs 188.5 million and Rs 96.3 million respectively, incurring the losses from the Y12e operation at Rs 289.7 million this year.<sup>585</sup>

Last fiscal year, losses from MA60 aircraft had amounted to Rs 66.7 million, while losses from Y12e amounted to Rs 39.4 million. With newer twists in NAC politics, the current executive chairman of NAC, Madan Kharel, said that the government must come to the rescue of the corporation or it is doomed, for the institution cannot withstand any more of the piling payment dues.<sup>586</sup> NAC owns six Chinese aircraft—two MA60s manufactured by Xi'an Aircraft Industrial Corporation and four Y12es manufactured by Harbin Aircraft.<sup>587</sup>

---

584 (<https://elevenmyanmar.com/news/nepal-airlines-grounds-chinese-made-planes-for-lack-of-instructor-pilot-asianewsnetwork>)

585 Sangam Prasain. 2019. "Grounded Chinese planes to take the skies again by July." *The Kathmandu Post*. <<https://kathmandupost.ekantipur.com/news/2019-05-12/grounded-chinese-planes-to-take-to-the-skies-again-by-july.html>>.

586 Madan Kharel interviewed by Akhand Bhandari & Raju Baskota. 2019. "वाइड बडी बोफ्र भयो" *Annapurna Post*. <<http://annapurnapost.com/news/130309>>.

587 <https://kathmandupost.ekantipur.com/news/2018-02-23/chinese-planes-sit-idle-as-nac-looks-for-pilots.html> (accessed November 24 2019).

The Kathmandu Post reported mismanagement and corruption in deals involving foreign contracts, including variation orders in the Chameliya component being carried out by the Gezhouba group. In July, an NEA board meeting approved the biggest variation order of Rs1.09 billion to China Gezhouba Water and Power (Group) swelling the cost to Rs 15.06 billion from the initial estimate of Rs 8.49 billion.<sup>588</sup>

A senior executive of Buddha Air said Pokhara airport involved kickbacks and commissions of more than Rs 6-7 billion during decision-making and awarding of contracts. “If Chinese gain traction in our country, the (magnitude of) play of corruption in Nepal will be more than anywhere else.” He also informed that senior Chinese contractors, in December 2017, had requested him to lobby to add several components to the airport like parking bays, promising they would get more loans from China. “Their intention was to boost their profit by increasing the costs of the airport, which would have also increased corruption,” the executive said. He also expressed worries that China could have long term geostrategic interests in the operation of the Pokhara International Airport. “If CAAN fails to pay the debt, the Chinese could take up operation of the airport, just like the Hambantota port in Sri Lanka,” he said.

Sujeev Shakya, an economic analyst, wrote in 2012, “the way the pressure is being built on the Pokhara Regional Airport; vested interests are testing waters as to how much they can swing public sentiment.”<sup>589</sup> He added, “If every infrastructure project in Nepal is pushed by vested interests, we are in for some real prolonged trouble.”<sup>590</sup>

---

588 Sanjeev Giri. 2015. “Almost all energy projects facing time, cost overruns,” The Kathmandu Post. <<http://kathmandupost.ekantipur.com/news/2015-09-13/almost-all-energy-projects-facing-time-cost-overruns.html>>.

589 Sujeev Shakya, 2012. <<https://twitter.com/sujeevshakya/status/250780679036608513>>.

590 Sujeev Shakya, 2012. <<https://twitter.com/sujeevshakya/status/250780847937048576>>.

The Chinese companies have been blamed for wanting contracts without following Nepal's procurement processes and procedures. They want no competition for licensing and the contracts as gifts when the funding source is China, which at times has escalated the project cost heavily. While in contracts where the funding agency is external, they bid at a very low price and find out excuses later for cost escalation. Nepal's government blame developers have failed to finish projects on time, while developers point at inconsistent government policies and the inability to facilitate solving problems. Some of the Chinese companies which are blacklisted elsewhere are working in Nepal.

The timely completion of projects is a serious concern in undertaking of Chinese firms in Nepal. While, Chinese Ambassador Hou Yanqi has attributed the delay in completion of the project that has Chinese engagement, to the land acquisition problem in particular.<sup>591</sup>

In a recent meeting with the Chinese Ambassador to Nepal, Hou Yanqi, Barsha Man Pun, Minister of Energy, Water Resources and Irrigation, requested the envoy to facilitate the timely completion of Trishuli A and Kulekhani III projects awarded to the Chinese companies by the NEA. The envoy responded by saying that the companies were unable to complete the task due to problems in Nepal. However, no details on the problems have been shared publicly. The energy minister in his reply acknowledged that Chinese firms are globally competitive and expressed his readiness to improve conditions if there is anything wrong with the system.<sup>592</sup>

---

591 Bibek Subedi. 2019. "China's design plan delays Ring Road phase two project." The Kathmandu Post. <<http://kathmandupost.ekantipur.com/news/2019-01-31/chinas-design-plan-delays-ring-road-phase-two-project.html>>.

592 <https://www.spotlightnepal.com/2019/06/25/energy-minister-pun-urges-more-chinese-investment/> (accessed November 24 2019).

## Conclusion

China's long-term investment in Nepal requires confidence in long-term political stability and a guarantee of returns. Nepal is yet to achieve a political settlement between powerful domestic forces as well as international actors. Since such a broader process of a political settlement in Nepal has not yet matured, there is a strong possibility of continued political instability and changes in Nepal's foreign policy. This is likely to force China to adopt a wait-and-see approach rather than commit itself to long-term investments. The process of political settlement regarding Nepal, at the international level, requires further negotiations and engagements between India, China, and the US.

A government official at the Investment Section, Office of the Prime Minister of Nepal, claimed that despite the engagement of low volume in terms of cash, Nepal should not doubt the interests of its Chinese counterparts. The recent Investment Summit has received encouraging participation of foreign investors, with maximum participants from China. Participants expressed interest in investing in 31 out of 50 projects showcased, among which MoU has already been signed for 11 projects and the rest would be done within May.

A sourcebook published by the Ministry of Finance for various fiscal years indicates that the total contribution of China is a meagre 1-2% of the overall grants Nepal receives from donors and development partners. Likewise, the loan that Nepal has received from China remained roughly between 2-3% of the total the country receives, with an exception of the year 2013/14, when the loan was as much as 5%. China remains the highest contributor in terms of FDI.

The growing involvement of Chinese companies as investors, contractors, and suppliers of goods and services in Nepal has opened more business opportunities for Nepali Banks. In the last fiscal year 2017-18, Chinese investors committed a total of USD

404 million to Nepal, which represents 84% of FDI pledged to Nepal. China has pledged the highest FDI to Nepal every year since the fiscal year 2015-16. Chinese companies are involved in various infrastructure projects including roads, electricity transmission lines, hydropower projects, and construction of airports and supply of telecommunication equipment to Nepali telecom operators.<sup>593</sup>

Increment by volume (grants, loans, and FDIs), both in terms of funds injected into Nepal and also the number of projects being carried out, is an indication of growing Chinese engagement in the infrastructure sector. Projects involving the Chinese government or the state-owned companies and private contractors are linked to Nepal's national interests and priorities. Chinese investment is critical to Nepal to ensure the implementation of projects of national priorities and interests. Designing the destiny of the engagement should duly consider the challenges and do away with them at the country level.

Further, not just the economic rate of returns for the investors and commercial viability of the project, but also justice, environment, sustainability, and impact on the local population should be at the heart of the bilateral cooperation. When the infrastructure development needs and our aspirations are addressed through Chinese engagement, our national interests should hold primacy and our sovereignty and independence remain intact. As long as the aspirations are met, investment from any country should be welcome; the ones from the immediate neighbours are the most welcome as there would be opportunities for more mutual benefit. However, building trust among the neighbours remain the key to that end.

---

593 Mu Xuequan eds. 2018. "Nepali bank CEO sees huge opportunity for banks amid growing economic engagement between Nepal and China." Xinhuanet. <[http://www.xinhuanet.com/english/2018-09/19/c\\_137479770.htm](http://www.xinhuanet.com/english/2018-09/19/c_137479770.htm)>.

## Annex I: FDI from China (MoI, Nepal)

*Figure: FDI from China (Private Sector Industries)*Annex II: Project Financed with Foreign Assistance<sup>594</sup>

FY	Project	Donor	Rs in "000000"			Grant: Loan
			Grant	Loan	Total	
2019/20	All	All	57,99,55	2,98,83,83	3,56,82,88	19%
	All	China	5,68,80	10,10,00	15,80,00	56%
	All	All	58,81,55	2,53,02,82	3,118,437	23%
2018/19	All	China	1,00,65	8,18,00	91,865	12%
	Ring Road Expansion	China	10,065	-	10,065	
	Upper Trishuli 3A-60MW	EXIM China	-	18,800	18,800	
2017/18	Pokhara International Airport	EXIM China	-	63,000	63,000	
	All	All	72,16,76,28	2,14,03,54,29	2,86,20,30,57	34%
	All	China	1,13,00,00	5,13,35,00	6,26,35,00	22%
2016/17		All	106896411	195715737	Rs in 000	
		China	1430000	4860000	Rs in "000"	Grant: Loan

594 Source Book for Project Finance with Foreign Assistance of various fiscal years, Ministry of Finance, Nepal.

2015/16	All	All	110,929,407	94,964,704	205,894,111	117%
	All	China	1,016,000	2,250,000	3,266,000	45%
	Tatopani Customs Inspection Station	China	216,000		216,000	
	Ring Road Expansion	China	800,000		800,000	
2014/15	Upper Trishuli 3A-60MW	EXIM China	-	2250000	2,250,000	
	All	All	73,385,924	49528770	122,914,694	148%
	All	China	1,006,000	2,000,000	3,006,000	
	Tatopani Customs Inspection Station	China	216,000		216,000	
2013/14	Ring Road Expansion	China	790,000		790,000	
	Upper Trishuli 3A-60MW	China		2000000	2,000,000	
	All	All	69536103	43703897	113240000	159%
	All	China	2740000	2018326	4758326	
2013/14	Tatopani Customs Inspection Station	China	200000		200000	
	Roads connecting economic sector and 2 Districts	China	400000		400000	
	Syaprubesi to Rasuwagadhi	China	140000		140000	
	Kathmandu Sustainable Urban Transport	China	500000		500000	
2013/14	Ring Road Expansion	China	500000		500000	
	Drinking Water and Sanitation	China	500000		500000	
	Non-formal Education and Literacy	China	500000		500000	
	Upper Trishuli 3A-60MW	China		2018326	2018326	

Annex III: Chinese Investment in various sectors in between 1991-2018 <sup>595</sup>

Category	Projects	Fixed Cost	Working Capital	Total	Fixed Cost	Operations
AGRO AND FORESTRY BASED	102	4013.75	293.15	4306.9	93%	7%
CONSTRUCTION	10	435.91	142.3	578.21	75%	25%
ENERGY BASED	18	64025.74	1607.67	65633.41	98%	2%
INFORMATION TECHNOLOGY	14	121.75	31.17	152.92	80%	20%
MANUFACTURING	287	11084.33	3902.86	14987.19	74%	26%
MINERAL	49	4045.14	959.96	5005.1	81%	19%
SERVICE	452	8429.8	4184.9	12614.7	67%	33%
TOURISM	498	9274.93	1309.64	10584.57	88%	12%
TOTAL	1430	101431.35	12431.65	113863	89%	11%

## Annex III: Chinese Investment in various sectors in between 1991-2018

Summary Sheet of Investment in Nepal from FY 2012/13 to 2018/19							(Rs in Millions)
Country	FY	Projects	Fixed Cost	Working Capital	TOTAL	Fixed Cost	Operations
Mainland	2012/13	97	5406.02	550.58	5956.6	91%	9%
	2013/14	120	21730.55	1561.45	23292	93%	7%
	2014/15	154	4043.7	814.95	4858.65	83%	17%
	2015/16	128	3837.42	3031.12	6868.54	56%	44%
	2016/17	184	5645.74	1177.77	6823.51	83%	17%
	2017/18	161	47224.43	1832.57	49057	96%	4%
	2018/19	106	1809.36	631.86	2441.22	74%	26%
	<b>TOTAL</b>	<b>950</b>	<b>89697.22</b>	<b>9600.3</b>	<b>99297.52</b>		

Country	FY	Projects	Fixed Cost	Working Capital	TOTAL	Fixed Cost	Operations
Hongkong	2012/13	4	5905	2515	8420	70%	30%
	2013/14	3	547	1225.2	1772.2	31%	69%
	2014/15	3	22207.34	264.43	22471.77	99%	1%
	2015/16	3	40.7	19.7	60.4	67%	33%
	2016/17	1	1960	40	2000	98%	2%
	2017/18	8	1017.3	78.91	1096.21	93%	7%
	2018/19	1	3	2	5	60%	40%
	<b>TOTAL</b>	<b>23</b>	<b>31680.34</b>	<b>4145.24</b>	<b>35825.58</b>		
		2012/13	0	0	0	0	0
Taiwan	2013/14	1	3.5	1.5	5	70%	30%
	2014/15	1	9	1.5	10.5	86%	14%
	2015/16	4	59.45	25.55	85	70%	30%
	2016/17	2	98	12	110	89%	11%
	2017/18	2	15.4	4.6	20	77%	23%
	2018/19	3	38.87	21.93	60.8	64%	36%
	<b>TOTAL</b>	<b>13</b>	<b>224.22</b>	<b>67.08</b>	<b>291.3</b>		
	<b>TOTAL CHINA</b>	<b>986</b>	<b>121601.78</b>	<b>13812.62</b>	<b>90%</b>	<b>10%</b>	

TABLE 4: CHINESE INVESTMENT IN NEPAL (FY 2012 ONWARDS)<sup>596</sup>

Year	Agency	Implementing Agency	Amount / Resource	Currency	Sector and Status
2012	Government Agency		750,000,000	USD	Multisector-Pledge
			Pledge		Agriculture, Forestry, and Fishing
			60,000,000	CNY	Multisector
			Equipment		Health
			200,000,000	CNY	Unallocated / Unspecified
			20,000,000	USD	General Budget Support
			Medical team		Health
			800,000	CNY	General Environmental Protection
			MoU-Pledge		China Cultural Centre
			Books		Education-Books to Schools

596 Ministry of Industry.

Year	Agency	Implementing Agency	Amount / Resource	Currency	Sector and Status
2013			Books		Education-Books to Vanasthali School
			Equipment		Education-Baglung School
			Equipment		Education-Myagdi School
		Government Agency	10,000,000	CNY	Government and Civil Society
			917,000,000	NPR	Health
		EXIM Bank	218,000,000	CNY	Transport and Storage
		Government Agency	180,000,000	CNY	Transport and Storage
			200,000,000	CNY	APF Academy
			Cultural Items		Multisector
			32,624,831	USD	Government and Civil Society
		Private Sector			

Year	Agency	Implementing Agency	Amount / Resource	Currency	Sector and Status
2014	Government Agency		Medical Team		Health
			Pledge		Transport and Storage Technical Assistance
	EXIM Bank	State-Owned Company	215,960,000	USD	Transport and Storage
	Government Agency		20,000,000	RMB	Unspecified-Annual Pledge
			20,000	USD	Health
			Pledge		Emergency Response
			120,000,000	CNY	Unspecified-Commitment

**AGREEMENT ON TRANSIT TRANSPORT BETWEEN  
THE GOVERNMENT OF NEPAL AND THE GOVERNMENT OF  
PEOPLE'S REPUBLIC OF CHINA**

The Government of Nepal and the Government of the People's Republic of China ("the Contracting Parties"),

With the desire to maintain, develop and strengthen the existing friendly relations and cooperation between the two countries;

Noting the relevant international legal instruments, especially the 1982 United Nations Convention on the Law of the SEA, recognizing that Nepal, as a land-locked country, has the right to have permanent access to and from the sea, and the right of freedom of transit, and realizing the need to facilitate the transit transport through their territories ;

Considering the importance of the One Belt One Road Initiative proposed by the Government of the People's Republic of China,

Have agreed as follows:

**ARTICLE I**

The Contracting Parties shall provide each other with the freedom of transit across their respective territories through routes mutually agreed upon. Operational modalities including the utilization of ports, routes, conditions of transits, mode of transport and transfer of goods, customs and other necessary arrangements to facilitate transit transport shall be mutually agreed upon by competent authorities of the Contracting Parties and shall be laid down in the Protocol which shall be an integral part of this Agreement.

**ARTICLE II**

i. Each Contracting Party shall have the right to take all indispensable measures to ensure that transit activities on its territory does not in any way infringe its

legitimate interests of any kind or facilitate any transnational crimes such as stowaways, money laundering and arms smuggling.

ii. Nothing in this Agreement shall prevent either Contracting Party from taking any measures which may be necessary for the protection of its essential security interests.

iii. While protecting legitimate interests under this Article, the Contracting Parties shall adopt least transit and trade restrictive measures.

#### ARTICLE III

i. The term "transit transport" means traffic-in-transit which covers the passage of goods, including consigned baggage, across the territory (including territorial land, inland waters and territorial seas) of a Contracting party when the passage is a portion of a complete journey which begins or terminates within the territory of the other Contracting Party, with or without transshipment, warehousing, assembly, disassembly or change in the mode of transport. Nothing in this Article shall be construed as imposing an obligation on either Contracting Party to establish or permit the establishment of permanent facilities on its territory for such assembly, dis-assembly or reassembly.

ii. The Contracting Parties agree to use railway rolling stock and road vehicles, vessels and other transport means agreed upon by the Contracting Parties in transit transport.

#### ARTICLE IV

The cargo and goods in transit transport shall be exempt from customs duties and from all transit duties, or deposits for the payments of these taxes of transit state if the customs and the relevant quarantine and inspection departments of the Contracting Parties are satisfied that the requirements for transit transport procedures are met, except reasonable charges for transportation and such other charges as are commensurate with the costs of services rendered in respect of such transit transport.

#### ARTICLE V

For convenience of the transit transport, the Contracting Parties agree to provide at point or points of entry or exit, on such terms as may be mutually agreed upon by competent authorities and subject to the relevant laws and regulations prevailing in either country, warehouses or sheds, for the storage of transit goods awaiting customs clearance before onward transmission.

#### ARTICLE VI

Transit transport shall be subject to the procedures to be mutually agreed upon by competent authorities and subject to relevant laws and regulations prevailing in either country, as well as international treaties to which the Contracting Parties are signatories. Except in cases of failure to comply with the procedures prescribed, all appropriate measures should be taken by either Contracting Party to rule out avoidable delays or restrictions in such transit. Such procedures may be laid down in a protocol agreed upon by competent authorities of both sides.

#### ARTICLE VII

In order to enjoy the freedom of the high seas, merchant ships sailing under the flag of Nepal shall be accorded, subject to the laws of the People's Republic of China, treatment no less favorable than that accorded to ships from any other foreign country in respect of matters relating to navigation, entry into and departure from the ports of China, use of these ports and harbor facilities, except that the provisions of this Article shall not be extended to the coastal trade.

#### ARTICLE VIII

Notwithstanding the foregoing provisions, either Contracting Party may maintain or introduce such measures or restrictions as are necessary for the purpose of:

- i. Protecting public morals;
- ii. Protecting human, animal and plant life, health and security;
- iii. Safeguarding implementation of laws relating to the import and export of gold and silver;
- iv. Safeguarding state security and political, economic and social stability;
- v. Preventing the smuggling of goods; and
- vi. Safeguarding such other interests as may be mutually agreed upon.

#### ARTICLE IX

Nothing in this Agreement shall prevent either Contracting Party from taking any measures which may be necessary in pursuance of general international conventions, whether the Contracting Party has signed or will sign hereafter, relating to transit transport, export or import of particular kinds of articles such as narcotics and psychotropic substances, animal and plant quarantine objects or in pursuance of general international conventions intended to prevent infringement of copyright or trademark right or relating to false marks, counterfeits or other methods of unfair competition.

## ARTICLE X

i. In order to facilitate effective and smooth implementation of this Agreement, the Contracting Parties shall consult each other when necessary. This Agreement may be amended upon consensus reached by the Contracting Parties through consultations.

ii. The modalities, routes, conditions of transit, customs and other necessary arrangements may be reviewed and modified by the Contracting Parties to further facilitate the transit transport.

## ARTICLE XI

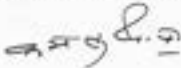
Any dispute or difference which may arise in the application or interpretation of this Agreement shall be settled through consultations between the Contracting Parties.

## ARTICLE XII

This Agreement shall come into force on the date of signature, remain valid for a period of ten years and be automatically renewed in every ten years unless either of the Contracting Party gives to the other a written notice, six months in advance, of its intention to terminate the Agreement.

Done in Beijing on March 21, 2016, in duplicate in the Nepalese, English and Chinese languages, all texts being equally authentic. In case of divergence, the English text shall prevail.

For the Government of Nepal



For the Government of the

People's Republic of China



**TRADE AND PAYMENTS AGREEMENTS BETWEEN HIS MAJESTY'S  
GOVERNMENT OF NEPAL  
AND  
THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA**

His Majesty's Government of Nepal and the government of the People's Republic of China (hereinafter referred to as the Contracting Parties) for the purpose of further developing the friendship between the two countries and strengthening the economic and trade relations between the countries, including the traditional trade relations between Nepal and Tibet Autonomous Region of China, have on the basis of equality and mutual benefit agreed as follows: -

**Article I**

The two Contracting Parties shall take all appropriate measures to develop the trade between their two countries and agree to promote the exchange of goods between them. The two Contracting Parties, in addition to trade overseas, shall provide each other all possible facilities for the further consolidation and development of the traditional trade overland between the two countries.

**Article II**

The exchange of goods between the two countries shall be conducted in accordance with their respective laws, regulations and procedures regarding import and export and foreign exchange regulations in force from time to time in the two countries.

**Article III**

The exchange of goods between the two countries shall be carried out according to List "A" (China's exports to Nepal) and List "B" (Nepal's exports to China) attached to this Agreement. However, this Agreement does not preclude the trade in commodities not mentioned in the annexed Lists "A" and "B" as referred to above. The two Contracting Parties shall provide each other facilities in respect of the issuance of import and export licences for the commodities traded between the two countries.

**Article IV**

The trade between the two countries shall be based and regulated as far as possible on the principle of equilibrium.

**Article V**

The trade between two countries may be conducted through the state trading organizations of Nepal and China, as well as other importers and exporters of the two countries.

**Article VI**

The two Contracting Parties shall grant to each other the most favoured nation treatment in all matters relating to customs duties and other taxes, fees and charges to be levied on exportation and importation of commodities and to the rules, formalities and charges of customs management.

This provision, however, shall not apply to:

1. advantages resulting from any customs union or other agreement on customs free trade to which either contracting Party is or may become in the future a party;
2. advantages accorded by multilateral economic agreement relating to international commerce.

**Article VII**

In order to develop the trade overland between the two countries the two Contracting Parties agree to utilize the following trading points along their frontier:

1. Kodari/Nyalam
2. Rasuwa/Kyerong
3. Yari (Humla)/Purang

**Article VIII**

With a view to improve the economic life of the border inhabitants, the two Contracting Parties agree that the border inhabitants of the two countries, may, within area of 30 Kilometers from the border, carry on the traditional trade on barter basis, which shall not be subjected to the limitation of the above-mentioned provisions.

**Article IX**

The trade overland between the two countries shall be on the basis of C & F at the point of transfer of the goods over the border between Nepal and the Tibet Autonomous Region of China, or such other places in the vicinity of the border as may be determined by the local authorities concerned.

**Article X**

The trade overseas between the two countries shall be, in the case of export from China, on the basis of C.I.F. Calcutta or other port on which both Parties have agreed, or of F.O.B. China's port; and in the case of export from Nepal, on the basis of F.O.B. Calcutta or other port on which both Parties have agreed, or of C.I.F. China's port.

**Article XI**

Nothing in this Agreement shall be construed to derogate from any obligations of either of the Contracting Parties under any international convention or agreement, resolution, including those relating to landlocked countries entered in to by either of the Contracting Parties, before or after the conclusion of this Agreement.

**Article XII**

At the request of either Contracting Party, their representative shall meet to supervise the implementation of this Agreement and settle problems which may arise therefrom through friendly consultations.

**Article XIII**

The payments of trade overseas between the two countries shall be made in freely convertible currency.

The payments of the trade overland between the two countries shall remain to be made in the traditional customary way.

**Article XIV**

This Agreement, which shall replace the earlier Trade and Payments Agreements signed between the two Contracting Parties on 31<sup>st</sup> day of May 1974, remain in force for a period of three years. If neither party notifies the other in writing to terminate Agreement at least six months before its expiration, the validity shall be automatically extended for another three years and further extensions shall be effected in a similar manner.

The present Agreement is concluded in Kathmandu on 22<sup>nd</sup> day of November, 1981 in duplicate in the Nepalese, Chinese and English languages, all the three texts being equally authentic.

Sd For His Majesty's Government of Nepal	Sd For the Government of the People's Republic of China
--	---

**LIST "A"**

**CHINA'S EXPORTS TO NEPAL**

**China's overseas exports to Nepal.**

1. Textiles
2. Garments
3. Light industrial products
4. Food stuffs
5. Cement
6. Metals and steel products
7. Lubricant oil
8. Chemicals
9. Others

**Exports from the Tibet Autonomous Region of China to Nepal.**

1. Raw wool
2. Living sheep
3. Salt
4. Yak and Yak tails
5. Carpets
6. Others

**LIST "B"**

**NEPAL'S EXPORTS TO CHINA**

**Nepal's Exports to China**

1. Jute
2. Sugar
3. Timber
4. Tanned sole leather
5. Medicinal Herbs
6. Tea
7. Other

**Nepal's exports to the Tibet Autonomous Region of China**

1. Food grains
2. Wheat Flour
3. Sugar
4. Jute bags and Jute cloth
5. Tobacco
6. Dried chillies
7. Candles
8. Dyestuffs
9. Soaps
10. Timber
11. Cross bred yak (male)
12. Others

**Foreign Secretary  
His Majesty's Government  
Kathmandu, Nepal**

Kathmandu, December 3, 2003

Excellency,

I have the honour to refer to Article VII of the Trade and Payments Agreement between His Majesty's Government of Nepal and the Government of the People's Republic of China of 22<sup>nd</sup> November 1981 as well as the Exchange of Notes relating thereto, and propose on behalf of His Majesty's Government of Nepal the following:

In order to further develop trade between the two countries, His Majesty's Government of Nepal and the Government of the People's Republic of China agree to utilize the following additional trading points along their frontier including the Kodari/Nielamu; Rasuwa/Jilong; Yari/Pulan; and Olangchunggola/Riwu trading points as provided for in the existing agreements:

Kimathanka (Nepal) -Riwu (China)

Nechung (Nepal) - Lizi (China)

I have further the honour to propose that if the foregoing proposals are acceptable to your Government, this Note and your Note reply shall constitute an agreement between our two Governments, which shall enter into force on the date of your reply.

Please accept, Excellency, the assurances of my highest consideration.

His Excellency Mr. Sun Heping  
Ambassador Extraordinary and Plenipotentiary  
of the People's Republic of China  
to the Kingdom of Nepal

Sd.  
(Madhu Raman Acharya)

(Translation)

Kathmandu, December 3, 2003

Excellency,

I have the honour to acknowledge receipt of Your Excellency's Note dated December 3, 2003, which reads as follows:

"I have the honour to refer to Article VII of the Trade and Payments Agreement between His Majesty's Government of Nepal and the Government of the People's Republic of China of 22<sup>d</sup> November 1981 as well as the Exchange of Notes relating thereto, and propose on behalf of His Majesty's Government of Nepal the following:

In order to further develop trade between the two countries, His Majesty's Government of Nepal and the Government of the People's Republic of China agree to utilize the following additional trading points along their frontier including the Kodari/Nielamu; Rasuwa/Jilong; Yari/Pulan; and Olangchunggola/Riwu trading points as provided for in the existing agreements:

Kimathanka (Nepal) - Riwu (China)

Nechung (Nepal) - Lizi (China)

I have further the honour to propose that if the foregoing proposals are acceptable to your Government, this Note and your Note reply shall constitute an agreement between our two Governments, which shall enter into force on the date of your reply."

On behalf of the Government of the People's Republic of China, I hereby confirm the contents of the above-mentioned Note, and agree that it shall come into force from this day.

Please accept, Excellency, the assurances of my highest consideration.

Sd.

Sun Heping

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

His Excellency Mr. Madhu Raman Acharya,  
Secretary  
Ministry of Foreign Affairs of  
His Majesty's Government of Nepal

**AGREEMENT**  
**BETWEEN HIS MAJESTY'S GOVERNMENT OF NEPAL**  
**AND**  
**THE GOVERNMENT OF THE PEOPLE'S REPUBLIC CHINA**  
**CONCERNING BILATERAL ROAD TRANSPORTATION**

His Majesty's Government of Nepal and the Government of the People's Republic of China hereinafter referred to as the 'Contracting Parties';

With a view to further promoting traditional friendship and close relationship between the Kingdom of Nepal and the People's Republic of China.

Taking into account the need for further development of bilateral trade and economic cooperation; and

Desiring to develop on the basis of reciprocity the transportation of passengers, goods and mail between the two countries:

Have agreed through friendly consultations upon the following:

**Article 1**

The contracting Parties hereby agree to operate regular and non-regular bilateral road transportation of passengers including tourists, goods and mail services between the two countries. Such transportation shall be carried out on the road and on the points opened and agreed by the Contracting Parties. Specific routes and passing points shall be mentioned in the Rules for Implementation to this Agreement.

**Article 2**

Regular and non-regular transportation shall be operated by mutual consent of the competent authorities of the Contracting Parties.

**Article 3**

The competent authorities of the Contracting Parties shall issue permits for vehicles for that part of the route which passes through their respective territory.

**Article 4**

1. When the dimensions and the weight of a road transport vehicle traveling with or without goods exceed the standards established in the territory of the other Contracting Party and also when hazardous goods are being carried, the carrier shall obtain a special permit from the competent authorities of the Contracting Party concerned.
2. If the permit referred to in paragraph (1) of this Article provides for the movement of a road transport vehicle by a specific route, the transportation must take place along that route.

**Article 5**

1. The transport operation envisaged in this Agreement may be performed only by carriers who, in conformity with the internal law of their country, are permitted to carry out bilateral road transport operations.

2. Road transport vehicles involved in bilateral road transport operations shall have a vehicle registration plate and the distinguishing mark of their country.

**Article 6**

Notwithstanding anything contained in other provisions of this Agreement, a carrier shall not be permitted to transport passengers or goods between two points on the territory of the other Contracting Party.

**Article 7**

Transportation of goods provided for in this Agreement shall be undertaken under consignment notes of each Contracting Parties, the form of which observes the generally accepted international model.

**Article 8**

1. The driver of a coach or of a goods vehicle shall hold a valid national or international drivers' licence corresponding to the category of the road transport vehicle he is driving, and national registration documents for road transport vehicle.
2. Permits and any other documents required in accordance with the provision of this Agreement shall be carried in the road transport vehicle to which they relate and be produced upon the request of competent authorities.

**Article 9**

Practical matters connected with carrying out the transportation of passengers and goods envisaged in this Agreement may be settled directly between the competent authorities of the Contracting Parties.

**Article 10**

The payment for the bilateral road transportation under this Agreement shall be made either in the freely convertible foreign currency or as per the bilateral agreements concluded or to be concluded from time to time between the two Contracting Parties.

**Article 11**

1. In the performance of transport operation on the basis of this Agreement the following items brought on to the territory of the other Contracting Party shall be the allowed and exempted from customs, taxes and duties.
  - a) fuel held in the tanks in/on each model of road transport vehicle and which are linked technically and structurally with the engine's feed system.
  - b) Lubricants necessary for use during the transport operation.
  - c) Spare parts and tools required for the repair of a road transport vehicle involved in bilateral road transport operation and such items shall be declared in the customs office.
2. Unused spare parts shall be subject to being taken back out of the country while spare parts that have been replaced should be either taken out of the country or destroyed or handled in the manner prescribed in the territory of the Contracting Party concerned.

**Article 12**

Transportation of passengers and goods on the basis of this Agreement shall be performed under third party liability insurance. The carrier shall be obliged to insure in advance each road vehicle undertaking the said transport operation.

**Article 13**

In relation to border, customs and quarantine formalities, taxation and fees, the provisions of international treaties to which both Contracting Parties are party or the bilateral agreements between the Contracting Parties shall be applied and in deciding matters which are not regulated by this Agreement the internal law of each of the Contracting Parties shall be applied.

**Article 14**

In relation to border, customs and quarantine formalities, priority attention shall be given to seriously ill patients who are being transported, to passengers carried by regular coach services and also to animals and perishable goods being transported respectively.

**Article 15**

Carriers of one Contracting Party are obliged to observe the traffic laws and other laws and regulations of the Contracting Party on whose territory their vehicles are plying.

**Article 16**

For the purpose of ensuring fulfillment of this Agreement the competent authorities of the Contracting Parties shall carry out direct contacts and at the suggestion of either Contracting Party hold consultations to decide matters connected with the system of permits for the transportation of passengers and goods and shall also exchange experience and information on the use of permits that are issued.

**Article 17**

The contracting Parties shall settle all differences which may arise in connection with the interpretation or application of this Agreement, through negotiations and consultations.

**Article 18**

This Agreement shall not affect the rights and obligation of the Contracting Parties arising from other international treaties which they have concluded.

**Article 19**

1. This Agreement shall enter into force on the date of signature.
2. The Contracting Parties shall review the operation of this Agreement after two years from the date of effect of this Agreement.
3. This Agreement shall remain valid for a period of five years. Its validity shall be automatically extended for successive periods of five years unless terminated by either contracting party by giving a notice as mentioned in paragraph 4 below.
4. This Agreement may be terminated by either contracting Party by giving a six month written notice to the other contracting party.

Done in Beijing on six of May 1994 in duplicate in Nepali, Chinese and English languages, all texts being equally authentic. In case of any differences in interpretation, the English text shall prevail.

(Shiva Raj Joshi)  
Assistant Minister)  
Ministry of works and Transport.  
for His Majesty's Government of Nepal.

(Li Juchang)  
Vice Minister  
Minister of Communication  
for The Government of the People's  
Republic of China

**PROTOCOL**  
**ON THE APPLICATION OF THE AGREEMENT BETWEEN HIS**  
**MAJESTY'S GOVERNMENT OF NEPAL AND THE GOVERNMENT**  
**OF THE PEOPLE'S REPUBLIC OF CHINA CONCERNING**  
**BILATERAL ROAD TRANSPORTATION**

With respect to the application of the Agreement Between His Majesty's Government of Nepal and the Government of the People's Republic of China Concerning Bilateral Road Transportation signed in Beijing, on May 6, 1994, an understanding has been reached as follows:

1. The term "Competent Authorities" mentioned in the various Articles of the Agreement shall be as follows.
  - (1) For His Majesty's Government:
    - (a) For the purpose of the Articles 2,3,4,9 and 16 of the Agreement  
The Ministry of Works and Transport or any authority or authorities as designated by the said Ministry from time to time.
    - (b) For the purpose of Paragraph 2 of Article 8,
      - i. Concerned District Administrative Offices,
      - ii. Concerned District Police offices
      - iii. Concerned Immigration Offices,
      - iv. Concerned Customs Offices.
  - 2 For the Government of the People's Republic of China:
    - (a) for the purpose of the Article 2,3,9 and 16 of the Agreement- the Ministry of Communications of the People's Republic of China (MOC) and the authorized Department of Communication of Xizang (Tibet).
    - (b) For the purpose of the Article 4 and 8 of the Agreement the Ministry of Communications of the People's Republic of China, the Ministry of Republic Security of the People's Republic of China and the authorized Department of Communications of Xizang (Tibet) and the authorized Department of Public Security of Xizang (Tibet).
2. In the side Agreement the terms should be understood as follows:
  - (1) the term "road transport vehicle" means
    - (a) In transporting goods-goods vehicle, a goods vehicle with trailer or semi-trailer and a road towing vehicle,
    - (b) In transporting passengers-a coach, i.e. a road transport vehicle designed for carrying passengers including tourist and having no fewer than 8 seats excluding the driver's seat, and also vehicle (s) for carrying baggage when required,
  - (2) the term "regular transportation" means transportation carried out by road transport vehicles of the Contracting Parties according to a previously agreed

timetable and route, where the initial, terminal and stopping points are designated.

- (3) The term- "non-regular transportation" means all other road transportation services except the regular transportation.
3. The authorization envisaged in Article 3 of the Agreement does not exempt carriers and owners of goods from the duty to obtain customs clearance necessary in accordance with the internal laws and regulations of each country.
4. The term "quarantine formalities" mentioned in Article 13 and 14 should be understood to mean health, veterinary and also phytological inspection.

This Protocol shall be an integral part of the Agreement.

Done in Beijing on May 6, 1994, in duplicate in Nepali, Chinese and English languages, all the texts being equally authentic.

In case of any difference in interpretation the English text shall prevail.

Shiva Raj Joshi  
Assistant Minister  
Ministry of Work and Transport  
For His Majesty's Government of Nepal

Li Juchang  
Vice Minister  
Ministry of Communications  
For the Government of the  
People's Republic of China



In recent years, China is aggressively asserting its role in global affairs, disrupting past orders, generating new processes, and reconfiguring dynamics at the domestic, regional and global levels. China's growing influence has also transformed relations with Nepal in the past 15 years. Historically, China has played a significant role in Nepal's strategy for survival. However, in recent years, Chinese engagements in Nepal have diversified around its core strategic interests. Although there is extensive documented research about Nepal's contemporary relations with other countries like India, there are very few works that chart Nepal's partnership with China and its impact on Nepal's national interests and society. This book compiles key features of Chinese engagements in Nepal in areas of strategic security, politics, economy, public diplomacy, and development cooperation since the turn of the century. It also analyses the implications of emerging trends in bilateral relations, particularly after the rise of KP Oli in Nepali politics. This book is intended as a background study that can serve further research and exploration.

### **About CESIF**

Centre for Social Inclusion and Federalism is a not-for profit, autonomous and independent private research institution serving in the public interest, with significant independence from any interest group. Our mission is to help the government 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](mailto:info@cesifnepal.org)
-  [www.cesifnepal.org](http://www.cesifnepal.org)



Price: Nrs. **900.00**