

Volume II

China's Engagement in Nepal's Infrastructure

Status, Issues and Challenges

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Vijay Kant Karna

Executive Chairperson,

Centre for Social Innovation and Foreign Policy

Abbreviations

| | |
|------------------------|----------------------------------------------------------|
| ADB | Asian Development Bank |
| AIIB | Asian Infrastructure Investment Bank |
| AKHB | Anhui Kaiyuan Highway and Bridge Co. Ltd. |
| APECF | Asia Pacific Exchange and Cooperation Foundation |
| BBDMP | Bheri-Babai Diversion Multipurpose Project |
| BGHP | Budhi Gandaki Hydropower Project |
| BLT | Bhairahawa-Lumbini-Taulihawa |
| BMS | Border Management System |
| BoQ | Bill of Quantity |
| BRI | Belt and Road Initiative |
| BTM | Bachelor in Travel and Tourism Management |
| CAAN | Civil Aviation Authority of Nepal |
| CAMC | China CAMC Engineering Co. Ltd. |
| CCCC | China Communication Construction Company Ltd. |
| CCP | Chinese Communist Party |
| CCSI | China Classification Society Industrial Corp |
| CCSI | China Communications Services International |
| CDO | Chief District Officer |
| CESIF | Centre for Social Innovation and Foreign Policy |
| CFR | Council on Foreign Relations |
| CGGC | China Gezhouba Group Corporation |
| CIAA | Commission for the Investigation of Abuse of Authority |
| CIDCA | China International Development Cooperation Agency |
| CMEC | China-Myanmar Economic Corridor |
| CNIEC | China-Nepal-India Economic Corridor |
| COVEC | China Overseas Engineering Group Co. Ltd. |
| CPC | Communist Party of China |
| CPEC | China-Pakistan Economic Corridor |
| CPN-Maoist | Centre Communist Party of Nepal (Maoist Centre) |
| CPN-UML | Communist Party of Nepal (Unified Marxist-Leninist) |
| CPN-Unified Socialists | Communist Party of Nepal (Unified Socialist) |
| CQADI | Chongqing Architectural Design Institute |
| CSCECL | China State Construction Engineering Corporation Limited |
| DEDP | Devdaha Education Development Project |
| DFS | Detailed Feasibility Study |
| DG | Director General |
| DoR | Department of Roads |
| DPR | Detailed Project Report |
| EIA | Environmental Impact Assessment |

| | |
|-------|----------------------------------------------------------|
| EPC | Engineering, Procurement, and Construction |
| FDI | Foreign Direct Investment |
| FGD | Focused Group Discussion |
| FOCAC | Forum on China-Africa Cooperation |
| FY | Fiscal Year |
| GBIA | Gautam Buddha International Airport |
| GCI | Global Civilization Initiative |
| GDI | Global Development Initiative |
| GDPC | Global Development Promotion Centre |
| GoN | Government of Nepal |
| GSI | Global Security Initiative |
| HIDCL | Hydroelectricity Investment and Development Company Ltd. |
| IBN | Investment Board of Nepal |
| ICD | Inland Clearance Depot |
| ICP | Integrated Check Post |
| IP | Internet Protocol |
| JICA | Japan International Cooperation Agency |
| JWG | Joint Working Group |
| KI | Key Informant |
| KMC | Kathmandu Metropolitan City |
| KTFT | Kathmandu-Terai Fast Track |
| LBU | Lumbini Buddhist University |
| LDT | Lumbini Development Trust |
| LIRI | Lumbini International Research Institute |
| LoE | Letter of Exchange |
| MCC | Millennium Challenge Corporation |
| MoFa | Ministry of Foreign Affairs |
| MoU | Memorandum of Understanding |
| NA | Nepal Army |
| NC | Nepali Congress |
| NCFF | Nepal-China Friendship Forum |
| NCP | Nepal Communist Party |
| NCP | Nepal Communist Party |
| NEA | Nepal Electricity Authority |
| NEA | Nepal Electricity Authority |
| NHPC | National Hydroelectric Power Corporation |
| NITDB | Nepal Intermodal Transport Development Board |
| NPR | Nepali Rupee |
| NT | Nepal Telecom |
| NTA | Nepal Telecommunication Authority |
| PCCCL | Power Construction Corporation of China |
| PDA | Project Development Agreement |
| PIA | Pokhara International Airport |

| | |
|--------|------------------------------------------------------------------|
| PM | Prime Minister |
| PPP | Public-Private Partnership |
| PPPIA | Public Private Partnership and Investment Act |
| PRC's | People's Republic of China |
| RMB | Renminbi |
| ROI | Return on Investment |
| RPP | Rastriya Prajatantra Party |
| RSP | Rashtriya Swatantra Party |
| SASEC | South Asia Subregional Economic Cooperation |
| SMDMP | Sunkoshi Marin Diversion Multipurpose Project |
| SOEs | Smaller and Less Efficient |
| SoEs | State-Owned Enterprises |
| TAR | Tibet Autonomous Region |
| TBM | Tunnel Boring Machine |
| THMDCN | Trans-Himalayan Multi-Dimensional Connectivity Network |
| TTA | Transit Transport Agreement |
| UN | United Nations |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNGA | United Nations General Assembly |
| UNIDO | United Nations Industrial Development Organization |
| USD | United States Dollar |
| U.S | United States |
| VUCL | Vidhyut Utpadan Company Limited |
| WAM | Wide Area Multilateration |
| WB | World Bank |
| ZTE | Zhong Xing Telecommunications |

Executive Summary

This research report examines the evolving landscape of Chinese engagement in Nepal's infrastructure sector and provides updates on projects previously studied by CESIF. Contextualizing China's global ambitions, including its Belt and Road Initiative (BRI), Global Development Initiative (GDI), Global Security Initiative (GSI), and Global Civilization Initiative (GCI), the report delves into the motivations and modalities of China's infrastructure activities in Nepal. A key finding is that China's engagement appears strategically driven, aiming to expand its influence in South Asia and enhance connectivity, particularly with a focus on India.

Despite a period of flourishing bilateral ties and Nepal's efforts to diversify its partnerships, the implementation of BRI in Nepal faced significant delays, culminating in the signing of a considerably revised "Framework for Belt and Road Cooperation" in December 2024. This delay was attributed to differing perceptions of BRI between the two countries, particularly regarding financing modalities, with Nepal initially resisting loan-based projects. Geopolitical considerations and strategic sensitivities, given Nepal's location between India and China, also played a crucial role in these delays.

The report highlights several major trends and patterns in Chinese infrastructure engagement: a recent reluctance to fund large-scale projects, a prioritization of connectivity initiatives under BRI and the Trans-Himalayan Multi-Dimensional Connectivity Network (THMDCN), and a shift towards "small yet smart" livelihood programs. While Chinese state-owned enterprises have secured several infrastructure contracts, project implementation has been marked by mixed progress, procurement irregularities, and concerns regarding transparency and accountability. Case studies reveal issues such as opaque conditionalities, controversies, and allegations of corruption.

The Pokhara International Airport case, in particular, exemplifies the challenges, with its limited operation, debt repayment difficulties, and corruption investigations. The report highlights the findings of an investigation by a parliamentary sub-committee, which uncovered corruption worth millions of USD in PIA's construction. The report also examines projects like the Tokha-Chhahare Tunnel, the dry port at Tatopani, the China-Nepal Friendship Industrial Park in Damak, the Kathmandu Ring Road expansion (Phase II), the Syaphrubesi-Rasuwegadhi Highway, the Hilsa-Simikot Road, the Cross-Border Power Transmission Line, and Chinese engagement in Lumbini and the Lumbini Buddhist University, illustrating a spectrum of progress, challenges, and strategic interests of China in these projects.

Low transparency remains a major challenge, as it can impede accountability and potentially facilitate corruption. Furthermore, there is evidence of Chinese diplomatic influence in Nepal's infrastructure governance. The signing of the BRI Cooperation Framework, while a step forward, leaves ambiguities, particularly regarding financing modalities, and its success will depend on future project-specific negotiations. Overall, the report underscores the need for Nepal to navigate its engagement with China's infrastructure initiatives cautiously, prioritizing transparency, accountability, and a balanced approach that serves its national interests while maintaining stable relations with its neighbors.

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1

Background

In September 2023, the Centre for Social Innovation and Foreign Policy (CESIF) published a research report on “China’s Emergence in Nepal’s Infrastructure: Status, Issues, and Challenges.” In the first-of-its-kind research, Mulmi et. al. laid a foundation on how China’s engagement in Nepal’s infrastructure sector began and what it has evolved to over the years. Investigating several infrastructure projects with China’s involvement, the report uncovered a number of key patterns in China’s expanding infrastructure engagement in Nepal since 2008. The report highlighted that large infrastructure projects with China’s involvement, such as the Pokhara International Airport (PIA), Gautam Buddha International Airport (GBIA), and Kathmandu Ring Road expansion phase I, feature procurement irregularities, opaque conditionalities, controversies, and diplomatic meddling and politicization.¹ The report also made a comparative analysis of China’s infrastructure engagement in Nepal vis-à-vis Japan and India as well as that of China in South Asia.

As a continuation of the project, this research aims to track China’s continued engagement in Nepal’s infrastructure landscape and generate an understanding about its nature and implications on Nepal’s politics, society, and development. To do this, the research has reviewed the current status of China’s Belt and Road Initiative (BRI) in Nepal, explored some key infrastructure projects either being financed/funded by China or being developed by Chinese companies, and tracked major updates and developments of CESIF’s previously-studied infrastructure projects.

The research employed a qualitative approach, involving an extensive review of relevant literature, media reports, and government documents,

key informant interviews, focus group discussions, and case studies of China-involved infrastructure projects in Nepal that were selected using a purposive sampling. The research also involved field visits to some key infrastructure sites—Bheri, Lumbini, Butwal, Bidur, Rasuwagadhi, and Damak—where local informants were interviewed.

As the subsequent sections outline, China's infrastructure engagement in Nepal in the last decade is marked by a significant decline in its grant assistance for and/or investment in large infrastructure projects. Instead, China has engaged Nepal through low-investment-high-visibility "small yet beautiful" livelihood programs. Even before the BRI framework was eventually signed in December 2024—after years of delay and uncertainties—China unilaterally asserted BRI's tag and brand on infrastructure projects featuring its involvement, while subsequently making efforts to push the implementation plan through. As a result, China's infrastructure engagement in Nepal has been rather strategic, prioritizing projects that help its broader geopolitical and strategic visions, including the goal to expand its access and influence to South Asia and India, through Nepal.

The research report also reveals a pattern of mixed project progress, with some projects experiencing continued delays and implementation challenges, while others showed satisfactory progress. The poorly-progressing projects feature not only a non-transparent approach but also diplomatic efforts to diffuse pressure building up against the slacking Chinese companies and contractors. In recent times, therefore, China's positive image in Nepal has gradually eroded, with growing scrutiny and criticism of China-involved infrastructure projects.

This research report includes four sections. After the brief background, the second section contextualizes China's broader regional and global ambitions to understand how its infrastructure engagement fits in its larger vision. The third section then delves into its engagement in Nepal's infrastructure. This section is further divided into three sub-sections: the Belt and Road Initiative (BRI), case studies of selected non-BRI projects, and updates on previously-studied projects. The fourth and final section outlines some key trends and patterns in Chinese engagement in Nepal's infrastructure landscape and a way forward for Nepal.

2

Contextualizing China's Global Engagement

Since it began opening up to the world in the late 1970s, China has achieved an eye-popping economic growth, lifting millions of its population out of extreme poverty through major economic reforms and infrastructural development.² Although this growth has gradually moderated in recent years, China has continued to embolden its aspirations for a bigger role in the regional and global politics, governance, and security structures. In its 14th Five-Year Plan (2021-2025) that envisions achieving “socialist modernization” by 2035, it has outlined the plans for its “new and big stride towards the great rejuvenation of the Chinese nation,” with “socialism with Chinese characteristics” as the key guiding principle.³ China's stated goal has been “to build an equal and orderly multipolar world, and defend the U.N.-centered international system, the international order based on international law, and the basic norms of international relations underpinned by the purposes and principles of the U.N. Charter,” as reaffirmed by China's Foreign Minister, Wang Yi, at the United Nations Summit for the Future in September 2024.⁴ To achieve this goal “of building a community with shared future for mankind,” China has unveiled a number of policies, initiatives, and strategies, with the Belt and Road Initiative (BRI), Global Development Initiative (GDI), Global Security Initiative (GSI), and Global Civilization Initiative (GCI) as its four key pillars.

Although the US often reiterates its commitment to the existing international institutions by claiming that “there is no substitute for their legitimacy and capability,”⁵ due to its far-reaching implications for the world dominated by the US-led West, China's rise and its growing ambitions have received remarkable attention in scholarly debates, foreign policy analyses, and geopolitical calculations. For instance, Elizabeth

Economy, American Political Scientist and China expert, sees China's playbook as "a well-defined vision of a transformed world order," which would not only be built on "multipolarity" and "absolute sovereignty" but also have China at the center of the new order.⁶ Gokhale, India's former Foreign Secretary and Ambassador to China, echoes this observation when he argues that China's foreign policy approach under Xi Jinping has shifted to "striving for achievement (fenfa youwei)," with an emphasis on "a more proactive approach in which China would shape the international environment rather than simply integrate into it, and assert itself to confront threats rather than avoid the issue of conflict."⁷ For others, China's desire for "an active role in shaping international norms and rules" rests in its "unwillingness to subordinate itself" rather than an aspiration to dominate.⁸ This latter view resonates in China's continued emphasis on strengthening the role of the UN instead of weakening it.⁹

Irrespective of its true intentions, China's approach to its foreign policy under Xi Jinping has exacerbated its relationship with the US, where the latter views it as the only strategic competitor with both the intent and capability to challenge its global leadership.¹⁰ The Sino-US rivalry, characterized by competition over trade, global political influence, military modernization, and technological advancement, is so severe that some see it as "more dangerous" than a Cold War redux.¹¹ Unlike the Cold War, however, what shapes this competition are China's economic rise and trade practices more than just an ideological challenge. For instance, China's massive production, which now exceeds its domestic markets' ability to sustainably absorb, has put China at odds with major economic players including European Union and the US over the years, whereby they accuse China of "engaging in unfair trade practices by offloading ever-greater quantities of Chinese products...at cutthroat prices."¹² It has even prompted many to take restrictive measures such as export control on critical technology¹³ and tariffs on Chinese electric vehicles.^{14,15} Even under Donald Trump's second term, contrary to speculations that the US-China rivalry may deescalate, the two countries have continued to engage in a trade war.¹⁶ In February 2025, Trump did not only slap "a 10% additional tariff on imports from China" but also restricted Chinese investment "in United States technology, critical infrastructure, healthcare, agriculture, energy, raw materials, or other strategic sectors."¹⁷ In the subsequent weeks, the tariff war between the two countries further escalated, with China imposing retaliatory tariffs¹⁸ and the US responding with even higher rates.¹⁹

While seeking a more “just” international order and opposing what it perceives as American dominance or “hegemonism” still constitutes the foundation of its larger strategic vision,²⁰ China's approach to its foreign policy under Trump's second presidency appears more nuanced, mature and rather anticipatory. Under Trump 2.0, Beijing anticipates tougher policies against China, especially on trade, tech, and Taiwan fronts, but hopes to tackle it with a strategy of resilience and engagement with its neighbors and global south countries.²¹ It also anticipates a strategic hedging from countries experiencing Trump's uncertain commitment to them, which presents an opportunity for China to expand its ties with traditional US allies.²² Despite the tensions, however, China has also expressed a willingness to engage with the US on global issues of mutual interest, such as ending the war in Ukraine, developing AI regulations, and curbing illicit drug flows.²³

Despite some optimism for cooperation on certain issues, China's strategy of “Going Global” has continued to cause friction between China and the US-led West. Early months of Trump's second presidency has indicated that his protectionist agenda is sure to come into a direct confrontation with China's “Going Global” strategy. The term was coined in 1999 by Jiang Zemin, who saw the need for the state to “actively lead and organize powerful domestic enterprises to go abroad to invest and set up factories, using global markets and resources.”²⁴ However, Chinese companies' footprint across the world grew rapidly under Xi Jinping, particularly after he launched the ambitious Belt and Road Initiative (BRI) in 2013. One of the key actors promoting its objectives are state-owned enterprises and the country's private sector.²⁵ After Premier Zhu Rongji's reform in the mid-nineties that saw a massive shrinkage of “smaller and less efficient” SOEs, the SOEs' overall performance increased and the larger ones became “more profitable and productive.”²⁶ These SOEs have won large contracts globally, dominating the infrastructure sector, especially in the Global South and developing countries participating in its Belt and Road Initiative.

China's Belt and Road Initiative

China's global engagement in the infrastructure sector has primarily been under its Belt and Road Initiative, an umbrella strategy proposed by the Chinese President Xi Jinping in 2013 as “the Silk Road Economic Belt” and “the 21st Century Maritime Silk Road.”²⁷ By 2023, China had signed

BRI agreements with some “152 countries and 32 international organizations.”²⁸ Aimed at promoting “policy coordination, connectivity of infrastructure, unimpeded trade, financial integration and closer people-to-people ties,”²⁹ by its tenth anniversary, the Initiative has evolved to encompass “small yet smart” livelihood projects to be carried out along its signature large infrastructure projects.³⁰ Despite its evolving scope, which saw Xi Jinping emphasizing “people-to-people and cultural exchanges” as equally “integral part of the initiative,”³¹ infrastructure connectivity continues to be BRI’s key feature. In particular, China’s focus has been on the construction of six economic corridors: the China-Pakistan Economic Corridor, the New Eurasian Land Bridge Economic Corridor, the China-Indochina Peninsula Economic Corridor, the China-Mongolia-Russia Economic Corridor, the China-Central Asia-West Asia Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor.³²

Since its inception, China’s BRI has received both appreciation and criticism. While some highlight its “potential to significantly improve infrastructure...and promote economic growth,”³³ others have emphasized its negative consequences such as environment degradation, procurement corruption, economic unsustainability, and overdependence on China. For instance, researchers have found that “strongmen use their political power, shaped by their own political-economic systems, to tap into the BRI’s available capital to fuel their political agendas.”³⁴ In countries with multi-party system and coalition government, such as Nepal, Chinese capital ends up being a source of corruption, where government heads use it to “reward cronies, weaken the opposition, and tame the oligarchs,”³⁵ as also discovered in CESIF’s previous research.³⁶ Chinese laws governing BRI loans, which often operate invisibly, are also found to not only maintain but also enlarge over time.³⁷ In other words, BRI-participating countries are subject to Chinese laws during the projects’ implementation. While this is not uncommon in international practice, Chinese contracts contain “unusual confidentiality clauses”³⁸ that often prove challenging for host states to navigate. As a capital-exporter, therefore, it ends up occupying a “dominant bargaining position vis-à-vis the host state.”³⁹

Nevertheless, it is important to recognize that the BRI has also delivered tangible development outcomes across many regions. Several countries have successfully leveraged the initiative to address long-standing infrastructure deficits and improve regional connectivity. For example,

the China-Laos Railway has facilitated faster trade and mobility, while the Mombasa-Nairobi Standard Gauge Railway has enhanced freight efficiency in East Africa.⁴⁰ In both cases, Chinese financing and engineering expertise contributed to infrastructure delivery that would have otherwise taken years under traditional development pathways. In South and Southeast Asia too, transport corridors, energy grids, and digital infrastructure projects supported by the BRI have laid the foundation for greater economic integration. These examples demonstrate that under the right conditions—such as robust domestic institutions and transparency—BRI investments can align with host country development objectives.⁴¹

Moreover, the BRI's significance extends beyond physical infrastructure. It has also created new channels of financing and policy experimentation for countries with limited access to capital markets or high conditionality Western aid. In some cases, BRI participation has allowed governments to plan and implement large-scale infrastructure with a degree of flexibility unavailable through traditional lenders. Countries like Ethiopia, Pakistan, and Serbia have cited gains not only in construction but also in state capacity, technology transfer, and industrial planning. In this light, BRI engagement can offer learning opportunities for national development strategies, especially when governments are able to assert agency, negotiate terms in their favor, and ensure local oversight.^{42,43}

Many developing countries initially embraced the BRI as a pathway to much-needed infrastructure development, and in many cases, they continue to engage with the initiative on their own terms, negotiating agreements that align with national priorities. For example, Thailand is often cited as having secured favorable terms in its BRI railway project through persistent negotiation. Nevertheless, concerns around the BRI's implementation have grown over time. Issues such as environmental impact, opaque infrastructure governance, and limited local labor participation have prompted greater scrutiny within some recipient countries.⁴⁴ In parallel, foreign governments are increasingly cautious about the BRI's potential strategic implications, leading to stricter investment screening processes.⁴⁵ The geopolitical dimension has also intensified under the second Trump presidency, whose administration maintains a critical stance on China. Trump's preference for tariffs and sanctions as foreign policy tools has, in some cases, pressured countries—such as Panama, which withdrew from the BRI in February 2025—to reconsider or reduce engagement with Chinese-led projects.^{46,47}

However, some experts argue that these moves may not necessarily undermine China's economic relationships, as many BRI projects are grounded in long-term development needs that transcend short-term geopolitical shifts.⁴⁸

Global Development Initiative (GDI)

China's engagement in global infrastructure requires a mention of its Global Development Initiative (GDI), one of the four pillars of China's foreign policy under Xi Jinping. GDI was proposed by Chinese President Xi Jinping in September 2020, at the 76th session of the United Nations General Assembly (UNGA). China framed it as an attempt "to accelerate the implementation of the 2030 [UN] Agenda" for Sustainable Development by building "a global community of development."⁴⁹ To achieve this goal, the initiative has eight priority areas of cooperation: poverty alleviation, food security, pandemic response and vaccines, financing for development, climate change and green development, industrialization, digital economy, and connectivity in the digital era.⁵⁰ Since its launch in 2020, China has significantly improved the mechanisms for development cooperation under GDI. For instance, it launched the Group of Friends of the GDI in January 2022, which is joined by some 80 countries.⁵¹ To implement the initiative and deepen cooperation, in November 2022, China launched the Global Development Promotion Centre under CIDCA.⁵²

As a crucial strategy for the initiative's implementation and promotion at the global level, China has been successfully integrating its development model into the intergovernmental bodies, programs, and policies. First of all, GDI was proposed to address the growing uncertainties regarding the implementation of the UN 2030 Agenda. Not only has it pushed the initiative and inserted the concept into several of the UN's programs and projects but has also established necessary supporting mechanisms.⁵³ For example, to fund the GDI cooperation, China upgraded the South-South Cooperation Assistance Fund to a Global Development and South-South Cooperation Fund in 2023, increasing its total funding to 4 billion USD.⁵⁴ For the same purpose, in September 2020, Xi Jinping extended the Peace and Development Trust Fund "beyond its expiration in 2025 for an additional five years."⁵⁵ Channeling its global development funds through these platforms, China successfully mainstreams its initiative, integrates them with the UN's broader focus, and earns legitimacy and friendliness of the recipient countries.

Under the GDI, China has launched “small yet beautiful” poverty reduction programs and “small yet smart” livelihood projects⁵⁶ across the world. While these efforts’ often-inflated impacts offer China visibility and goodwill in the short run, the GDI—along with GSI and GCI—works as a useful tool for China “to reshape broader global rules and governance in line with Beijing’s interests.”⁵⁷ For instance, China’s use of “ambiguous but problematic language” and its narrative of development as the “master key” to “all problems” carries important implications for human rights, for this approach allows countries to escape scrutiny of their actions.⁵⁸ The cooperation under GDI also helps China build a community with long-term, strategic implications. A good example is the joint statement of the 2024 Summit of the Forum on China-Africa Cooperation (FOCAC), which notes the parties’ readiness “to step up strategic coordination and deepen development cooperation under the GDI, to contribute to the building of an all-weather China-Africa community with a shared future for the new era.”⁵⁹

China’s Presence in South Asia

Ever since Xi Jinping announced the ambitious BRI, he has emphasized on prioritizing Asian connectivity under the initiative, simultaneously acknowledging the funding shortages and, therefore, urging to channel the “precious financial resources” to “the most worthy projects.”⁶⁰ The China-Myanmar Economic Corridor, a 1700 km trade route that “supports Chinese investments in energy, infrastructure and rare earth mining critical for manufacturing electric vehicles”⁶¹ and the China-Pakistan Economic Corridor (CPEC), a “\$62 billion connectivity project envisioned to stretch from the western Chinese city of Kashgar to Pakistan’s Arabian Sea port of Gwadar” are two key examples of China’s priority for Asian connectivity under BRI. On multiple occasions, Xi Jinping has reiterated the importance of neighboring countries in its foreign policy and has expressed its readiness “to provide more public goods to its Asian neighbors through connectivity, and welcomes them to board China’s train of development.”⁶²

China has significantly grown its presence and influence in Asia, and south Asia is no exception.⁶³ Its deep engagement with Sri Lanka and Pakistan has been no secret, as evidenced by the infamous Hambantota Port case in Sri Lanka and CPEC in Pakistan. China has also emerged as a key foreign player in Myanmar’s ongoing political crisis,⁶⁴ and has grown its footprints in the Taliban-governed Afghanistan after the U.S.

withdrawal from the conflict-ridden country.⁶⁵ In December 2024, Nepal also signed the Framework for BRI Cooperation after years of uncertainties. These developments have prompted parliamentary discussions in India, another regional power, with opposition leaders accusing PM Modi for India's declining influence and popularity in the region.⁶⁶ One case in point is the ouster of the Bangladeshi Prime Minister Sheikh Hasina, who enjoyed India's absolute support despite internal misgivings for years. When she was pushed out from the country following an astounding anti-government revolution in 2024, analysts speculated a stronger Chinese presence and influence in Bangladesh's affairs, too. Indian reports even cited its intelligence officers accusing China and Pakistan of their involvement in Bangladesh's political upheaval.⁶⁷ While the extreme claims of Chinese involvement in Bangladesh's political developments may be devoid of solid evidence, Hasina's overthrow has left a geopolitical vacuum for China to benefit from, and Chief Advisor Muhammad Yunus' engagement with China has given enough reasons for India to be concerned. During his March 2025 visit to China, which was touted as "the most important visit by any Bangladesh leader."⁶⁸

While India's "very significantly disturbed" relations with China⁶⁹ and its growing strategic convergence with the US signal a complex state of geopolitics in the sub-continent, China's interest and influence in south Asia has only grown over the years. As outlined in its 14th five-year plan, China aims to build "an important corridor that opens to South Asia" and promote "high-quality border development and opening up" that would link its border cities for trade in the region. China is developing Yunnan "into a center of opening-up towards South and Southeast Asia and the Indian Ocean Rim."⁷⁰ For land access to India and South Asia, Nepal would offer a good trade route, but the state of cross-border infrastructure connectivity remains extremely poor as of now. Therefore, besides its immediate interest in securing Tibet, China's engagement in Nepal appears to be shaped by its larger vision for South Asia.

Conclusion

While China's rise and its subsequent pursuit of a "rightful" place in the global order shape its engagement in the region and the world, it faces both internal and external challenges. Domestically, China's economy has struggled with sluggish GDP growth, sagging consumer confidence, growing clashes with the West, mounting debt, and a collapsing property

sector⁷¹—which have prompted policy responses such as central bank's September 2024 move to lower borrowing cost and expand lending capacity.⁷² Externally, the geopolitical landscape has become more contested,⁷³ with China's support for Russia during the Ukraine war contributing to its portrayal in Europe as a “systemic rival” rather than a mere economic partner.⁷⁴ Nevertheless, Beijing continues to frame its actions as part of its broader goal to “foster a favorable external environment for further deepening reform comprehensively to advance Chinese modernization.”⁷⁵

At the same time, China's global infrastructure engagement—particularly through the Belt and Road Initiative—remains a central pillar of its foreign policy. While critiques of the BRI often focus on debt sustainability, governance opacity, and strategic motivations, it is also crucial to recognize that many countries, including in South Asia, have actively welcomed Chinese capital, sometimes as a counterbalance to perceived Indian dominance or in the absence of viable alternatives from traditional Western donors. In cases like Pakistan and Sri Lanka, China functioned as a net provider of development finance for projects deemed nationally significant but unattractive to other investors. From energy corridors and airports to roads and digital infrastructure, Chinese investments have filled critical gaps and, in some cases, spurred local development—albeit with mixed governance outcomes.

This duality is particularly visible in Nepal, where China's growing presence has been both welcomed and contested. While Nepal has benefited from infrastructure cooperation and political engagement with China, its experience also reflects the broader challenges of managing asymmetrical partnerships. As such, China's future engagement with Nepal—and the region more broadly—will depend not only on Beijing's strategic calculus and economic resilience, but also on the agency of host countries to negotiate, align, and assert their development priorities within an increasingly multipolar and competitive global environment.

3

China's Engagement in Nepal's Infrastructure

The post-2015 slump in the Nepal-India bilateral ties offered China a key opportunity to increase its presence and influence in Nepal. In the subsequent years, Nepal's drive to reduce its over-dependence on India led to the signing of several bilateral agreements, including a Transit and Transport Agreement in 2016,⁷⁶ and high-level political exchanges culminating in president Xi Jinping's visit to Nepal in 2019. The Nepal-China bilateral relation was elevated from "Comprehensive Partnership of Cooperation" to a "Strategic Partnership of Cooperation,"⁷⁷ characterized by growing cooperation and exchange of politicians, elected representatives, students, civil society leaders, and journalists. Over the years, China has pledged grant assistance to Nepal at multiple occasions,⁷⁸ and in the fiscal year 2023-2024, China topped the list of FDI pledges to Nepal, although the actual investment during the period is lower than this commitment.⁷⁹ Despite what appeared to be flourishing bilateral ties, however, China faced a long delay in signing the BRI implementation plan. More than seven years after signing the initial MoU on BRI, Nepal signed "Framework for Belt and Road Cooperation" in December 2024. This section will explore China's involvement in Nepal's infrastructure both under the BRI and beyond it.

Timeline of High-Level Political Exchanges

| DATES | EVENTS |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <i>20-27 March 2016</i> | PM K.P. Oli's China visit |
| <i>19-24 June 2018</i> | PM K.P. Oli's China visit |
| <i>12-13 October 2019</i> | Chinese President Xi Jinping's official visit to Nepal |
| <i>25-27 March 2022</i> | China's State Councilor and Minister of Foreign Affairs Wang Yi's three-day Nepal visit |
| <i>9-11 August 2022</i> | Foreign Minister Narayan Khadka's three-day China visit |
| <i>23-30 September 2023</i> | PM Pushpa Kamal Dahal's China visit |
| <i>25 March - 1 April 2024</i> | Deputy PM and Foreign Minister Narayan Kaji Shrestha's China visit |
| <i>25 June 2024</i> | China's Vice Foreign Minister Sun Weidon's Nepal visit for the Sixteenth Meeting of the Diplomatic Consultation Mechanism |
| <i>25-26 September 2024</i> | Deputy PM and Finance Minister Bishnu Paudel's China visit |
| <i>2-5 December 2024</i> | PM KP Oli's China visit |

Forms of Chinese Infrastructure Engagement in Nepal

As suggested in the previous section, China's engagement in Nepal revolves around securing its core interests as well as achieving its broader objectives, one of which is access to South Asia. For example, China's push for an industrial park in Damak, Jhapa, under the BRI signals its interest in expanding its access to the south Asian markets through Nepal. Naturally, therefore, its infrastructure engagement in Nepal also appears to be roughly guided by these larger goals. Over the years, China has

committed aid and assistance for a number of large infrastructure projects, but neither their disbursement nor the execution of the China-funded infrastructure projects has been satisfactory. According to reports in Nepali media, Chinese officials maintained that signing the BRI implementation plan was a “prerequisite for economic cooperation with Nepal as well as for executing the projects China has already committed to.”⁸⁰ In the last decade, China continued to engage Nepal largely through civil and political exchanges and “small yet smart” development programs in what appears to be a shift in its priority from large infrastructure projects to less expensive endeavors.

When Xi Jinping visited Nepal in 2019, expectations of greater Chinese assistance for Nepal's infrastructure development were high. During this visit, China pledged a grant of 3.5 billion RMB (approximately NPR 65.41 billion) to Nepal over a two-year period. However, the disbursement of this aid has faced significant delays. As of April 2023, Chinese officials indicated an intention to release NPR 80 billion in aid that had been pledged since 2008, including the 2019 commitment. In November 2023, Nepal and China signed the “Project Aid to Nepal from Xizang Autonomous Region” framework agreement. This five-year initiative, worth 100 million RMB, aims to support Nepal's northern border districts with logistical and material assistance over five years, focusing on social and economic development projects.⁸¹ However, this agreement primarily involves regional cooperation between Nepal and China's Tibet Autonomous Region and does not encompass the broader national-level aid commitments made in 2019.

Tracking the disbursement and implementation of Chinese aid in Nepal is challenging due to opaque and multilayered processes. A previous CESIF research highlighted that Chinese aid moves in layers through a mix of formal agreements, often less regulated than India's Small Development Projects (SDP), alongside informal channels including direct requests between Nepali local bodies and adjacent Tibetan Autonomous Region counties that bypass federal procedures, and frequently involves China implementing projects directly via a turnkey model with limited transparency.⁸²

Despite its commitments, China's direct contribution for Nepal's large infrastructures has been limited in recent years. As the subsequent sections highlight, there has been chronic delay in implementing the infrastructure projects that China has promised to complete with Chinese

grants. Nevertheless, China's involvement in Nepal's infrastructure has not abated in recent years. Chinese contractors have continued to procure large infrastructure projects in Nepal⁸³ despite accusations of procurement irregularities and project governance malpractices.⁸⁴ Similarly, China's FDI stock in Nepal has also continued to grow over the years, with energy (69.9%), manufacturing (44.8%), telecommunication (4.8%), and hospitality (2.8%) making up the key sectors of strategic engagement.⁸⁵

CESIF's previous research has detailed the evolution of China's infrastructure engagement in Nepal, discussing the key trends and patterns of its involvement. Tracking its continued presence, this report investigates any major development or departure that might have consequences for the Nepali society, politics, and economy. To do so, the following section will examine selected infrastructure projects with Chinese involvement. Before that, however, it is crucial to discuss the status of BRI in Nepal, which continues to be an important topic of discussions and debates on infrastructure development and geopolitics.

A. Belt and Road Initiative (BRI) in Nepal

Nepal signed the Memorandum of Understanding (MoU) on cooperation under the Belt and Road Initiative (BRI) on 12 May 2017.⁸⁶ However, despite expectations of swift progress and optimism for Nepal's infrastructure development under China's BRI, it took over seven years for the two countries to finalize the "Framework for Belt and Road Cooperation," which was signed on 4 December 2024, during Prime Minister K.P. Sharma Oli's visit to China.⁸⁷ Delayed due to a number of factors, including political disagreements, financing concerns, and geopolitical considerations, the eventual breakthrough marked the first concrete step towards BRI's official implementation in Nepal.

In what constitutes a significant reduction from the initial list of 35 projects proposed by Nepal's Finance Secretary-led committee and a revision in the nine projects it was subsequently trimmed down to by 2019,⁸⁸ the Cooperation Framework lists the following ten projects under the "Schedule: Lists of Projects" section of the agreement:

I. Infrastructure, Urban Development Projects

1. *Tokba-Chhabare Tunnel*
2. *Hilsa-Simikot Road Project*
3. *Kimathanka-Khandbari Road and Kimathanka Bridge and Integrated Check Post Project*
4. *Nepali section of the China-Nepal Cross-Border Railway Project*
5. *Amargadhi City Hall Project*

II. Energy Projects

6. *Jilong-Rasuwagadhi-Chilime 220 KV Cross Border Power Transmission Line*

III. Education and Health

7. *Madan Bhandari University of Science and Technology*
8. *Kathmandu Scientific Center and Science Museum*

IV. Industrial and Trade Infrastructure

9. *China-Nepal Friendship Industrial Park*

V. Sports Infrastructure

10. *Jhapa Sports and Athletics Complex*

Factors Contributing to the Delay in BRI's Implementation in Nepal

Several factors can be attributed to the lack of progress on BRI's implementation in Nepal between 2017 and 2024, including the Covid-19 pandemic. However, when it comes to those involving the Nepali side, the following three constitute the key reasons behind the sluggish progress:

1. Political Polarization Over Financing Modalities

The most apparent factor delaying the BRI Implementation Plan in Nepal was a lack of consensus about the Initiative's funding modality, where successive governments hesitated to commit to loans, fearing that large-scale borrowing from China could lead to debt dependency, with Sri Lanka and Pakistan offering immediate case-studies of debt distress.

Nepal's Ministry of Finance and National Planning Commission advocated for grants or concessional loans, similar to those from multilateral organizations,⁸⁹ while China insisted that projects be financed under standard BRI models, which often include soft loans with repayment obligations. In particular, Nepali Congress (NC) stood staunchly against any loan component under BRI while the communist parties remained more willing to entertain it. This political fragmentation over BRI financing modality especially played out in the frequent coalition reshuffle post-2022 general election. During the NC-Maoist coalition led by PM Dahal in 2023, N.P. Saud and Dr. Prakash Saran Mahat from NC were the Foreign and Finance Ministers, respectively. When PM Dahal forged a coalition with the CPN-UML in March 2024, sidelining NC, he had Narayan Kaji Shrestha and Barsha Man Pun, from his party CPN-Maoist Centre, as the Foreign and Finance Ministers, respectively. Both Shrestha and Pun are known to be close to China, and under this trio, the process of signing the BRI Implementation Plan did appear to have progressed significantly.

Under the left-led coalition, PM Dahal took “fresh initiatives to expedite the signing of the BRI Implementation Plan.”⁹⁰ This was apparent in Shrestha's preparatory China visit soon after being appointed as the Foreign Minister. Although Nepali observers had anticipated the signing during Shrestha's visit, no breakthrough was obtained then, with the two sides only pledging to sign the BRI implementation plan “as soon as possible.”⁹¹ The reaffirmation was a notable follow up on Dahal's commitment “to accelerate the consultations to finalize the text on the BRI Implementation Plan at an early date.”⁹² Nepal's National Planning Commission had finalized the draft of the BRI implementation plan, after amendments in the initial draft sent by China, by consulting MoFA and the Law Ministry.⁹³ Foreign Minister Shrestha had given Foreign Secretary Sewa Lamsal a green light to sign it during the Diplomatic Consultation Mechanism Meeting held in Kathmandu in June 2024.⁹⁴ When Lamsal sought the Cabinet's approval, it decided to put a hold on it due to the growing calls for open debates and discussions on BRI—both inside the parliament as well as in the media and among the public. In addition, Dahal was in a politically difficult situation due to an ongoing clandestine effort to oust him through a new coalition between NC and CPN-UML. In his last days as the PM, on 25 June 2024, Dahal even commented about BRI in the parliament, stating that he would not accept high-interest loans and that the “emphasis will be on obtaining grants.”⁹⁵

Even after K.P. Oli and Sher Bahadur Deuba sidelined Dahal to form a NC-UML led coalition in July 2024, BRI's future in Nepal appeared no less uncertain. Under CPN-UML's K.P. Sharma Oli's primeirship, NC's Arzu Rana Deuba led the Foreign Ministry while UML's Bishnu Poudel led Finance Ministry. The two parties had been divided on whether BRI should have a loan component or not. NC had stressed its reservations on BRI loans during Chinese Foreign Minister Wang Yi's visit in 2022: "soft loans for the projects financed under the BRI must not have an interest rate more than 2 percent. Similarly, the repayment time should be as per the international standard or as per the interest rate imposed by the World Bank, the Asian Development Bank and others."⁹⁶ A large part of this concern stemmed from Nepal government's struggle to repay Chinese debt that financed PIA—due to its lack of business—as well as Nepal's growing external debt against its GDP.⁹⁷ In the years that followed, NC's position further strengthened, with its lawmakers such as Prakash Saran Mahat, Pradip Poudel, and Udaya Shumsher Rana either dismissing it or demanding more transparent discussions.⁹⁸ Other parties were also divided over the BRI's funding modality. For instance, Shisir Khanal of the Rashtriya Swatantra Party demanded "broader discussion" on BRI,⁹⁹ whereas Maoist leaders such as Dev Gurung claimed that raising the issue of loan was a mere "political stunt."¹⁰⁰ Furthermore, some even raised questions about the overall need for a separate implementation plan. As a result, the discussions on finalizing the funding modality continued to linger, despite the Chinese persistence and efforts to iron out the differences, which delayed the signing of the Implementation Plan.

2. Differing Perceptions of BRI

Another key factor that contributed to the delay in BRI's implementation in Nepal was differing perceptions—not only between China and Nepal but also among Nepali politicians, leaders, and bureaucrats. While some of the blame rests on Nepal's side for signing the agreement without adequate preparation or clarity about its implications, much of the confusion can be traced to the evolving and increasingly expansive nature of the BRI itself. Initially presented by Xi Jinping in 2013 as a physical infrastructure initiative to jointly build "the Silk Road Economic Belt" and "21st-Century Maritime Silk Road," the BRI was envisioned as a response to the infrastructure needs of emerging economies while absorbing China's domestic industrial overcapacity.¹⁰¹ Over the years,

however, it has morphed into a sprawling, multi-dimensional foreign policy framework—an “engine of Beijing’s geostrategy”—that seeks to embed China’s digital, health, and clean technology ecosystems abroad, promote its development model, project military and policing capabilities, and internationalize the Chinese Yuan.¹⁰² Further complicating this transformation is the lack of a singular, stable narrative within China itself: a variety of competing, ambiguous, and sometimes contradictory interpretations of the BRI circulate within China, undermining Beijing’s ability to project a coherent message and leaving BRI as a broad, shifting slogan open to varied interpretations.¹⁰³

This inherent ambiguity sits in tension with the more formal articulation of the BRI’s aims. During the 2017 BRI Forum for International Cooperation, Chinese leaders identified five key areas of priority: policy consultation, trade promotion, infrastructure connectivity, financial cooperation, and people-to-people exchanges—the same pillars outlined in Nepal’s 2017 BRI Memorandum of Understanding.¹⁰⁴ On paper, then, the initiative appeared structured and balanced. However, in practice, especially in Nepal’s case, Chinese engagement has leaned more heavily into the softer, less capital-intensive areas of cooperation. In the last decade, amid a decline in large-scale infrastructure grants and financing, Beijing has focused on “small yet smart” livelihood projects and people-to-people connectivity efforts.¹⁰⁵ These lower-risk, lower-cost engagements continued even in the absence of a signed Implementation Plan, reflecting an inflection point in China’s BRI strategy.¹⁰⁶ While all five connectivity areas remain nominally part of the initiative, the actual emphasis—at least in Nepal—has shifted toward those components that are more flexible, less controversial, and easier to implement. This selective and adaptive application of BRI’s priorities helps explain the dissonance between what is officially stated and how the initiative is experienced on the ground.

Despite the BRI’s evolving meaning and scope, a majority of Nepali leaders, officials, and bureaucrats continued to see the BRI “as being project-led” and clearly said that no BRI project had taken off in Nepal.¹⁰⁷ Former Deputy PM and Foreign Minister Narayan Kaji Shrestha even commented that Nepal would select “a new set of projects” after signing the BRI Implementation Plan, which it did.¹⁰⁸ Nepali officials actively dismissed any Chinese investment, grant, or engagement as a part of BRI.¹⁰⁹ Nevertheless, China’s portrayal of BRI evolved to a great extent.

They categorized any Chinese engagement as a part of BRI. For instance, during the inauguration of the Pokhara International Airport (PIA) on 1 January 2023, Chinese Ambassador Chen Song claimed that the PIA was a “flagship project of the China-Nepal BRI cooperation.”¹¹⁰ Similarly, Ambassador Song claimed that the four CIDCA-funded projects whose letters of exchange were signed in August 2024—Ring Road works, Araniko Highway upgrade, transmission line, and Hilsa-Simkot road—were “a new batch of BRI projects” in Nepal.¹¹¹ These Chinese assertions and unilateral categorization of infrastructure projects under BRI appeared to gradually soften Nepali stance in favor of the Initiative. For instance, responding to a question about the same in a parliamentary sub-committee, Foreign Minister Arzu Rana Deuba suggested that the four projects are “likely under the BRI’s overall framework,” although as grants; other modalities have not been agreed upon, she claimed.¹¹² Two of these projects—the transmission line and Hilsa-Simkot road—are now officially under BRI. While the differing stances on BRI contributed to the delay in signing the Implementation plan, China’s unilateral assertions added to Nepal’s geopolitical complexities.

3. Geopolitical and Strategic Considerations

Nepal’s geopolitical and strategic calculations have also played a significant role in delaying the execution of BRI projects. Although Xi Jinping asserted at the 2017 Belt and Road Forum that China “will not resort to outdated geopolitical maneuvering,”¹¹³ the Initiative has become entangled in global and regional geopolitics. This is not only due to the strategic location of many BRI projects but also the debt implications and political controversies surrounding major Chinese-funded infrastructure projects in countries like Sri Lanka and Pakistan. In Sri Lanka, for instance, the leasing of Hambantota Port to a Chinese company for 99 years due to debt repayment issues was widely interpreted—particularly by Western and Indian analysts—as a sign of China’s strategic ambitions in the Indian Ocean. Similarly, in Pakistan, the China-Pakistan Economic Corridor (CPEC), a flagship BRI initiative, has raised concerns in India as it passes through Pakistan-administered Kashmir—territory India claims—which New Delhi sees as a violation of its sovereignty.^{114,115}

As a country geographically located between China and India and with a notable Western presence, Nepal’s geopolitical positioning draws the interest—and often competing influences—of all these major powers.

The draft BRI Implementation Plan proposed by China included clauses touching on “security and strategic issues,” which caused concern among Nepali leaders and officials.¹¹⁶ While full details remain undisclosed publically, these likely referred to provisions such as infrastructure development in sensitive border regions, including the proposed China-Nepal Friendship Industrial Park in Damak, Jhapa—just a few kilometers from India’s border. These raised red flags about sovereignty, surveillance, and India’s possible reaction, making it a politically sensitive issue rather than a purely developmental one.

India’s broader opposition to the BRI is rooted in its objection to CPEC, and more broadly, in strategic concerns over growing Chinese influence in South Asia. India has not only refused to join the BRI but has also worked to restrict Chinese investments across the region, including in its own market, especially following the 2020 border clashes in Galwan. In Nepal, this geopolitical friction has manifested in India’s refusal to grant air entry routes for two new international airports—Pokhara and Gautam Buddha—one built with a Chinese loan and the other by a Chinese contractor. While India has cited technical reasons, many in Nepal view this through a geopolitical lens, seeing it as part of a broader pushback against Chinese strategic penetration.¹¹⁷

Further complicating the geopolitical landscape is growing U.S. concern over Chinese influence in South Asia. Washington’s promotion of the Millennium Challenge Corporation (MCC) grant in Nepal—seen by some as a counterweight to the BRI—sparked heated debates within Nepal’s domestic politics. For many left-leaning politicians and commentators, the MCC vs. BRI discourse became a proxy for competing alignments, making it even harder for Nepal to navigate its foreign partnerships without being drawn into great power rivalries.¹¹⁸

As outlined above, BRI’s evolving meaning, scope, and interpretations—coupled with competing external pressures from China, India, and the U.S.—made it geopolitically difficult for Nepal to move forward with BRI implementation. Moreover, China’s unilateral decision to categorize certain Nepali projects as part of the BRI, without adequate consultation with Nepal, only deepened these geopolitical sensitivities.

China's Response to Nepal's Delay

China's response to Nepal's reluctance to sign the BRI Implementation Plan had been a mix of patient anticipation, frustration, and occasional outbursts. Nepal's government instability, particularly after the communist merger failed to translate the Chinese mediation efforts into BRI's execution, put the Chinese side in a state of constant anticipation for political expediency that would facilitate BRI's implementation. When the communist parties came to power, the Chinese side accelerated its activities, increased high-level exchanges, and expedited the process of BRI's implementation. For the reasons discussed above, however, a national consensus on BRI was a difficult milestone to achieve. This often led Chinese leaders to make controversial and politically polarizing remarks. For instance, during her Nepal visit in January 2024, Sun Haiyan, deputy head of the international department of the CPC Central Committee, said, "...Some criticize our relations. Some are trying to sabotage our bilateral relations and some have increased activity against China."^{119,120} Similarly, when Foreign Minister Narayan Kaji Shrestha visited China in March 2024, Wang Hening, a Standing Committee member of the CPC's politburo, expressed the need for the two sides "to intensify political support, promote the high-quality Belt and Road cooperation, and enhance people-to-people connectivity."¹²¹ Chinese official even implicitly suggested that signing the BRI Implementation plan was a precondition for China's cooperation and assistance for large infrastructure projects in Nepal.¹²² As mentioned above, Chinese officials also made unilateral claims about certain projects being a part of BRI.

Meanwhile, China continued to engage Nepal, temporarily shifting its priorities from large infrastructure projects to less expensive sectors such as civil society engagement and "small yet smart" development programs. It has continued its engagement in Nepal's infrastructure through procurements and contracts; Chinese companies and SoEs continued to win large infrastructure projects in Nepal, despite reports of poor delivery and irregularities.¹²³ With regard to large infrastructure projects, China periodically reassured the Nepali side of its willingness to cooperate although progress had been abysmally slow. For instance, in September 2024, PRC's Vice Premier "expressed the desire to expedite the development projects including infrastructure, transport, and connectivity" when Deputy PM and Finance Minister raised the issue of implementing some of the key China-funded infrastructure projects such

as the Kerung-Kathmandu railway, Tokha-Chhahare Tunnel, Kimathanka-Hile and Hilsa-Surkhet-Bhurigaon roads, Madan Bhandari University of Science and Technology, and Damak Industrial Park.¹²⁴

BRI Implementation Plan: A Prerequisite for Chinese Cooperation?

According to Nepali officials, Chinese officials and authorities had made it clear that “signing the BRI implementation plan [was] a prerequisite for extending economic cooperation with Nepal as well as executing the projects that China had committed to in the past.”¹²⁵ It is important to note that such a comprehensive “Implementation Plan on Jointly Building the Belt and Road Initiative” was signed only by Morocco, a country China sees as a strategic gateway to Africa.¹²⁶ China’s use of the BRI Implementation Plan as a leverage for broad economic cooperation is evident in the scant Chinese grants for Nepal’s infrastructure in the last decade. According to the Finance Ministry database, besides the earthquake reconstruction and relief assistance, China’s grant assistance to Nepal has almost dried up since its 2013 grant for the “Procurement of Aircrafts from China (one MA 60 and three Y12E).” It did, however, grant a loan between 2016 and 2019 for the construction of the Pokhara International Airport; Chinese engagement in Nepal is instead largely limited to either less expensive endeavors, such as building schools and distributing bags, or through procurement of projects funded by multilateral bodies or the Nepal government.

Pro-BRI Academic and Policy Events

China’s response to BRI’s stalled progress was also seen in its active efforts to create a China-friendly and pro-BRI socio-political environment in Nepal. It did so through events and interaction programs, either organized or supported by organizations, clubs, and associations such as the Friends of Silk Road Club-Nepal, Nepal-China Friendship Forum (NCFC), and Charhar Institute.¹²⁷ For instance, on 2 August 2024, the Friends of Silk Road Club organized a conference titled “Third Plenary Session of the 20th Central Committee of CPC: Sharing Development Opportunities with Nepal,”¹²⁸ and on 7 October 2024, the NCFC organized an event titled “China's Belt and Road Initiative at Ten: Nepal's Experience.”¹²⁹ Similarly, the Charhar Institute of China also organized a program on “China-Nepal Comprehensive Cooperation:

Potential and Prospects” in Kathmandu in August 2024.¹³⁰ On 18 July 2024, the Nepal Communist Party (NCP), led by Biplab, organized an interaction program titled “Clearing Misperceptions and Illusions about BRI” in Kathmandu, where leaders from Nepal’s “Socialist Front,” comprising of leftist parties such as CPN-Maoist Centre, CPN-Unified Socialists, NCP, and CPN-UML, as well as scholars and former diplomats expressed strong support for China and the BRI.¹³¹

These discussions usually link Nepal’s sovereignty with BRI’s implementation in Nepal, arguing that executing BRI is crucial “to preserve Nepal’s sovereignty and national integrity and escape the cusp or hegemony of the (neo)colonial and expansionist Western powers and India.”¹³² The speakers’ speeches often highlight China’s impressive growth, the positive impacts of BRI on developing countries, and the necessity of the Initiative’s implementation for Nepal’s growth and prosperity. Such programs also give particular attention to mainstreaming the pro-BRI narratives to the general public through media. For instance, during the NCP-organized interaction program in August 2024, some 27 media outlets were invited.

Silk Roadster

Another notable Chinese response to BRI’s stalled progress in Nepal is the introduction of the “Silk Roadster” component under the larger framework of BRI. On 13 July 2023, China launched “Silk Roadster” in Nepal as a “new platform for practical cooperation and people-to-people exchanges,” an initiative that also extends to other countries in South and Southeast Asia.¹³³ This effort aligned with China’s strategy to expand BRI’s meaning and scope and focus on “soft” areas of diplomacy and exchange, as its financing for the BRI fell due to BRI recipient countries’ failure to repay Beijing’s loans.¹³⁴ Launched to commemorate BRI’s 10th anniversary, it includes five projects—Silk Road Embarkment, Silk Road Empowerment, Silk Road Enjoyment, Silk Road Enlightenment, and Silk Road Enhancement—that aim to utilize resources from “local governments, universities, enterprises and institutions in China...to impart technical skills to young populations, conduct short-term educational and cultural exchanges, increase cooperation between enterprises on both sides, hold cultural exhibitions and inform the other side on Chinese culture and Xi Jinping thought, and provide certain small services like free medical check-ups, repair of electrical appliances, etc.”¹³⁵

For “practical cooperation” and “people-to-people exchange” under the Silk Roadster, China prioritizes the role of inter-party relations and China-friendly organizations and clubs such as the Friends of Silk Road Club and Nepal-China Friendship Forum. Although the particular platform has not gained prominence since its launch, China has accelerated its “soft” diplomacy activities, making them more visible than its engagement in Nepal’s hard infrastructure. Some observers argue that China’s targeting of “local government-level functionaries and party officials” suggests that “its economic or commercial interests in Nepal are secondary to the expansion of its political interest.”¹³⁶ Irrespective of the political and strategic implications of the national and subnational political outreach, the introduction of Silk Roadster under BRI made it even more difficult for Nepali leaders and officials to grasp the complexities surrounding BRI’s evolution in Nepal.

The 2024 Breakthrough: BRI Cooperation Framework

After more than seven years of stagnation since the MoU was signed, Nepal and China agreed to the “Framework for Belt and Road Cooperation” on 3 December 2024, during PM K.P. Oli’s visit to China. The signing of the Cooperation Framework between the Government of Nepal and the Government of the People’s Republic of China marked a significant step in formalizing Nepal-China collaboration under the Belt and Road Initiative (BRI). This breakthrough lays down the principles, objectives, priorities, and mechanisms for future joint projects under BRI.

Key Features of the 2024 BRI Cooperation Framework

The signed BRI Cooperation Framework outlines several key features intended to guide the BRI partnership between Nepal and China. Firstly, it establishes a structured basis for undertaking further negotiations to give effect to the 2017 MoU on a project-by-project basis.

The framework emphasizes that the two sides will conduct cooperation and negotiations based on three key principles: joint consultation for common development; pragmatic cooperation for meaningful effects; improving policy environment for increased investment. The principle of joint consultation aims to promote peace, cooperation, openness, inclusiveness, mutual learning, and mutual benefits, with due

consideration for Nepal's specific development requirements. Pragmatic cooperation focuses on leveraging respective strengths, considering both long-term vision and immediate needs, encouraging innovation, and ensuring value for money in major economic areas and key projects. And the third principle aims to encourage enterprises to follow market rules and respect national laws, while promoting a more enabling business environment for high-quality foreign investment and technology transfer.

The framework also outlines four cooperation objectives, including establishing and deepening economic partnership to promote common development by injecting momentum into trade, infrastructure, and connectivity. It also aims to realize mutual interests by providing structured guidance for project implementation negotiations, identifying and developing projects within the scope of the MoU, and facilitating and expediting project development through subsequent negotiations on financial, technical, and implementation aspects.

Crucially, the agreement lists five priority areas to deepen Nepal-China cooperation: a) economic cooperation, b) financial sector cooperation, c) transport, connectivity, and logistics cooperation, d) trade, industrial capacity, and investment cooperation, and e) customs cooperation.

Under economic cooperation, China will support Nepal's development efforts with technical and financial assistance for sovereign-initiated projects. Under financial sector cooperation, the two parties will encourage collaboration between commercial banks, expand the use of national currencies, promote investment in each other's financial markets, and enhance bilateral communication and regulation. The transport, connectivity, and logistics cooperation will focus on the Trans-Himalayan Multidimensional Connectivity Network through the construction of ports, roads, railways, aviation infrastructure, telecommunication projects, and electricity transmission lines. Similarly, under the trade, industrial capacity, and investment cooperation, the two countries will seek to expand bilateral trade, build trade infrastructure, adopt trade and investment liberalization measures, encourage enterprise cooperation, and improve border cargo clearance. Finally, the customs cooperation will focus on strengthening border ports, enhancing traffic capacity, opening more ports, and improving cooperation in international trade and customs matters. Notably, the framework also mentions that the two sides may agree on cooperation in education, health, and medical sectors through separate frameworks.

A key feature of the framework includes identification of a preliminary list of 10 “potential projects for joint implementation,” which will be developed through separate project-by-project negotiation to finalize specific details including their financing modalities. Listed above, the projects span across infrastructure, urban development, energy, education and health, industrial and trade infrastructure, and sports infrastructure.

The agreement establishes cooperation mechanisms, designating lead ministries on both sides to coordinate bilateral cooperation. It stipulates regular review and evaluation of progress and further identification of priority projects. Importantly, the framework explicitly states that it does not constitute an international treaty and therefore does not create rights or obligations under international law. Specific projects implemented under the framework will be subject to each side's national laws and regulations. The framework is effective for three years with automatic extensions unless either side provides a three-month termination notice. Amendments can be made by mutual consent, and termination will not affect ongoing projects. The signed text is in Chinese, English, and Nepali, with the English version prevailing in case of interpretation divergence.

The Final Negotiations: Framework for BRI Cooperation

The road to the signing of the BRI Cooperation Framework in December 2024 was a long and bumpy one. Although leftist parties were largely in favor of moving BRI forward on Chinese terms, Nepali Congress had maintained a strong reservation for loans to finance BRI projects. The resulting political impasse had arrested any progress on BRI even until PM Oli embarked on China visit in December 2024. However, the domestic and geopolitical contexts under which PM Oli visited China paved the way for a last-minute agreement.

Domestically, CPN-UML's chairperson K.P. Sharma Oli has had a tumultuous relationship with CPN (Maoist Centre)'s chairperson Pushpa Kamal Dahal and Nepali Congress president Sher Bahadur Deuba. In July 2024, Oli severed ties with his coalition partner Dahal and ousted him to become the PM with Deuba's support. As the biggest party in the parliament, Nepali Congress wielded significant power in the government, with Deuba's spouse Arzu Rana Deuba heading the Ministry

of Foreign Affairs. As mentioned above, the two parties were divided on BRI, particularly regarding the financing modality. Therefore, when Oli communicated his intention to sign the agreement on BRI during his China visit, Deuba stressed his party's official position that "Nepal should not take high-interest loans to fund BRI projects."¹³⁷

Eventually, less than two weeks before PM Oli embarked on his visit, the two parties formed a four-member task force to revise the BRI Implementation Plan sent by the Chinese side in early 2020. The task force included lawmaker and party General Secretary Gagan Thapa and advocate Semanta Dahal from Nepali Congress whereas PM Oli's chief political advisor Bishnu Rimal and his economic advisor Dr. Yuvaraj Khatiwada represented CPN-UML. Led by this team, Nepal made the last-minute push for agreement before PM Oli's visit; on 26 November 2024, Nepal sent a new document titled "Framework for Belt and Road Cooperation," which was a significantly watered down version of the initial Implementation Plan sent by China. The Chinese side responded with another revised draft on November 28, which Nepal refused to sign due to disagreements over financing terms. As a result, the Oli-led delegation had to engage in an intense last-minute negotiation to settle the differences. At the end, the two sides settled on a more ambiguous phrase "aid financing modalities" instead of "grant financing modalities" that Nepali Congress had insisted.

Although Oli claimed to have achieved a "national consensus" on BRI to guide the negotiation, a key factor leading to the breakthrough was his urgency and a pressure to return from China with a major diplomatic success. Nepali leaders generally pick India for their first official visit after being sworn in as the prime minister. However, due to India's cold shoulder to his multiple efforts to secure an invitation, PM Oli chose to visit China instead, which was not only a departure from the tradition but also an indication of the strained India-Nepal relations under PM Oli. This also meant that Oli was under immense pressure to show concrete "achievements" from his visit, but this urgency also weakened Nepal's bargaining capacity with China. Besides, Oli's reliance on Nepali Congress to lead the coalition government at home had already constrained his role from negotiator to mediator, whereby Nepali Congress did most of the negotiations in the later phases.

Negotiation Conundrum on BRI Implementation Plan

In a broad sense, Nepal conducted good diplomacy, as it negotiated till last minute and pressed down on its demands with China. However, comparing the Implementation Plan with the Cooperation Framework and analyzing the 2024 Joint Statement issued after Oli's visit to China reveal China's strategic vision and intentions with regard to its BRI partnership with Nepal.

First, although it retains the underlying emphasis on encouraging enterprise-led cooperation within a supportive regulatory environment, the Cooperation Framework dropped the third cooperation principle included in the Implementation Plan: "Market-orientation with government guidance." Instead, it was changed to "improving policy environment for increased investment," which was a clear indication of Nepal's successful pushback against China's preference for an "enterprise-led, market-orientation, and government guidance" principle in Nepal through inter-governmental cooperation mechanisms, as outlined in the initial draft of the Implementation Plan.

Second, the 2024 Cooperation Framework consolidated the 12 broad cooperation priorities outlined in the Implementation Plan to five main cooperation priorities with a more generalized approach. The Implementation Plan included specific sections on transport/connectivity, trade/industry/investment, economic/financial sectors, education/science/technology, intellectual property, agriculture, energy saving/environmental protection, geoscience, customs clearance, health, cultural/tourism exchanges, and other areas like tax and legal cooperation. While the core sectors like transport/connectivity, trade/industry/investment, and economic/financial cooperation are retained, the level of detail is considerably reduced in the Framework agreement. Entire sections from the Implementation Plan, such as those dedicated to education, science and technology, intellectual property, agriculture, forestry and water conservation, energy saving and environmental protection, geoscience, health sector cooperation, cultural and tourism exchanges, and other areas like tax and legal cooperation, are not elaborated upon as specific cooperation priorities within the signed framework. The framework does mention that cooperation in education, health, and medical sectors might be detailed in separate frameworks. This change indicates Nepal's success in prioritizing economic and

connectivity aspects in this overarching framework, with other areas possibly addressed through more specific agreements.

Finally, adopting the term “aid financing modalities” in the Cooperation Framework instead of “grant financing modalities,” initially insisted upon by the Nepali Congress, indicates a compromise between the two parties, as it keeps the possibilities for both grants and loans open.

The 2024 Joint Statement: BRI and Strategic Implications

Nepal may have protected some of its interests in the BRI negotiations, but the Joint Statement issued after Oli's China visit serves as an important reminder of China's broader strategic goal in Nepal. Most strikingly, the Joint Statement mentioned the term “Xizang” instead of “Tibet” and noted Nepal's firm support to “China's efforts to achieve its national reunification.” Besides these important strategic concessions, the Joint Statement reflects a broader scope of ongoing and future cooperation, encompassing several areas that are not detailed as specific priorities within the signed Framework but were present in the earlier Implementation Plan.

For instance, regarding education and health sector cooperation, the Joint Statement mentions the Nepali side requesting the Chinese side to expedite the development of Madan Bhandari University of Science and Technology and the construction of a sports stadium in Damak and Amargadhi City Hall. It also highlights ongoing cooperation in health, including the China-aided Bone Marrow Transplant Service project, China-aided hospitals, and potential new initiatives like a CAR-T cell laboratory.

In the realm of energy cooperation, the Joint Statement mentions deepening cooperation, exploring new energy, and expediting the feasibility study of the Jilong/Keyrung-Rasuwadhi-Chilime 220KV Cross-Border Power Transmission Line. This aligns with the energy cooperation discussions in the Implementation Plan and the cross-border power transmission line project listed in the Framework.

The Joint Statement also touches upon agriculture, disaster relief, and poverty alleviation, noting agreements to deepen cooperation in agriculture, livestock, and fisheries, strengthen cooperation in disaster management, and further expand exchanges and cooperation focused on

poverty alleviation and livelihood improvement. These areas were also significant components of the broader cooperation priorities outlined in the Implementation Plan.

Furthermore, the Joint Statement emphasizes cultural and tourism exchanges, mentioning Nepal Visit Year 2025, support for cultural centers, and various cultural and sports events. These aspects were detailed in the Implementation Plan's section on cultural and tourism exchanges.

Therefore, although Nepal succeeded in narrowing down the BRI Framework agreement's focus to core economic and connectivity infrastructure, the Joint Statement—along with the nine new MoUs signed—during PM Oli's China visit suggests that China's priority for its engagement with Nepal under BRI extends well beyond economic cooperation and infrastructure development; the initial draft of the Implementation Plan serves as an indication of China's vision of BRI for Nepal, which emphasizes a comprehensive strategic alignment through cooperation on a wide range of topics and areas.

Nine New MoUs Signed during PM Oli's China Visit in December 2024:

1. Letter of Exchange on the construction of the Tokha-Chhahare tunnel
2. MoU on Nepal-China trade enhancement
3. Exchange of Certificate on the completion of the nine-storey Basantapur Durbar reconstruction
4. Protocol on export of thermally processed buffalo meat
5. MoU on development plan (2025-2029) with China International Development Cooperation Agency
6. MoU on economic and technical assistance
7. Exchange of Letters on cash assistance of RMB300 million
8. MoU on volunteer Chinese language teachers
9. MoU between Nepal Television and China Media Group (CMG) on communication technology

The signing of the BRI Framework Agreement in 2024 signifies a strengthening and formalization of the strategic partnership between Nepal and China, formally “elevated” in 2019. It provides a clearer roadmap for future collaboration under this ambitious initiative, moving

beyond the initial MoU. For Nepal, this agreement holds the potential to significantly boost its infrastructure development, particularly in crucial areas like connectivity (roads, railways, aviation), energy transmission, and trade facilitation. The identified projects, once implemented, could help transform Nepal from a land-locked to a land-linked country, as envisioned by both sides. The focus on economic and financial sector cooperation could lead to increased Chinese investment and support for Nepal's economic development. The emphasis on improving the policy environment for investment is also a positive step towards attracting more foreign capital.

However, the agreement also comes with potential implications. The inclusion of top leaders' pet projects, such as Amargadhi City Hall Project and Jhapa Sports and Athletics Complex, could create conflicts of interest and obligations. Furthermore, the geopolitical context of strategic rivalry between China and India, as well as China and the US, suggests that Nepal needs to navigate its BRI engagement carefully to maintain balanced relations with its neighbors. India's concerns about Chinese infrastructure projects near its borders—for instance, its clear opposition for the Nepal-China Friendship Industrial Park—remain a critical factor. Developing the projects in geopolitically-sensitive areas will not only prove challenging for Nepal but will also pose serious doubts about their financial viability, especially if India does not cooperate.

More importantly, the future of BRI's successful implementation also depends on how Nepal negotiates with China for the development of the individual infrastructure projects. The Framework agreement contains the phrase "aid financing modalities," which has invited different interpretations and speculations about how BRI projects will be funded. For instance, some including Foreign Minister Arzu Rana Deuba have publicly defended the agreement and Nepali Congress' "*no-loan under BRI*" position by arguing that the signed document contains no "loan" component or word.¹³⁸ However, others including many Nepali Congress leaders have been more cynical, suggesting that the ambiguous phrase leaves room for soft, concessional, or low-interest loans.¹³⁹ Even PM Oli's chief political advisor Bishnu Rimal had admitted that Nepal agreed to the phrase "aid financing modalities" to "keep the door open in terms of seeking support," which essentially rules out Nepal's unilateral optimism for *grants only* to develop BRI projects.¹⁴⁰ Notably, Rimal has also acknowledged that "all the financing and investments from China will [now] enter through the BRI window."¹⁴¹

Overall, the 2024 BRI Framework Agreement represents a significant step forward in Nepal-China relations, providing a structured foundation for cooperation. However, its success in driving infrastructure development and fostering economic growth in Nepal will depend on effective negotiations for individual projects, careful consideration of financing modalities, and skillful navigation of the complex regional geopolitical landscape.

Trans-Himalayan Multi-Dimensional Connectivity Network (THMDCN)

China's engagement in Nepal's infrastructure deserves a discussion of the Trans-Himalayan Multi-Dimensional Connectivity Network (THMDCN), a framework under China's BRI that aims to expand its connectivity with South Asia through Nepal. China first introduced it in 2018, during Nepal's Foreign Minister Pradeep Gyawali's meeting with the Chinese Foreign Minister Wang Yi in Beijing. A few days later, it was included in the "Joint Communiqué of the Leaders' Roundtable of the 2nd Belt and Road Forum for International Cooperation."¹⁴² In June 2018, when PM Oli visited China, the Joint Statement noted the two sides' agreement "to intensify implementation of the Memorandum of Understanding on Cooperation under the Belt and Road Initiative to enhance connectivity, encompassing such vital components as ports, roads, railways, aviation and communications within the overarching framework of trans-Himalayan Multi-Dimensional Connectivity Network."¹⁴³ Although THMDCN saw no major progress during the COVID-19 period, when PM Dahal visited China in 2023, he committed to implementing BRI and promoting the THMDCN "to help Nepal transform itself from a landlocked country to a land-linked country at an early date."¹⁴⁴ Notably, his cabinet approved the THMDCN's MoU titled "Strengthening the Development Cooperation in Building the Trans-Himalayan Multi-Dimensional Connectivity Network" on 11 July 2024, a day before being forced out as the PM.¹⁴⁵ When Oli became the PM, he visibly inherited the commitment for THMDCN's implementation in Nepal. During deputy PM and Finance Minister Bishnu Poudel's China visit in September 2024, the two countries committed to advancing connectivity projects under THMDCN, "particularly Kathmandu-Kerung railway, cross-border transmission line, Kimathanka-Hile and Hilsa-Simikot roads."¹⁴⁶

Nepali leaders and officials often claim that the government's approval of the THMDCN "carries more operational than political significance,"¹⁴⁷ which downplays the strategic importance the Chinese side attaches to the connectivity network. China has framed it as a network of "ports, railways, highways, aviation, electrical transmission and communications" that, "when well developed, can create conditions for an economic corridor connecting China, Nepal, and India."¹⁴⁸ In other words, China views THMDCN as a connectivity network that can help expand its access to the Indian and South Asian markets. As some observers argue, China aims to promote the THMDCN in Nepal as "a pragmatic mode of comprehensive partnership, rather than just a simple form of engagement,"¹⁴⁹ President Xi Jinping also confirmed this in an article prior to his 2019 Nepal visit, "A trans-Himalayan connectivity network...will serve not just our two countries but also the region as a whole."¹⁵⁰

THMDCN also aligns closely with China's broader vision for its flagship BRI, which has proven to be strategically more potent for its regional and global rivals. India has given "cold shoulders" to China's strategic priority of promoting Nepal-China connectivity, calling the future of a "China–Nepal–India Economic Corridor (CNIEC)" as "wishful thinking".¹⁵¹ Nepali experts have also cautioned that in the face of India's "nonchalant approach" to the Chinese ambition, "constructing a very costly trans-Himalayan rail and roadways that terminate only within Nepal does not constitute any long-term economic rationale" for China.¹⁵² Nevertheless, Nepali leaders and Chinese officials display great optimism for THMDCN's potential; Chinese Ambassador Chen Song has portrayed the proposed Nepal-China cross-border railway—a project under THMDCN whose feasibility is being studied by China—as "the common dream of successive generations of leaders and peoples of China and Nepal."¹⁵³ However, THMDCN's execution, including that of the 4.8 billion USD railway project, raises serious issues such as technical feasibility, environmental degradation, debt sustainability, financial viability, and strategic implications—particularly when it is branded as a "vital part of the Belt and Road Initiative cooperation."¹⁵⁴

B. Infrastructure Projects with Chinese Involvement

1. 5G Communication Technology

Timeline of Key Events:

| Date | Events |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| February 2019 | Nepal Telecom contracts Chinese companies CCSI and ZTE for a 4G LTE expansion project, laying the groundwork for future 5G implementation. ¹⁵⁵ |
| November 22, 2021 | Nepal Telecom receives spectrum allotment and trial permission, initiating preparations for 5G trials. ¹⁵⁶ |
| Mid-December, 2021 | Task force formed by Nepal Telecom to expedite 5G trial preparations. ¹⁵⁷ |
| February 2023 | Nepal Telecom commences limited 5G trials in Kathmandu and other cities ¹⁵⁸ |

At a time when digital and technological transformations are shaping and reshaping global politics, China’s interest and increasing presence in communication technology has surged globally, and Nepal is no exception. Chinese engagement in Nepal’s telecommunications sector also coincided with Nepal’s effort to reduce its economic overdependence on India after the 2015 blockade. One of the first instances was Nepal Telecom (NT)’s agreement with China Telecom Global “for a terrestrial cable route to deliver internet protocol (IP) service via Rasuwa via optical fiber.”¹⁵⁹ This would allow Nepal to reduce Indian telecom providers’ monopoly in Nepal in its plans to roll out 4G.

The expansion of 4G services in Nepal was not devoid of hiccups and corruption allegations. CESIF’s previous research has discussed in detail how the tender process came into the limelight, with the Commission for the Investigation of Abuse of Authority (CIAA) launching a probe into the bidding process irregularities.¹⁶⁰ After the CIAA’s green signal, the NT awarded the 4G expansion contract to two Chinese companies for

NPR 19 billion: the China Communications Services International (CCSI) and the Zhong Xing Telecommunications (ZTE).

Current Status of 5G in Nepal

5G expansion in Nepal was a component of the NT's agreement with both the CCSI and ZTE. According to the agreement, the two companies would provide equipment for 5G testing in Nepal. The arrangement received criticisms for evading the country's procurement rules, as the Chinese companies would be deeply involved in the country's 5G expansion without having to go through a competitive bidding process. Nevertheless, the NT conducted "internal 5G trials" in Bagmati (Babarmahal and Sundhara), Gandaki (Pokhara), and Madhesh (Birgunj) provinces.¹⁶¹ However, its plans to roll out the testing to other four provinces came to a halt due to uncertainties regarding a license to import equipment from Huawei and ZTE; while the NT claims that the Nepal Telecommunication Authority (NTA) has denied the permit to import the testing equipment from the Chinese companies, the NTA insists that it has already issued and sent the permit letter to the NT.¹⁶²

On 3 February 2025, Communications and Information Technology Minister Prithvi Subba Gurung directed Nepal Telecom to accelerate the launch of the 5G service, "emphasizing the urgency of technological advancement" as the global telecom industry prepares for 6G.¹⁶³ In line with this directive, Nepal Telecom announced plans to discontinue its 2G services by the end of 2025.¹⁶⁴

The delay and uncertainties in Nepal's 5G expansion have been linked to geopolitical factors, particularly the involvement of the two Chinese companies Huawei and ZTE. Nepal's telecom sector has had the monopoly of the Chinese companies ZTE and Huawei. The NT's core and access networks are both "predominantly reliant on Huawei technology," with the ZTE playing an important role in the 4G technology.¹⁶⁵ Huawei has also been a key actor in the "maintenance and support services" for NT's telecommunication infrastructures, and with its involvement in the 5G testing, Huawei's monopoly over Nepal's telecom sector is only likely to grow. But these companies' ties with the Chinese government¹⁶⁶ and "China's political and legal environment requiring cooperation with intelligence agencies"¹⁶⁷ have led many countries to raise concerns about the risks associated with using their technology and equipment.¹⁶⁸ Some including the United States, Japan,

and Australia “have effectively banned Huawei from building their 5G networks.” Even India left out both Huawei and ZTE from the list of companies that were given the permission to conduct 5G trials.¹⁶⁹ Due to the national security implications of the 5G technology, researchers such as Kaska et. al. has argued that “5G rollout needs to be recognized as a strategic rather than merely a technological choice.”¹⁷⁰ Nevertheless, Huawei remains popular among BRI-participating and low-income countries like Nepal due to “the company’s ability to provide high-quality networks for low prices.”¹⁷¹

Geopolitics is not the only factor causing the delays in 5G expansion in Nepal. According to an official at the NT, 5G in Nepal is a “no use-case” because the Nepali market is neither ready nor has a real need for the 5G upgrade at the moment. According to him, the NTA has been studying the internet ecosystem, the market, and the Nepali public’s device purchasing power, neither of which suggests that the heavy investment in 5G would yield a satisfactory return on investment (ROI). Therefore, despite the competitive interests of tens of vendors, Nepal’s 5G has been at a standstill. However, the push for 5G expansion in Nepal has not subsided; at a public event titled “Revitalizing the Telecom Industry,” organized by the Society of Economic Journalists–Nepal (SEJON) on 12 March 2025, experts and stakeholders called for 5G’s expansion in Nepal. If the 5G expansion in Nepal were to resume, Huawei’s affordability and its involvement in the preliminary testing will prove too strong for geopolitical pressures and national security sensitivities to overcome. As affirmed by the NT officer, Huawei’s affordability, in particular, makes it an easy winner among its rivals who cannot compete on price.

2. Tokha-Chhahare Tunnel

The planned 4.175 km Tokha-Chhahare tunnel is a part of the Samakhusi-Tokha-Chhahare road upgradation project, a strategic transport channel connecting Nepal with Tibet by enhancing Kathmandu’s connectivity with the northern districts.¹⁷² Although the road upgradation process was initiated by the Nepal government before it, the tunnel’s construction was linked to China during President Xi Jinping’s visit to Nepal in 2019, when “the two sides agreed to proactively cooperate on the feasibility study for the construction of tunnels along the road from Jilong/Keyrung to Kathmandu.”¹⁷³ Since then, Nepal has repeatedly raised the issue with China, particularly under the initiative of the then Finance Minister Dr.

Prakash Saran Mahat.¹⁷⁴ However, despite China's assurances "to accelerate the feasibility study" of the Tokha-Chhahare tunnel project,¹⁷⁵ China has completed neither the feasibility study nor a DPR in over six years since the initial agreement, which has made its construction uncertain.

In the BRI Framework agreement of December 2024, the tunnel was listed as one of the ten potential projects to be developed under BRI. Furthermore, a separate "Letter of Exchange on the Construction of the Tokha-Chhahare Tunnel" was also signed during the visit.¹⁷⁶

Assessing the Need for a Tunnel

The planned tunnel has been touted as an important infrastructure that would enable a journey from Nuwakot to Kathmandu in approximately 35 minutes. By strengthening transportation links between Kathmandu, Nuwakot, and Rasuwa, it would foster economic growth by improving access to the Chinese market and enhancing trade, tourism, and investment opportunities. It is also expected to drive economic activities in the region by enabling more efficient movement of goods and people. According to an engineer and former Deputy Director General at the Road Department's Foreign Cooperation Branch, the project will encourage migration from the overcrowded Kathmandu to nearby districts, alleviating pressure on the capital's resources and contributing to sustainable resource management. A local civil society leader argued that the tunnel's construction would not only ease trade and tourism with China through the Rasuwagadhi border point, but it would also provide Nuwakot an opportunity for industrial development and long-term economic benefits, especially because the Kathmandu's northern adjacent district has abundant natural resources, including construction materials, to supply to the federal capital.

However, multiple key informants and experts raised serious concerns about the project's economic viability and potential for sustained trade, especially in the face of trade barriers, concerns about Nepali goods' competitiveness in the Chinese market, and frequent border closure. Some local respondents dismissed the overall need for a tunnel, arguing that it would reduce only 30 minutes of travel time between Kathmandu and Bidur, which is not worth billions of investments. According to Nuwakot's Deputy Chief District Officer, the currently operational road between Tokha and Nuwakot's Bidur has several safety and security issues

that need to be addressed immediately. Nuwakot's chief of the District Coordination Committee also echoed the need for this road's upgrade, instead of an expensive tunnel being pushed as "a political stunt."

Tokha-Chhahare Tunnel as a Political Project

NC's leader Dr. Prakash Sharan Mahat has been one of the pioneers to push the tunnel's construction, especially seeking Chinese assistance during his stint as the Finance Minister.¹⁷⁷ In the budget for FY 2080/81, NPR 1.25 billion (out of 1.94 allocated for all tunnel projects) was allocated for "the study and construction of the Tokha Chhahare tunnel."¹⁷⁸ In September 2023, before PM Dahal's visit to China, Dr. Mahat claimed that the additional funds required for the tunnel's construction were to come from China and that the Chinese had expressed their positive intention for the investment.¹⁷⁹ However, PM Dahal's visit could only get China's nod "to accelerate the feasibility study."¹⁸⁰ As it currently stands, only its pre-feasibility is complete, whereas the project's EIA and DPR are still pending.^{181,182} Notably, the Tokha-Chhahare tunnel was not included in the budget allocation for the FY 2081/82 under Finance Minister Barsa Man Pun of the CPN (Maoist Centre).¹⁸³ Due to this apparently differing position on the tunnel's construction, many including officials from the Department of Road claim that the majority of the tunnels are included in the budget "due to political pressures."¹⁸⁴ Multiple local respondents also held this perception.

China's Involvement in the Project

As outlined above, China's association with the Tokha-Chhahare tunnel dates back to 2019, when the Chinese side first agreed to cooperate on the project's feasibility study. Over the years, Nepali leaders began seeking China's assistance in not just conducting the feasibility study but also constructing the tunnel that would cost approximately around 50 billion Nepali rupees.¹⁸⁵ However, in over six years since the initial agreement, China has not completed the feasibility study, let alone preparing its DPR or committing funds for its construction. Prior to the 16th Nepal-China Diplomatic Consultation Mechanism meeting in Kathmandu in June 2024, PM Dahal's foreign relations advisor Rupak Sapkota claimed that a Chinese technical team would "soon" arrive to carry out the feasibility study of the Tokha-Chhahare tunnel.¹⁸⁶ However, its progress has been

uncertain. It is also worth noting that the Chinese assessment of the project's viability has been different from what a Nepali team had initially concluded. According to an engineer at the DoR, a feasibility study conducted by Nepal prior to 2015 was not approved for the tunnel project due to questions about its viability, but the same research conducted by Chinese engineers received approval, which raised questions about the authority and transparency in the decision-making process. Although the Information Officer at the Road Division dismissed any study of the project by the Nepali side, news reports confirm the project engineer's claim.¹⁸⁷

With the Chinese side still delaying the project's feasibility study, therefore, the tunnel's construction would witness further delay as it requires a separate negotiation on financing and operational modality. Despite Nepali leaders' claims and Nepal's occasional request to China to expedite the process, China's current reluctance to fund large infrastructure projects in Nepal indicates an uncertain future for the Tokha-Chhahare tunnel, particularly due to the lack of clarity on its funding modality.

3. Dry Ports in Rasuwa and Tatopani

Rasuwa Dry Port

The Rasuwagadhi-Kerung border point serves as one of the two trading routes between Nepal and China, with China even prioritizing this route for its trade with Nepal.^{188,189} This was evident in China's offer to build a dry port in Rasuwa's Timure with Chinese grant assistance of NPR 2.2 billion. Nepal's Ministry of Commerce and Supplies signed an MoU with the Chinese side for the same on 16 October 2014.¹⁹⁰ Aimed at reducing transport costs for cross-border trade, achieving "competitiveness in imports and exports through reduced overhead costs," and promoting "competitive transport services and open opportunities to private sector operators,"¹⁹¹ the completed dry port would have space for a warehouse, parking lot, quarantine facilities, customs and administrative buildings, and space for some 350 container trucks. Spread in an area of over five hectares, the dry port is about 2.5 km from the Nepal-China border and 26 km from Dhunche, the district headquarters.¹⁹²

The construction of the dry port began only in 2019, when the Nepal Intermodal Transport Development Board (NITDB) signed an agreement with the Tibet Fuli Construction Group Company Limited for the construction of the dry port, to complete the construction within 30 months.¹⁹³ With the Covid-19 pandemic's outbreak, however, its construction went on a hold for an extended period, with little progress by its May 2022 deadline.¹⁹⁴ The Chinese contractors who had left the construction site after the outbreak neither returned nor communicated with the NITDB despite its repeated requests for an updated plan for the construction. In late 2022, Nepali media reported that the Chinese government had sent a new contractor to complete the project.¹⁹⁵ However, according to an NITDB official, the same contractor is constructing the port. By the end of August 2024, the overall physical progress of the project was about 65%. He also said that the Chinese contractors never fully abandoned the site and instead kept a few workers even during the pandemic, with the Chinese side claiming to complete it by June 2025. But by the end of 2024, the overall physical progress of the project had only reached around 72%,¹⁹⁶ casting serious doubts on the June deadline. Nevertheless, even after its construction is completed, frequent road disruptions due to floods and landslides¹⁹⁷ raise questions about the dry port's role and reliability for cross-border trade.

Tatopani Dry Port

The Nepal-China border at Tatopani offered the primary trading point between the two countries, with the Araniko Highway connecting Kathmandu with Tibet's Khasa market. However, this border point has suffered long, periodic closures, hampering not just trade but also people-to-people movement, despite Nepali traders' preference for this route over the Kerung-Rasuwegadhi.¹⁹⁸ China shut the border after the 2015 earthquake. After a series of diplomatic efforts, it was opened in May 2019, only for a one-way import trade. Four years later, in May 2023, China opened it for two-way trade, while maintaining the total halt in people's movement till September.¹⁹⁹

China's border closure was triggered by its perceived "security challenges" that the 2015 earthquake brought to their attention. According to reports from Sindhupalchowk's journalists covering borderland issues, Chinese concerns revolve around the extensive popularity and adherence of the Dalai Lama by Nepali residents across the border.²⁰⁰ China got a glimpse

of the Tibetan leader's acceptance and reverence in Nepal during its relief efforts, when his posters and images emerged from the rubbles of Nepali Buddhist's houses demolished by the earthquake, according to KIs. It is also worth noting that the Tatopani was among the most popular routes for Tibetans to escape Tibet after the 1959 Lhasa Uprising.

China had offered to build the Tatopani dry port in May 2012, with grant assistance of USD 13.8 million. In December 2012, its foundation was jointly laid out, starting the construction.²⁰¹ In August 2014, however, floods and landslides in Jure halted the construction, which was further delayed by the devastating 2015 earthquake.²⁰² The Chinese side completed its construction and handed it over to Nepal on 28 June 2019,²⁰³ after which the Nepal government handled its operation and management. On 14 September 2022, the operation and management contract was awarded to the Trans Silk Terminals Pvt. Ltd. for a five-year period. According to the contract, the private company would pay Rs. 117 million for the five years to the committee for operating and managing the port²⁰⁴.

Residents in the Tatopani region had been hopeful that the dry port's construction would entail an open and operational border point,²⁰⁵ easing their livelihood through cross-border trade and movement. However, the COVID-19 pandemic severely disrupted trade, with lockdowns and movement restrictions impeding the regular flow of goods. As Nepal began to lift these restrictions, efforts to restore normalcy faced significant challenges. The intermittent closures and health safety protocols affected trade volumes, leading to prolonged delays and increased costs. Businesses dependent on cross-border trade struggled to recover, and the economic strain was felt deeply in the Tatopani region. After the COVID-19 outbreak, Nepal could see one-way trading, as imports through the customs point rose by the day but exports remained almost zero. Local vegetables, fruits, and other goods are not permitted to enter China, which Nepali news reports argue is a Chinese policy "to allow only its products to pass into Nepal but not to allow our goods in their market."²⁰⁶

Natural disasters, due to a difficult geography, present another key challenge in smooth operation of and trade through the Tatopani dry port. Located in a seismically active region, the area has been prone to earthquakes, landslides, and floods, which have periodically disrupted trade routes and damaged infrastructures. The 2015 earthquake, which

caused significant damage to the port facilities and access roads, hampering trade for months, was a prime example. The subsequent reconstruction efforts highlighted the need for more resilient infrastructure. But the rugged terrain and harsh weather conditions further complicate maintenance and development.

More importantly, its unpredictability in the border's opening and facilitation for two-way trade even after the pandemic suggests China's deeper apprehension for the Tatopani-Khasa route. As mentioned above, China's sensitivities revolve around possible anti-China (pro-Tibet) activities from the Dalai Lama adherents in the region in the future. This cautiousness appears to have shifted the Chinese priority over to the Rasuwagadhi-Kerung border point for bilateral trade. However, China is currently building a smart city in Khasa, which suggests the Nepal-China trade through this border point may see an improvement in the days to come.

4. China-Nepal Friendship Industrial Park

The China-Nepal Industrial Park project in Jhapa, an eastern district of Nepal, is a significant development initiative estimated to cost around NPR 64 billion. The envisioned industrial park spans 2200 bighas between the Ratuwa and Mawa rivers of Damak,²⁰⁷ touching land from three municipalities: Damak Municipality, Kamal Rural Municipality, and Gauradaha Municipality. The project supports a Public-Private Partnership (PPP) model and aims to bring “industries related to food products, home appliances, transport equipments, and electrical and communication equipments.”²⁰⁸ Nepali media reported that 26 companies have already confirmed their interest in operating within the park once construction is completed, with 98 others considering participation. The project gained momentum following the 55th meeting of the Investment Board Nepal (IBN),²⁰⁹ where the industrial park's Detailed Project Report (DPR) was approved, reflecting a strong commitment to this venture in the Public Private Partnership (PPP) model.²¹⁰ Before this, during its 47th meeting, the IBN sanctioned the NPR 64 billion investment from a Chinese company to realize the park's construction. An agreement between IBN and China's Lhasa Economic and Technology Development Zone Jingping Joint Construction Company, the developer, was finalized in Chaitra 2079 BS. The project's first phase was approved with an investment of NPR 64.41 billion, with

an agreement signed in 2019 involving the Lhasa Economic and Technological Development Zone Investment Development Company for the park's construction.²¹¹

As a large infrastructure project in his electoral constituency, the Industrial Park falls under PM Oli's priority, as evidenced by Deputy PM and Finance Minister Bishnu Poudel discussing it with the Chinese during his September 2024 visit. It was also included in the BRI Framework agreement of December 2024. However, the project has seen no major progress on the ground; to date, the only notable milestone has been the foundation stone laying ceremony.

Causes of the Delay

One of the key factors causing the delay has been a lack of agreement on the Project Development Agreement (PDA). The primary contention in the PDA negotiations is the length of the operational period. The IBN rules allow the developers a set operational period during which they can operate projects after their completion.²¹² According to Nepal's current policies and practice, the operational period for the development and profitability of the industry is only 30 years. However, the Chinese have been seeking an extended period—up to 40 years.²¹³ This difference—along with other factors including Nepal's political instability—has also caused a disruption in the regular mandatory meetings between the Chinese and the Nepali sides. The Public Private Partnership and Investment Act (PPPIA) 2019 stipulates that the parties should hold at least six meetings in each fiscal year during the negotiation and development phase. However, the IBN has failed to conduct regular meetings, one of the key factors being the PM's unavailability, as suggested by a key informant at the IBN.

Nepal's political instability and frequent government change have caused not only interruptions in the ongoing negotiations but a significant delay in the project's overall progress. In fact, the project was hastily announced before an election to attract voter attention and secure political candidacy. The locals were promised lucrative jobs and better economic prospects during its announcement, but due to its political nature, the project's planning and execution were poor due to a lack of proper consultation with important stakeholders. This led to disputes over land compensation; local respondents revealed that the government's compensation to the project's landowners, particularly the Dhimal community, were

inadequate, with land prices undervalued. Many locals also complained that agents and middlemen purchased the locals' land prior to the project's announcement in order to secure better deals from the government. This left the poorer residents with limited options, as middlemen further complicated the land acquisition process by inflating prices through early purchases. According to Khagendra Bhattarai, who led a protest by the "Damak Clean Park Struggle Committee," the compensation provided by the government was up to 80% below their actual value, which led to dissatisfaction and resistance among landowners, with some even filing court cases. The government's compensation based on land categorization has further contributed to conflicts of interest. Due to these issues, the project has encountered opposition from various political parties, causing further delays and speculations. While the issue has been covered by local media, it has received minimal attention from national outlets.

Geopolitical Factors

China's willingness to invest in the China-Nepal Friendship Industrial Park constitutes not only an immediate interest in Nepal but also its broader vision for an access to the South Asian markets through Nepal. This is evident in the Chinese framing of the project under the THMDCN.²¹⁴ The proposed park's strategic location offers potential access to the large markets in both India and Bangladesh and could help China expand its trade with the South Asian countries. Bangladesh's rapidly growing economy, particularly in the textile and garment industry, presents opportunities for trade. However, India's geopolitical interests in the region are driven by security concerns, economic stability, and political influence, which directly conflicts with the Chinese ambitions. As evidenced by India's position on power trade with Nepal, which discouraged Chinese investment or involvement in Nepal's hydropower, China's investment in the industrial park is likely to face serious challenges in its operation and economic viability due to the sensitive geopolitics, particularly at India's doorstep only a few kilometers from its strategically important border. Some key informants even pointed out that India had drawn a "red line" on the project, advising both Nepali Congress and CPN-UML against advancing its implementation. However, the BRI framework agreement now includes the park under potential projects to be developed under BRI, which further exacerbated India's relation with the coalition government, highlights the crucial role of geopolitics in

Nepal's infrastructure development. China's insistence on a longer operational period is perhaps a reflection of their understanding about these obstacles. Even some locals in Damak have started seeing the park as a "white elephant" project and argue that the government should instead help tap into the immense tea plantation potential in the region.

5. Kathmandu Ring-Road Second Phase Expansion

First built with Chinese assistance in 1977, China agreed to upgrade the Kathmandu Ring-Road in 2011. Accordingly, the first phase of the expansion—of a 10.5 km Kalanki-Koteshwor section—was completed in late 2018 and officially handed over to the government in January 2019.²¹⁵ The remaining Kalanki-Koteshwor section was divided into further two sections, and for the second phase of the road's expansion, an agreement between the Nepal government and China was reached on 17 January 2018. According to the initial agreement, the 11.6 km section between Kalanki and Dhobikhola (Chabahil) was to be expanded within two years. However, due to site clearance issues between Dhobikhola and Narayangopal chowk in Maharajgunj, the Chinese side committed to the construction of the Kalanki-Maharajgunj section only. It was further shortened by some 244 meters due to land acquisition issues involving some 19 private structures in Maharajgunj, which has limited the second phase to an 8.2 km Kalanki-Basundhara stretch.²¹⁶

In August 2024, Nepal and China signed a letter of cooperation to advance the construction of the second phase of the Ring-Road expansion. The Nepali side had also pushed it as one of the 24 projects to be developed under BRI during the November 2024 negotiations over BRI Cooperation Framework, but it was dropped from the final agreement. As a result, even after six years since the completion of the first phase and the agreement to begin the second phase expansion, the construction remains uncertain, which has frustrated not only local residents but also elected representatives, leaders, and politicians. For instance, in a symbolic act of frustration, Kathmandu's Mayor Balen Shah declined the Chinese Embassy's request for Chinese New Year celebration in the Thamel-Ratna Park area, instead asking them to do so in the Kalanki-Maharajgunj section of the Ring-Road.²¹⁷

An Unusual Delay

In early 2023, when the new Chinese Ambassador, Chen Song, came to Nepal, the second phase of the Kathmandu Ring-Road expansion received “fresh optimism,” demonstrated by the Chinese representatives’ inspection of the site.²¹⁸ However, it did not take long for the optimism to turn into frustration after the Chinese side failed to initiate work. Initially, the Chinese side pointed to the COVID-19 pandemic as the reason behind the delay.²¹⁹ However, their reluctance to begin the construction work even after the pandemic ended has invited criticisms and questions about China’s true intentions, with Nepal’s Department of Road blaming the Chinese side for the delays.²²⁰

Timeline of Major Events: Kathmandu Ring-Road Expansion

| <u>Date</u> | <u>Event</u> |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| December 18, 2012 | Nepal-China agreement to expand the first phase (Koteshwor-Kalanki) of the Kathmandu Ring-Road |
| March 15, 2013 | Beginning of the construction of Kathmandu Ring-Road Phase I |
| January 17, 2018 | Nepal-China agreement to expand the second phase (Kalanki-Dhobikhola) of the Kathmandu Ring-Road |
| July 2018 | Completion of the Phase I expansion |
| December 2021 | Chinese technical team surveys the site for Phase II expansion |
| November/December 2022 | Chinese delegation visits Nepal, commits to submit the Detailed Project Report within a year |
| March 15, 2024 | Draft Letter of Exchange (LoE) received from China |
| April 2024 | CIDCA’s chairman Luo Zhaohui visits Nepal; Nepali officials claim the LoE would be signed within days |
| August 22, 2024 | LoE signed between CIDCA and the Ministry of Finance—to prepare DPR and start the expansion |
| February 2024 | Deputy Prime Minister and Minister for Physical Infrastructure and Transport Naryan Kaji Shrestha conducted an on-site inspection of the project. |
| March 2024 | GoN undertook preparatory measures, including removal of trees, relocation of electric poles and installation of sewage systems along the proposed expansion route. |
| 22 August 2024 | Nepali and Chinese government signed a letter |

| | |
|------------|------------------------------------------------------------------------------------------------|
| | of cooperation to advance the second phase of the Ring Road expansion. |
| April 2025 | Chinese technical team arrived in Kathmandu to survey Ring-Road for the second phase expansion |

China had sent a draft letter of exchange (LoE) for the project in March 2024.²²¹ Therefore, when Luo Zhaohui, Chairman of the China International Development Cooperation Agency (CIDCA), visited Nepal in April 2024, Nepali officials were positive that the LoE would be signed between the Chinese agency and Nepal's Finance Ministry "within days."²²² Barsha Man Pun, a CPN (Maoist Centre) leader known to be close to the Chinese, was the finance minister then. Despite the optimism, however, the LoE was not signed. Instead, the Maoist-led government was brought down when his coalition partner K.P. Oli leading the CPN-UML joined hands with the Nepali Congress to form a new government under his leadership (on a rotation basis). Under the new government, in August 2024, CIDCA and Nepal's Ministry of Finance signed the LoE to finalize the DPR and begin construction of the 8.2 km section.²²³

According to some government officials, the frequent government change was a key factor behind the delayed agreement. However, experts following Chinese engagement in Nepal contend that Nepal's political instability alone does not explain China's reluctance to initiate the project; it is rather linked to China's broader approach to financial assistance for Nepal's large infrastructure projects. As demonstrated by the slow progress in executing other China-funded projects, the signing of the LoE means little in terms of actual progress on the ring road expansion because the construction is likely to face further delays and will begin only after the DPR is complete, paving the path for the bidding process.²²⁴ However, there has been "inordinate delays" and uncertainties in even the DPR, being prepared by China's Henan Communications Planning and Design Institute Company.²²⁵ The Chinese technical team arrived in Kathmandu for site survey only in April 2025; after the survey is complete, it will have to prepare DPR before eventually beginning the construction work.²²⁶ The LoE and occasional assurances appear to be China's way of diffusing the public and political pressures that have built on China in recent times, as discussed in a section below.

Site Clearance Issues

A common reason for the delay cited by the Chinese has been Nepal government's failure to complete the site clearance for the Kalanki-Maharajgunj stretch on time. Although land acquisition cases for the houses in Maharajgunj that need to be demolished are pending in the court,²²⁷ according to Amrit Mani Rimal, the then chief of Ring Road Improvement Project, the site clearance for the 8.2 km Kalanki-Basundhara section had been completed by October 2020. However, according to Nepali officials, the Chinese insisted on starting the construction work only after the full site was cleared. This reluctance was partly due to their experience during the first phase expansion, which faced complications and delays because it had been started without completing site clearance.

COVID-19 Pandemic

Another, more apparent reason, for the delay is the COVID-19 pandemic, during which China completely stopped all the work related to the Ring Road expansion, along with most other infrastructure projects.²²⁸

Project Design and Letter of Exchange

As mentioned above, it took six years for China and Nepal to sign the LoE for the Ring Road expansion. Besides the broader issues regarding China's overall infrastructure engagement in Nepal, some factors that delayed the LoE for this project include a need for revising its design and a lack of agreement on custom tax exemption on the import of construction materials and equipment.²²⁹ In addition to shortening the length from 11.6 km to 8.2 km, safety and security issues raised by the Nepali side required a revision in the project design. The Kalanki-Koteswor section of the Ring Road has not only been criticized for lacking "utility corridor"²³⁰ but often been termed as a "death trap," as it has seen a spike in road accidents, largely due to "absence of road dividers, traffic lights and zebra crossings, night lights, parking stations, and inadequate overhead bridges along the roads."²³¹ These safety concerns and the Chinese reluctance to build underpasses and flyovers due to higher costs²³² were an important part of the negotiations that contributed to the delay.

China's Reluctance to Allocate Budget

Nepali media's reporting on the Ring Road expansion's delay have often emphasized the uncertainty around finalizing the DPR,²³³ highlighting “a pattern of occupying projects without progressing to detailed study reports (DPRs).”²³⁴ Indeed, China-funded large infrastructure projects have been a victim of its broader reluctance to move them ahead by allocating funds. Experts during a CESIF Focus Group Discussion linked the Chinese reluctance to the pending BRI Implementation Plan in Nepal, which was used as a leverage to execute large infrastructure projects, including the Ring-Road second phase expansion. In April 2024, the Nepali Ambassador to China, Bishnu Pukar Shrestha, shared China's communication that “they have already allocated the budget for expediting these projects,” referring to CIDCA-funded projects, including the Ring-Road expansion. However, as he confirmed, these communications are vague, non-transparent, and unspecific,²³⁵ which breeds different speculations and hearsays in Nepal, even for the project head, Krishna Nath Ojha.²³⁶

Several reasons have contributed to the delay in Ring Road second phase expansion. Although the Chinese side points to Nepal's failure to clear the site on time, the COVID-19 pandemic, and political/bureaucratic processes prolonging agreements, these factors alone do not fully explain the project's slow progress. Instead, China's measured pace in disbursing grants for large infrastructure projects in Nepal appears to reflect a strategic approach, initially reported as leveraging such delays to encourage Nepal's signing of the BRI Implementation Plan.

Nepal's Response to China's Reluctance

Dealing with the uncertainties and delay in the Ring Road expansion, at the heart of the capital city, has been particularly challenging for Nepal. While it has begun the construction of the sewage and service lanes for the Kalanki-Basundhara stretch, which fall under its responsibility according to the agreement,²³⁷ Kathmandu residents have been victims of several challenges, including extreme pollution and dust. The uncertainty has also been a major source of friction between the local government, especially Kathmandu's Mayor Balen Sah, and the federal government, i.e. the Department of Roads (DoR). In a rather dramatic event, the Kathmandu Metropolitan City (KMC) dumped a truck-load of waste in

front of the Road Division Kathmandu Office, as a symbolic protest to pressure the Transport Minister to resume the expansion work.²³⁸ In a Facebook Post, Mr. Balen said, “For the past 15 years, the citizens of Kathmandu have had to breathe in dusty air and face hardships in the name of Ring-Road expansion,”²³⁹ further adding that he would send the ‘gift’ every day until the Ring-Road expansion was expedited.²⁴⁰ The delay also prompted lawmakers, led by NC’s Pradip Poudel, to register a proposal of public interest in the federal parliament in June 2024, seeking the government’s accountability.²⁴¹ They demanded a parliamentary discussion on the issue and proposed that the Nepal government begin the construction using its own resources if the Chinese side continues to delay.²⁴² Despite these political pressures and Nepal’s persistent diplomatic efforts, China’s repeated assurances to start the construction work²⁴³ has been limited to strategically diffusing the pressure, while the project continues to be in limbo.

6. Syphrubesi-Rasuwegadhi Highway

The Syphrubesi-Rasuwegadhi road is a 17 km stretch on the 82 km-long Galchhi-Trishuli-Rasuwegadhi Highway that connects Kathmandu with Tibet’s Kerung. Initially constructed with Chinese assistance in 2012,²⁴⁴ its upgradation became Nepal’s priority after the 2015 blockade, when the Oli government launched a series of efforts to reduce Nepal’s overdependence on India by enhancing its trade and economic connectivity with China.²⁴⁵ Although Nepal’s initial proposal to the China-led Asian Infrastructure Investment Bank (AIIB) in June 2016 did not materialize,²⁴⁶ China agreed to fund the repair and improvement of the Syphrubesi-Rasuwegadhi highway in December 2016, as a part of its one billion RMB post-disaster reconstruction grant to Nepal.²⁴⁷ However, despite the commitment and repeated assurances to initiate the construction ever since, including during Xi Jinping’s Nepal visit in 2019²⁴⁸ and PM Dahal’s China visit in 2023,²⁴⁹ China has displayed little urgency in its construction, which has made cross-border movement through the Rasuwegadhi point extremely challenging.

The effort to enhance Nepal’s cross-border connectivity with China took off in 2016, but it gained a renewed impetus only in October 2019 during President Xi Jinping’s Nepal visit. The joint statement issued during his visit mentioned China’s “readiness in initiating the repair of Syphrubesi-Rasuwegadhi Highway” while an agreement between Nepal’s Ministry of

Finance and CIDCA noted that the two sides would “proactively cooperate on the feasibility study for the construction of tunnels” along two sections of the Kathmandu-Rasuwagadhi road: Tokha to Chhahare and Mailung to Syaphrubesi.²⁵⁰ It is important to consider that at this point, China had rolled out the THMDCN, a broader framework under BRI whose goals aligned with Nepal's infrastructure needs. However, a number of factors, including the Nepali side's failure to address Chinese concern regarding land clearance led to a major delay in upgrading the Syaphrubesi-Rasuwagadhi road. Other factors that contributed to the delay include the COVID-19 pandemic, uncertainties around the BRI Implementation Plan, and perhaps a setback on its regional ambitions due to deteriorating India-China relations post-2019.

In the Fiscal Year 2081/82, Nepal Government has allocated a budget of NPR 1 Arba 80 crores for the Syaphrubesi-Rasuwagadhi road upgradation. According to the Budget speech, the Galchhi-Syaphrubesi section of the road would be completed, and the upgradation of the Syaphrubesi-Rasuwagadhi section of the road would commence.²⁵¹ However, by October 2024, the Syaphrubesi-Rasuwagadhi road had seen no physical progress; the remaining Syaphrubesi-Galchhi section of the Highway is being constructed by the Nepal government, by dividing it into two packages: the 46 km Galchhi-Mailung and the 19 km Mailung-Syaphrubesi. Contracted to the M/S COVEC/Tundi/Rasuwa JV, the blacktopping of nearly 40 km of the Galchhi-Mailung section has been completed by March 2025, while around 4 km section near the Nuwakot headquarters and 2 km near Mailung are pending due to land acquisition issues.²⁵² Similarly, for the 19 km Mailung-Syaphrubesi section, after the Nepal Army opened the track in 2018,²⁵³ the Nepal government had awarded the contract to the M/S Bharat Construction-Siddhi Sai JV for the road construction,²⁵⁴ but it has terminated the contract and blacklisted the company. According to an engineer working on the Galchhi Trishuli Mailung Syaphrubesi Rasuwagadhi Road Project, “The Indian contractor did not mobilize the team and made several excuses, delaying the construction.” According to a sub-engineer working under the project, no new contract has been awarded for this section.

Site Clearance Issues in Syaphrubesi Market

One of the key factors causing the delay in the Syaphrubesi-Rasuwagadhi road upgradation is a pending dispute regarding land acquisition in 600 meters stretch around Syaphrubesi market. According to multiple key

informants, Chinese contractors refuse to begin construction until there is a full clearance from the host side. According to Dhurva Kumar Shrestha, the Galchhi-Syaphrubesi-Rasuwegadhi Road's Project Head, the Chinese side had pointed out three factors preventing them from starting the construction: a) issues in land acquisition in the Syaphrubesi area of Timure, b) pending relocation of electricity poles, and c) the need to change the design of road alignment around Syaphrubesi Bazaar due to problems in land acquisition. Multiple sources confirmed that none of these concerns were fully addressed by the Nepali side until mid-October 2024. According to a sub-engineer working on the project, however, the land dispute in Timure has now been settled, and compensation is being handed out to the land owners. Similarly, the project has made payment to the Nepal Electricity Authority (NEA) for the electric poles' relocation, and the NEA is in the process to relocate them. But demolishing the structures in Syaphrubesi's 600 meters market area has proved extremely challenging for the Nepali side due to locals' resistance; moving ahead with the project meant either choosing an alternate route or constructing a narrower road along the 600m stretch. An adjustment in the original plan required a revision in the road alignment design around the Syaphrubesi Bazaar area, which involved lengthy bureaucratic to-and-fro, both within Nepal and with China.

According to the project head, the Chinese side had finalized the consultants and appointed general contractors before the end of 2024, as the project would be carried out entirely by the Chinese as a grant. The Tibet Thiyanalu Company Limited was awarded the contract to upgrade the Syaphrubesi-Rasuwegadhi road. A sub-engineer working on the project confirmed that the Chinese had agreed to move ahead with a 11-meter-wide road in the disputed Syaphrubesi market area, with construction likely to begin in October-November 2024, after the festivals. Local key informants said that the Chinese contractors visited the site in late September and were looking locally-available construction materials. However, given the destructive floods and landslides of September 2024, which damaged the roads on both Chinese and Nepali side completely cutting off movement for weeks,²⁵⁵ any progress on the Syaphrubesi-Rasuwegadhi road upgradation faced further delays. According to Timure's ward chairperson, the Chinese began preparatory work only in mid-March 2025.

7. Kimathanka-Khandbari-Biratnagar Road

After Nepal signed the Transit Transport Agreement (TTA) with China in March 2016, the government prioritized enhancing infrastructure connectivity with China, which would allow it to conduct trade through its northern border points. At that time, Kimathanka in the Sankhuwasabha district was not connected via road. Therefore, to link this border point with adjacent Tibet, the Nepal government pushed the construction of the Kimathanka-Khandbari-Biratnagar road, which would improve Nepal's cross-border trade.²⁵⁶ As it passes through four districts in eastern Nepal, the road's completion would also be crucial for the region's economic growth and development. For China seeking to expand its footprint in Indian and South Asian markets, the Kimathanka-Khandbari-Biratnagar road would offer the shortest route linking India and essentially complement its planned investment in the China-Nepal Friendship Industrial Park in Damak, Jhapa. However, despite its potential, the road construction has been extremely slow due to a number of factors, including a lack of funds.²⁵⁷

The Kimathanka-Khandbari road is a part of the Koshi Corridor, one of the three North-South corridors that China has committed to help develop under the THMDCN.²⁵⁸ Despite Chinese interest in the corridor, however, the Nepal government has been constructing the road with its own funds by contracting it out in different packages since 2018/19.²⁵⁹ Of the total 362 km Kimathanka-Khandbari-Biratnagar road, the 200 km Biratnagar-Khandbari section had already been constructed; Of the remaining 162 section between Kimathanka and Khandbari, 144 km of the road had been built while the Nepal Army was given the responsibility of the remaining 14 km section.^{260,261} By January 2025, Nepal Army had achieved a major milestone by successfully excavating a rocky cliff, finalizing the 10.5 km from Chyamtang to Ghongghoppa section which connects previously isolated segments of Khandbari-Kimathanka road.²⁶² As of December 2024, approximately NPR 5.58 billion had been spent out of NPR 16 billion of estimated total cost; the project is expected to be complete by the fiscal year 2083/84 (2026/27 AD).²⁶³ Notably, it has also been identified as one of ten priority projects under BRI in its 2024 Framework agreement.²⁶⁴

Despite its national importance, the project has faced challenges in securing the necessary attention and resources for its timely completion.

Besides the difficult terrain, which makes the construction work challenging, the region is also prone to extreme weather conditions. In Sankhuwasabha district, monsoon rain causes frequent landslides, which obstruct the Khandbari to Kimathanka section of the North-South Road,²⁶⁵ isolating communities in Bhotkhola and Makalu rural municipalities.

8. Hilsa-Simikot Road Projects

The Hilsa-Simikot Road is a crucial 95 km section of the 536 km-long Karnali Economic Corridor, one of the eight North-South Corridors connecting India and China and a National Pride Project that the Nepal Government has been developing. Although the project has been in planning and development for an extended period, it took 21 years for the Hilsa-Simikot Road and the Khulalu-Simikot sections to finally be designated as the Karnali Corridor.²⁶⁶ Although the Hilsa-Simikot section of the road has been linked with China at least since 2013, only in August 2024, Nepal and China signed the Letter of Exchange for feasibility study to upgrade the section to two lanes.²⁶⁷ During the Prime Minister KP Sharma Oli's visit to Beijing in December 2024, the two countries designated Hilsa-Simikot Road Project as a high-priority to bolster connectivity between Nepal and China.²⁶⁸ It was also included in the list of projects to be developed under BRI in the framework agreement signed in December 2024. However, given the slow pace of preliminary work by the Nepal government—especially due to difficult geography and fund scarcity—moving this project forward will face multiple challenges, including a successful negotiation with the Chinese side for this BRI project.

The 95 km Hilsa-Simikot road falls under the 146 km long section stretching till Salli Salla, which is being administered by the project “Karnali Corridor Hilsa-Simikot North Section” (the South Section extends from Salli Salla to Khulalu). According to the Information Officer at the North Section's project office, the 95 km track has been opened and vehicle ply on the Hilsa-Simkot section. However, the road connecting Simikot with the Salli Salla and Khulalu still has multiple issues. First, the track for around 700 meters near Simikot still remains unopened due to land acquisition dispute. Therefore, an alternative route dug by the Infrastructure Ministry is used to bypass this section to reach Simikot and beyond. Second, due to the steel truss bridge still being built

in Kharpu Khola, smaller vehicles find it hard to cross the river, making the journey till Simikot difficult during rainy seasons. People use suspension bridge to cross the river while Nepal Army has issued a contract to build a Bailey bridge, aiming to complete it by June/July 2025, according to the Information Officer. On 14 February 2025, the Karnali Corridor Khulalu-Salli Salli Project, Kalikot, awarded a contract worth NPR 4.23 billion to blacktop 50 km section of the Corridor.²⁶⁹

As of March 2025, the tracks for most part of the Corridor has been opened, where the Nepal government has been undertaking road improvement works in both the North and South sections of the Karnali Corridor. In the North section, contracts to build gravel standard road are currently in progress. According to the Information Officer, graveling for around 20 km (18 km on the Hilsa side) has been completed, while other three contracts—two for 10 km each and one for 17 km section—are running; the contract for another 10 km section just above Simikot is also in process of being awarded.

Given the sluggish pace of development on the Nepali side, upgrading the 95 km Hilsa-Simikot section with China's support is set to prove challenging, with no definite timeline in sight as of March 2025.

9. Nepal-China Power Grid Interconnection Project (Chilime-Kerung)

The Nepal-China cross-border transmission line was first conceived in 2016, during PM Oli's China's visit, when the two sides agreed "to take up...the 400 KV Cross-Border Transmission Lines Project at Rashuwagadi-Kerung border point."²⁷⁰ When PM Oli visited China again in 2018, the Nepali side "requested the Chinese side to help construct cross-border transmission lines." The joint statement noted that "Chinese enterprises are encouraged to study on the feasibility in this regard." After six years since the initial MoU, on 26 March 2022, Nepal and China finally signed an agreement to conduct a feasibility study for the high-voltage transmission line aimed at facilitating hydropower trade between the two countries.²⁷¹ The agreement was signed during Chinese Foreign Minister Wang Yi's visit to Nepal, when NC's Sher Bahadur Deuba and Narayan Khadka were the PM and Foreign Minister, respectively. Crucially, Nepal's federal parliament had approved the 500 million USD Millennium Challenge Corporation (MCC) grant just about a month before it, amidst

a protracted political polarization over the issue²⁷² and a Chinese lobby against the American grant.²⁷³ The MCC compact also aimed to “facilitate cross-border electricity trade between Nepal and India”²⁷⁴

Although two rounds of talk had been held before the Covid-19 pandemic, the Joint Working Group (JWG) meeting, composed of members from China's State Grid Corporation and the Nepal Electricity Authority (NEA), resumed in Kathmandu only in February 2023, after a three-year gap.²⁷⁵ The meeting concluded without any concrete progress, but the Chinese side submitted a formal proposal to purchase power from Nepal for the bordering Tibet—“especially for the winter season.”²⁷⁶ The Chinese side also asked whether the transmission line's capacity could be reduced to 220 kV, which would expedite the project due to a 220 kV line already extending close to Rasuwagadhi.²⁷⁷ Despite Nepal's initial preference for the 400 kV, the capacity was reduced to 220 kV, which expedited the project to some extent.

PM Dahal's 2023 visit to China carried great optimism for signing a Power Trade Agreement.²⁷⁸ The then Energy Ministry claimed that “the construction and investment modality of the Ratamate-Rasuwigadhi-Kerung Transmission Line Project [would] be finalized during the Prime Minister's visit.”²⁷⁹ During the visit, China agreed to provide grants for the construction of the transmission line on Nepal's side.²⁸⁰ The joint statement also noted that the two sides would “launch the construction of the Jilong/Keyrung-Rasuwigadhi-Chilime 220 KV Cross-Border Power Transmission line at an early date.”²⁸¹ When CIDCA's chairman Luo Zhaohui visited Nepal, in April 2024, the transmission line, along with three other CIDCA-funded projects, was reported to be in the final stage of negotiation.²⁸² However, the four LoEs signed later in August 2024 did not include one on the transmission line. According to an NEA official closely involved in the project, the Chinese side has continued the preparatory work; CIDCA has conducted its feasibility study and hired consultants for the DPR. The construction will begin soon and is expected to be completed in about two years. In the BRI framework agreement, the project was included in the list of projects to be developed under the Chinese Initiative.

Negotiating the Funding Modality

As suggested above, it took a series of back-and-forth negotiations in Kathmandu and Beijing before the Chinese side agreed to fund the project as a grant. According to the Project Head, between 2018 and 2024, six (JWG) meetings took place, gradually taking the agreement from utility-level (between China State Grid and NEA in 2018) to secretariat-level (during Wang Yi's visit in 2022) and prime minister-level (during Dahal's 2023 visit). Initially, the China State Grid was more concerned about the Rate of Return in this project. As a project on the initial BRI list as well, the Chinese side preferred to implement the project as a loan, but Nepal insisted on not taking loans for any project under BRI, which caused the initial delay. Later, the State Grid pushed for a 50-50 model to fund an NPR 3 billion-worth Converter Station, where Nepal would pay for 50% of the cost. However, a protracted successful negotiation led to the entire project being funded as a grant by CIDCA in 2023.

A Nepali official involved in the negotiations revealed that although geopolitical concerns caused skepticism initially, the same was used as a leverage to solicit China's assistance for the project. To avoid controversy, both NEA and the China State Grid saw the transmission line as an "energy connectivity" project, rather than a BRI project. However, India's reluctance to buy electricity from projects either constructed or financed by China led them to be cautious about their investment in Nepal's hydropower sector. But the Nepali negotiators argued that "if China does not build this transmission line, Nepal will not be able to sell the surplus electricity, which means the prospects for Chinese investment in Nepal's hydropower will further dry up, and so will the procurement by Chinese companies." While this argument likely brought the Chinese side on board for its implementation as a grant, the transmission line has been downgraded to 220 kV, which also reduces its length from the initial 65 km to 22.5 km (Chilime to Rasuwagadhi) on the Nepali side. The downgrade expedites the construction and reduces its cost, but many speculate whether the 220 kV line would be appropriate for a cross-border transmission.

According to the NEA official, the Chilime-Kerung transmission line is just the beginning; another 400 kV line is being planned, with smaller cross-border transmission lines in 10 districts also in the pipeline. Nepali politicians also show little hesitation to imagine China as a viable market to export Nepal's hydropower, which would be facilitated by the Nepal-

China transmission lines.²⁸³ But as of now, the construction and operation of the Ratmate-Rasuwadhi-Kerung transmission line remains uncertain. NEA's Transmission Report 2080 claims that the construction work, with a total estimated cost of USD 96.79 million, will commence in FY 2081/82 and is "expected to be completed by FY 2083/84."²⁸⁴ However, the Ministry of Energy, Water Resources, and Irrigation has allocated only NPR 115,000 for the expansion of the Ratmate-Rasuwadhi-Kerung transmission line for the fiscal year 2081/82.²⁸⁵ And like several other infrastructure projects to be funded by China, the transmission line also remains stuck at the DPR phase. Nevertheless, after its completion, the opportunities for Chinese companies and investors to operate in Nepal's hydropower market are likely to increase, and so will the contracts with Chinese companies in the future.

10. Lumbini Cultural Municipality and the Lumbini Buddhist University

Lumbini, revered as the birthplace of Gautam Buddha, holds deep symbolic significance not only for Nepal but also for the global Buddhist community. As such, it has long attracted international interest, including from China, which seeks to position itself as a protector and promoter of Buddhist heritage across Asia. China's engagement in Lumbini is neither new nor diminishing. While the increasingly visible commercial activities by Chinese nationals in the area fall outside the scope of this study, this section focuses on China's infrastructure involvement in both the Lumbini cultural zone and Lumbini Buddhist University.

Chinese Engagement in the Lumbini Cultural Area

Lumbini's ongoing transformation into an "international pilgrimage and a tourist center" is based on a Master Plan, initially imagined by UN Secretary General U Thant after his visit to Lumbini in April 1967.²⁸⁶ Conceptualized by Kenzo Tange after the formation of the International Committee for the Development of Lumbini in 1970, the Master Plan was finalized and approved in 1978.²⁸⁷ According to the Tange Master Plan, a 1×3 square mile constitutes the Lumbini Project Area, divided into three zones: the Sacred Garden at the core (of the 5×5 square mile area), the Monastic Zone, and the New Lumbini Village. To protect this Lumbini Project Area, the Master Plan has envisioned a Buffer Zone covering the remaining area in the 5×5 square mile. However, according

to multiple key informants, the Buffer Zone has not been respected. Dr. Cueppers, a German citizen living and working at the Lumbini International Research Institute (LIRI), was visibly frustrated with all the illegal construction. Interestingly, LDT's official website has no mention of the said Buffer Zone.²⁸⁸

Illegal Construction in the Monastic Zone

The Lumbini Monastic Zone Regulations 2058 allows only one plot for each country in the Lumbini Master Plan's Monastic Zone, like multiple other countries, China has two plots: plot WA-1 of 160×160 sq. miles (acquired on 29 November 1996) and plot WB-17 of 80×80 (acquired on 21 November 2014). This makes the Chinese Monastery one of the largest in the Zone, with large luxurious-looking structures in its compound. On June 12, 2024, Chen Ruifeng, the Chinese Minister of the National Religious and Cultural Affairs Administration, and Chen Song, China's Ambassador to Nepal, visited Lumbini and laid the foundation stone for a new monastery. Occasional media reports have highlighted the illegal construction of new structures against the original Master Plan guidelines—under the influence of power and authority.²⁸⁹ A senior information officer at the LDT confirmed that the political leadership misuses authority to make non-transparent deals, often without the knowledge of lower-ranked officials and bureaucrats.

The illegal constructions have received the attention of UNESCO, which continues to highlight the importance of preserving Lumbini from “encroaching urbanization and haphazard development.”²⁹⁰ Archaeologists have also shown concerns about the illegal constructions that threaten the historical site's status and originality.²⁹¹ Local groups also occasionally protest these developments for being illegal and against the spirit of the Master Plan. According to the locals, the Chinese monastery within the Lumbini area was among the bigger violators. As one of the largest structures in the area, it includes visibly luxurious accommodation facilities for a large number of visitors—although the Monastic Zone regulation allows only five monks, and five caretakers, to reside in a monastery. In March 2024, Lumbini's hotel owners staged demonstrations²⁹² protesting monasteries' use of their facilities for housing tourists, which forced the Lumbini Development Trust to form a seven-membered committee to study the Buddhist monasteries and temples.²⁹³ Later, the LDT issued a directive “prohibiting the commercial use of monasteries and viharas within the Lumbini area.”²⁹⁴

Growing Chinese Interests and Activities

Besides its activities in the monastic zone, China's growing interest in Lumbini is also evident in the significantly increased presence of Chinese nationals in the area, largely in the commercial sectors. According to local respondents, Chinese nationals have intensified commercial activities in Lumbini, largely in agriculture and the hotel industry. Multiple local informants also mentioned occasional arrests of Chinese nationals across the border in India. Only a few of these incidents gain the attention of national media whereas a majority of the cases are settled locally, as contended by an interviewee.

Another key observation is a strong Chinese interest to establish sister city relations in the area. Several Nepali cities, including Lumbini (with Leshan),²⁹⁵ and Siddharthanagar (with Baoji),²⁹⁶ have official sister city agreements with Chinese cities. According to the Lumbini Cultural Municipality's Deputy Mayor, the office sees frequent visits from Chinese officials with strong interests to establish sister city agreements. She admitted that the key priorities of these efforts appear to be commercial. Interestingly, the Deputy Mayor also admitted that Chinese organizations often seek agreements and approvals for community-level engagement projects from the lowest level of government representatives, creating coordination issues.²⁹⁷

Engagement in the Lumbini Buddhist University

Besides its activities in the larger Lumbini Area and the Monastic zone, China has a high interest and willingness to engage with the Lumbini Buddhist University (LBU). Proposed during the first World Buddhist Summit held in Lumbini in November-December 1998, the LBU was formally established on 29 November 2004.²⁹⁸ By 2024, LBU has expanded not only resources and infrastructures but also its academic programs and collaborations with both national and international organizations and academic institutions.^{299,300} Although LBU has signed MoUs with some 60 international organizations, active collaboration and exchange takes place largely with Chinese institutions only.

Academic and Administrative Exchange

China's emphasis on greater collaboration with LBU is evident in not only frequent exchanges between Chinese and Nepali professors, lecturers and

administrators but also an active participation and encouragement for student's exchange, while most collaboration with other countries' institutions remain comparatively dormant. According to the university's information officer, the LBU offers a two-semester exchange opportunity to its students pursuing Bachelor in Travel and Tourism Management (BTM) program. Under this program, 34 students visited China in 2023 academic year, whereas 28 went in the following year. Similarly, the LBU hosted nine Chinese students from the Yunnan University in the 2023 academic year. According to the information officer, all nine had their major in Nepal Studies and pursued Nepali language and culture at LBU. This fact also illustrates how much China invests in diplomatic capacity building through training and education of the Nepali language, culture, history, and society. This dimension of student exchanges requires more detailed separate research on the overall state of academic exchange between the two countries.

LBU's administrative team has continued to expand its collaboration with Chinese institutions with a degree of interest and enthusiasm that may sometimes raise questions about intent. According to the university's information officer, the total number of students at LBU in 2023 was only 2045, and the university registrar admitted to having a shortage of students at LBU to be sent to China, even when the northern neighbor offered full sponsorship. However, in July 2024, a university delegation led by Vice Chancellor Dr. Subarna Lal Bajracharya, including registrar Dr. Tilak Ram Acharya, visited "Chinese universities, research institutions, Buddhist academics, and stakeholders" to expand collaborations and agreements.³⁰¹ In addition to signing MoUs of cooperation with different academic institutions, including Xiamen University,³⁰² Huaqiao University,³⁰³ and Buddhist College of Minnan,³⁰⁴ the visiting team secured an exchange quota for 40 more students, as claimed by Dr. Acharya.

Devdaha Education Development Project

China's interest in Lumbini is more apparent in its involvement in LBU's Devdaha Education Development Project (DEDP), a multi-million-dollar project³⁰⁵ being developed by the university under a collaboration with the South to North Water Diversion Metaverse Research Center at the Tsinghua University in Beijing. Spanning around 100 bighas of land provided by the Nepal government, the project aims to turn the Lumbini area into a vibrant "education city," consisting of an extensive

infrastructure to serve both local and international students. According to the project's masterplan, designed by China's Chongqing Architectural Design Institute (CQADI), the planned "multifunctional educational ecosystem" in Lumbini will have 115 buildings in total, including international student housing, a spiritual hospital, a primary school, a kindergarten, a cultural exchange center, an art center, an international food district, a Buddhist culture center, and sports facilities like a cricket ground, gym, and stadium. The plan also proposes an international high school, a life services center, a Tripitaka library, and a university history museum.

The DEDP's vision mimics a controversial proposal forwarded by the Asia Pacific Exchange and Cooperation Foundation (APECF) in 2011, which aimed "to raise USD 3 billion at home and abroad to build temples, an airport, a highway, hotels, convention centers and a Buddhist university in the town of Lumbini, about 171 km (107 miles) southwest of Nepal's capital Kathmandu."³⁰⁶ After controversies exposing PM Pushpa Kamal Dahal and former crown prince Paras Shah's active positions in APECF's board of directors, both the Nepal government and the United Nations Industrial Development Organization (UNIDO) disavowed the project,³⁰⁷ with Nepal's Social Welfare Council blacklisting the APECF "for its lack of transparency and accountability."³⁰⁸ Quite interestingly, in June 2023, APECF's vice president Xiao Wunan visited Nepal again and met PM Dahal and "proposed to establish the South Asia Joint Development Fund and the South Asia Open Forum, and create a long-term platform and mechanism to stabilize and continuously promote" Nepal as "a bridge connecting China and India."³⁰⁹

Against this backdrop, LBU has been making an effort to resurrect a similar project in Lumbini by collaborating with a Chinese organization. To implement the master plan, LBU has formed a seven-member Governing Council, with four Nepali and three Chinese nationals. The Council's primary function is to secure the funding needed and make sure the project runs smoothly. However, despite initial optimism that the Chinese side would develop the entire project by pooling a grant worth around NPR 800 million, securing funds for the project's implementation has faced challenges, making the progress rather slow. According to the information officer, LBU is still in the process of seeking financial assistance from donors of different countries including China, India, South Korea, Sri Lanka, Burma, and Thailand; although it is yet to secure

any investment for the project's execution, LBU expects China to help build 1-2 buildings. So far, under the multi-million-dollar infrastructure project,³¹⁰ only a Devdaha Dean's Office has been constructed; while its foundation was laid on 6 August 2023, the building was inaugurated by CPN-UML's vice chairman Bishnu Poudel on 11 March 2024.³¹¹

The DEDP, like most infrastructure projects in Nepal, has not been devoid of political influences and connections. As implied by the inauguration of the Dean's Office, the project has a strong backing of not only CPN-UML's Bishnu Poudel but also PM K.P. Oli. According to a key informant, the project was initially resisted by the then Education Minister, Sumana Shrestha, but with CPN-UML's Bishnu Poudel as the Deputy PM and Finance Minister and Bidhya Bhattarai as the new Education Minister, the project faced little political opposition under PM Oli's government. As confirmed by LBU's Vice-Chancellor, the project has formal approval at the prime ministerial level, with PM KP Oli providing a green signal for it and the masterplan is officially endorsed by the Prime Minister's Office, as evidenced by its stamps on the document. Therefore, if the team succeeds in pooling in investment, the project's implementation is likely to proceed, even if incrementally.

C. Updates on Previously Studied Projects

To paint a clearer picture of China's engagement in Nepal's infrastructure, it is equally essential to look into the updates and new developments in other infrastructure projects with Chinese involvement, which have already been explored in detail in CESIF's previous research. Below is a brief update on some of those projects:

1. Narayanghat-Butwal Road

The 115 km Narayanghat-Butwal Road is a part of the East West Highway, being upgraded by the Nepal government's Department of Road, under the Ministry of Physical Infrastructure. The road upgradation is a part of the ADB's "South Asia Subregional Economic Cooperation Roads Improvement Project" under which the Bank approved a loan of USD 186.80 million in December 2016, which would cover 85% of the total estimated cost to upgrade the Narayanghat-Butwal and Bhairahawa-Lumbini-Taulihawa (BLT) roads.³¹² The construction of the Narayanghat-Butwal road is being carried out by dividing it into two sections, Narayanghat-Daunne (65 km) and Daunne-Butwal (49 km); the contract for both the sections NB01 and NB02 was awarded to the M/S China state Construction Engineering Corporation Limited (CSCECL), Beijing, China, in February 2019.

According to the initial contract, the CSCECL was supposed to complete the road upgradation within 17 August 2022. Due to the company's failure to complete the work by the deadline, the contract was extended till 23 July 2024. The CSCECL failed to complete the road construction by the second deadline too, which led to a third extension with a new deadline of July 2025. The third extension is conditional, which requires the construction company to show a progress of 80% in one section by December 2024 and 100% in the other by March 2025.³¹³ If the contractor fails to achieve these milestones, the project will terminate the contract. However, even after the extension, the Chinese contractor was found to be repeatedly hesitating in road construction. According to the Progress Report published by DoR's ADB Project Directorate, the overall physical progress of the NB road expansion was only 52.57% by the end of FY 2080/2081.³¹⁴

Despite multiple requests and warnings, even after the third contract extension, the contractor has found different excuses to delay the construction work. It blames delays on the late issuance of permission for clearing trees, which reportedly took a long time, and on the three-year disruption caused by the COVID-19 pandemic.³¹⁵ The contractor is often found to be out of communication for extended periods. Moreover, the project head was reported to have been to China “to locate the contractor” that had been out of touch despite a contract extension.³¹⁶ One of the key reasons behind the contractor's reluctance has been their claim to have incurred a loss of NPR 7 billion, for which they reportedly demanded an additional 2 billion compensation from Nepal.^{317,318} The Nepali side, however, dismissed their claim, arguing that the loss was not due to the Nepali side's fault. A government-run Nepali media reported that the company's cash flow issue occurred because it used the money paid by Nepal to make payments in Pakistan.³¹⁹ This fund mismanagement has resulted in the contractor's failure to make timely payment to the crusher companies, construction material suppliers, as well as workers and laborers.³²⁰ According to the ADB-Nepal office, there has been “no issues of late payment [from the Bank] as of now.”³²¹

As admitted by the Secretary at the Ministry of Physical Infrastructure and Transport, the delay in the Narayanghat-Butwal road upgradation has not always and entirely been the contractor's fault.³²² The lengthy approval process for cutting down the trees and relocating electricity poles as well as the COVID-19 pandemic caused the initial delays.³²³ Sometimes, local disputes lead to unnecessary delays, as pointed out by a ward chairperson in Butwal, where a dispute over sewage orientation has stalled the construction of a 2 km section of the road. This indicates a lack of consultation with relevant stakeholders during the planning phase of infrastructure projects. Nevertheless, it has been the contractor's negligence and poor performance that have led to the project's slow progress, which has caused extreme challenges for movement along the highway. The delay also adds an unnecessary financial burden of maintaining the road, electricity, and sewage on local governments, who are sometimes the target of public frustration due to no fault of their own.

According to multiple key informants, loopholes in Nepal's procurement laws and a lack of robust punitive measures or a political will to terminate contracts are some key factors behind the contractor's negligence. According to an officer at the Road Division at Butwal, the Chinese contractor bid at an extremely low cost, and to make up for the loss, they

expect to raise the cost through price adjustment during contract extensions. However, this project has received massive scrutiny and criticisms for the delay, with multiple ministers and government officials making site visits after each cabinet reshuffle. In December 2024, the Rashtriya Swatantra Party (RSP) leaders even led a protest march from Chitwan to Butwal to exert pressure for the project's swift completion. While local respondents called such efforts mere "political stunt," the march in particular invited the Chinese Ambassador's direct involvement in its mediation, a rather unusual move by a foreign diplomat to influence infrastructure governance. Ambassador Chen Song invited the RSP leaders within days of their protest and committed to facilitate the project's expedition.³²⁴ According to a key informant with direct involvement in the discussions, the envoy's primary intention was to diffuse the party's pressure on the Chinese contractor-involved project, as it would further damage China's image—something the Chinese are extremely cautious about. In the following weeks, the RSP instead decided to protest the delay of some 27 infrastructure projects.³²⁵

As of February 2025, construction work has regained momentum after a six-month-long inaction due to the PM's direct intervention and threat to cancel the contract if the contractor did not show satisfactory progress.³²⁶ The Chinese company has been working on blacktopping single lane in the remaining 22 km of the Narayanghat-Butwal section.³²⁷ The project head of the Daunne-Butwal section claimed that blacktopping single lane from Butwal to Bardaghat would be complete by March 2025. However, the remaining upgradation of the overall Narayanghat-Butwal road, including in most difficult Daunne area, will drag on well beyond the third deadline, requiring yet another extension, with little accountability on the conditions put forward in the third extension.

2. Mugling-Pokhara Road

The Mugling-Pokhara Road is also being upgraded under the ADB's "South Asia Subregional Economic Cooperation (SASEC) road improvement project". Of the 89 km Mugling-Pokhara Road, the 81 km Pokhara-Anbukhaireni section is currently being upgraded from two to four lanes, under Phase I, with ADB's concessional loan of USD 195 million.^{328,329} Phase I of the project has further been divided into two sections: the 41.7 km Anbukhaireni-Jamune (eastern) section and the 38.9 km Jamune-Pokhara (western) section. The contract for the eastern

section was awarded to China Communication Construction Company Ltd. (CCCC) for NPR 6.21 billion in January 2021, with an initial deadline of April 2024. Similarly, the western section was awarded to M/S Anhui Kaiyuan Highway and Bridge co. Ltd. (AKHB) in May 2021 with an initial deadline of August 2024. However, as of 15 March 2025, the physical and financial progresses of the eastern section stood at 81% and 61.9%, respectively.³³⁰ Similarly, according to the project's information officer, the physical and financial progresses for the western section by March 15 were 45% and 33%, respectively.

The failure to complete the construction on time has led to contract extensions for both the Chinese companies. The CCCC's contract for the eastern section was extended till February 2025, whereas that of the western section was extended for the second time till December 2025.³³¹ This extension followed a request from the Chinese construction company overseeing the project.³³² Although issues such as site clearance, COVID-19 pandemic, and electricity poles relocation caused the initial delay, due to which the construction began in only in January 2022,³³³ the Chinese construction companies have not made satisfactory progress either. For instance, blacktopping of the western section began only in February 2024.³³⁴ Due to this chronic delay, the road condition continues to be poor, which makes the journey to the touristic city of Pokhara from Kathmandu challenging and prone to fatal accidents. On 23 August 2024, a bus carrying Indian tourists fell in the Marsyangdi River near Anbukhareni, killing 27 of them.³³⁵

3. Pokhara International Airport

The Pokhara International Airport (PIA) has been one of the most widely discussed China-involved infrastructure projects in Nepal, with CESIF publishing a detailed case study that explored controversies and irregularities throughout the negotiation, agreement as well as construction process.³³⁶ Financed by China's EXIM Bank and built by China CAMC Engineering Co. Ltd. under an Engineering, Procurement, and Construction (EPC) model, the USD 215.96 million airport was inaugurated by Prime Minister Pushpa Kamal Dahal on 1 January 2023.³³⁷ However, nearly two years later, PIA continues to struggle in attracting regular international flights and has been operating at a financial loss,³³⁸ which has caused serious concerns among Nepali leaders about not just its operation but also the loan repayment to China. For two years post-

inauguration, PIA's operations remained largely limited to domestic flights, with only a few occasional chartered international flights to China. On 17 February 2025, Foreign Minister Dr. Arzu Rana Deuba proposed initiating direct flights between Dubai and PIA. In response, UAE Minister Sayegh assured that a technical study would be conducted to assess the feasibility of the route.³³⁹ In March 2025, China's Sichuan Airlines began operating weekly chartered flights from Chengdu to Pokhara after the Pokhara Tourism Council guaranteed at least three return flights for a total of 10 flights.³⁴⁰ Similarly, on 31 March 2025, "the first ever direct scheduled international flight from Lhasa," operated by Himalaya Airlines, landed at the Pokhara International Airport.³⁴¹ The Himalayan Airlines hopes to operate the scheduled passenger flight at least once weekly. Despite these initiatives and some enthusiasm, including from the Chinese Ambassador to Nepal,³⁴² the future of PIA's operation at full capacity remains bleak, with business leaders pointing out its negative consequences on investment and economic growth.³⁴³

PIA's Operational Challenge

Since its inception to negotiation and construction, multiple technical and experts teams and individuals had claimed that the PIA would be "unfit to operate international flights."³⁴⁴ However, as uncovered in CESIF's previous research and suggested by subsequent investigations, concerns have been raised regarding political lobbying and potential collusion among Nepali leaders and the Chinese developers, influencing the construction of an "international" airport that has not only "technical shortcoming" and safety issues but also economic viability concerns preventing international airlines to operate flights from the PIA. Due to the airport's technical shortcomings, narrow-body jets operating from the PIA have to face payload issues, which means they cannot operate at full capacity.³⁴⁵ As a result, the airlines have a choice between flying planes by bearing loss or charging higher prices for the flight tickets.

To address this challenge, the Ministry of Culture, Tourism, and Civil Aviation and CAAN have pushed several initiatives encouraging airlines carriers to operate from the PIA. For instance, on 12 August 2024, the cabinet approved an action plan aimed at operating the PIA, and Gautam Buddha International Airport, at their full potential. Some incentives under the plan include full discount on passenger service, parking, landing, and navigation service, full waiver of tourism fee, and 75% discount on ground handling service. The Civil Aviation ministry has also

been coordinating with other ministries to enrich these airports with other services such as visa centers, concessions on aviation fuel, and subsidies on domestic flights for Nepal-registered airlines operating international flights from the two airports.³⁴⁶ Despite these incentives, however, a full operation of the airport in the near future appears highly unlikely. The issue has been so grave that it even caused the government to consider operating the airport, along with the country's other two international airports, under a public private partnership (PPP) model.³⁴⁷

Safety measures at PIA have also surfaced as one of the major concerns that could discourage international carriers from operating flights to/from Pokhara. Under the EPC model, the Chinese contractors had the authority to select and install the technologies, and they chose Wide Area Multilateration (WAM) over the more traditional Radar technology. However, the WAM technology at PIA has had operational issues, which forces the officials to rely on audio to track the position of flying aircraft.³⁴⁸ According to PIA's project construction chief, the problem is either because of irregular electricity supply to the tower or the theft of the earthing wire. This has serious safety implications. Although not linked to the WAM's operation, the crash of a Yeti Airlines flight during landing at PIA in January 2023, resulting in 72 fatalities, underscored the gravity of safety concerns associated with the airport.³⁴⁹

Financial Burden and Loan Repayment

The most immediate impact of the PIA's failure to generate business has been on the debt repayment to China. According to the agreement between China's EXIM Bank and the Nepal government, 25% of the total USD 215.96 million loan is interest-free, whereas Nepal has to pay 2% interest rate on the remaining 75%, with a grace period of seven years and maturity period of 20 years on both. The Nepal government later signed a subsidiary loan agreement with CAAN, lending the sum out to the implementing body at a 5% interest.

Nepal started paying back the interest in March 2023, but the PIA's loss, caused by its operational challenges, has meant that it has been paying back China's loan with revenue from other sources. After a protracted negotiation that eventually led China's EXIM bank to settle with Nepal opening an escrow account where it would deposit only its revenue from PIA's operation—against the bank's initial insistence that CAAN deposit all its revenue into the account—a tripartite agreement was signed between the Ministry of Finance, CAAN, and the Standard Chartered Bank.

According to this agreement, the 2% interest is to be deposited in the bank annually. However, CAAN is reportedly depositing the amount itself directly—using its revenue from elsewhere as the PIA has been incurring loss. In other words, although Nepal's Finance Ministry has signed an agreement with CAAN according to which the latter would pay a 5% interest rate, CAAN has been paying the installments directly to EXIM bank's escrow account at the Standard Chartered Bank,³⁵⁰ while requesting the Finance Ministry to revisit the loan agreement to accommodate the additional 3% as there is no clarity about how or who will pay the difference amount to the Nepal government. Acknowledging the CAAN's challenge, the Nepal government requested China to convert the loan amount to grant at multiple occasions, albeit with little progress or sign of willingness from the Chinese side to accommodate this request.³⁵¹

Ongoing Corruption Investigation(s)

Behind the ensuing issues of debt repayment and operational challenges lies the more prominent factor that has contributed to the PIA's fate as it is today: corruption and irregularities throughout the project's construction. Discussing the nature and possibility of corruption in PIA's construction, CESIF's previous research quoted an interview that revealed "at least NPR 6-7 billion had been paid off as kickbacks and commissions," albeit with no additional evidence to corroborate the claim at the time.³⁵² However, in subsequent months, discussions, debates, and public demands for PIA's corruption investigation grew. On 16 October 2023, the New York Times ran a detailed investigative report on PIA's irregularities, claiming that "China CAMC Engineering had repeatedly dictated business terms to maximize profits and protect its interests, while dismantling Nepali oversight of its work."³⁵³

Days after the New York Times' report, a case was filed with the Commission for the Investigation of Abuse of Authority (CIAA) against CAAN Director General Pradeep Adhikari, alleging collusion with the Chinese side for PIA's price escalation. On 29 October 2023, CIAA seized PIA's contract documents and started the investigation.³⁵⁴ However, Adhikari, who was PIA's project head during its construction and is known to have close ties with top politicians from all major parties in Nepal, reportedly refused to cooperate in the investigation.³⁵⁵ In addition, CIAA's ongoing investigation is likely also compromised by a conflict of interest involving one of its commissioner's visit to China,

amidst reports of the Chinese embassy exerting pressure against CIAA's investigation on PIA.³⁵⁶

CIAA's delay and ineffectiveness, along with a growing call for a parliamentary probe, led to the formation of a 12-member subcommittee, on 28 June 2024, led by Rajendra Lingdel, Rastriya Prajatantra Party's chair, to investigate irregularities in the PIA. In an interview, Lingdel claimed that there are clear indications of corruption in PIA; "The project was pushed ahead without taking account of how the airport would be run after construction and what the revenue would be," he said, "there was no business plan for the project, and it was constructed by ignoring all controversies, reports, and warnings that an international airport in Pokhara was not feasible."³⁵⁷

The sub-committee's investigation revealed serious procedural and financial irregularities, worth at least NPR 10 billion, in the construction of Pokhara International airport.^{358,359} The project, initially estimated at USD 175 million under an Engineering, Procurement, and Construction (EPC) model, was controversially awarded to China CAMC Engineering that presented the lowest bid of USD 305 million. To accommodate this inflated cost, the Civil Aviation Authority of Nepal (CAAN) retroactively increased the official estimate to USD 264 million—an action the report suggests was both irregular and unjustified. Additionally, the payment model was unlawfully altered from EPC to a Bill of Quantities (BOQ) basis, resulting in an extra USD 15.23 million paid to the contractor, contrary to Nepal's Public Procurement Act.

The report also criticizes the Ministry of Finance for granting over NPR 2 billion in customs and VAT exemptions that were not contractually mandated, causing significant losses to the state. Despite identifying these breaches, the report stops short of holding high-level decision-makers accountable, naming only mid-level officials and recommending action against eight employees, including CAAN's current Director General. Political divisions within the committee further complicated the report's release, with members of the ruling party refusing to endorse it, alleging bias and lack of consensus.³⁶⁰

PIA, Geopolitics, and Diplomacy

Discussing PIA without a consideration of geopolitics and diplomacy would prove insufficient, especially in the political climate that Nepal often finds itself in. As mentioned above, during the airport's

inauguration, China's Ambassador to Nepal Chen Song claimed the PIA to be a part of its flagship BRI. Mulmi et. al. have argued that although technically not a BRI project, PIA "resembles BRI projects elsewhere in South Asia and the world."³⁶¹ While Nepali leaders have been quick to dismiss the Chinese claim, the categorization has had real consequences for Nepal. For one, after the Chinese side labeled the PIA as a BRI project, "the southern neighbor has become more irritated towards Nepal in aviation matters."³⁶² India's reluctance to operate flights to/from PIA is not the only consequence of the Chinese assertion. If China officially considers PIA a BRI project, Nepal's repeated requests to convert the loan into a grant are unlikely to succeed, as such a move could set an unwelcome precedent for other vulnerable debtors. This sensitivity around perception was vividly illustrated in the social media clash on 29 May 2024, between the Chinese Ambassador Chen Song and Taksar News chief editor, Gajendra Budhathoki,³⁶³ after the latter posted on X claiming the interest rate on the concessional loan for PIA was 5%, not 2%.³⁶⁴ Amb. Song's "undiplomatic" response drew criticism for being threatening and intimidating. In a now-deleted follow-up post, he even mocked Mr. Budhathoki's disability, provoking further backlash for its personal and insensitive tone.³⁶⁵

4. Kathmandu-Terai Fast Track

The Kathmandu-Terai Fast Track (KTFT) is another major infrastructure project with a significant involvement of Chinese construction companies. Being implemented by the Nepal Army (NA), the construction of this National Pride Project began after the South Korean Company Soosung Engineering & Consulting Company prepared and submitted a new DPR in 2019.³⁶⁶ The DPR, which had reduced the KTFT's length from 76.5 km to 72.5 km, was further shortened to 70.79 km by a Cabinet decision in August 2023, supposedly lowering the project cost by NPR 2 billion. However, the revised DPR also increased the number of tunnels from 3 to 6 and bridges from 87 to 89, raising doubts about the actual cost reduction.³⁶⁷ Of the six twin tube tunnels, with a total length of 10.055 km, three are under construction. While the breakthrough of tunnels at Lendanda (1.43 km) and Dhedre (1.63 km) were achieved on 17 and 24 May 2024, respectively, the excavation of the one at Mahadev Danda (3.35 km) is still ongoing.^{368,369}

The KTFT project is divided into 11 clusters and 13 contract packages. Out of the 13 packages, 12 are “under construction and in the implementation phase.”³⁷⁰ Only package number 11 remains to be contracted out due to pending land acquisition issues around the Khokana area in Lalitpur.³⁷¹ Six Chinese companies, with Nepali construction companies’ collaboration, have received the contracts for different phases of the construction.³⁷² Package I has been awarded to the China State Construction Engineering Corporation, China, for the construction of the twin tunnels at Mahadev Danda, whereas Package II has been awarded to the Poly Changda Engineering Corporation China to construct the tunnels at Lendanda and Dhedre.³⁷³ It must be noted that the CSCEC is the same contractor that has come under severe criticism for its sloppy performance and negligence in the Narayanghat-Butwal road upgradation. According to key informants, it has continued its work under the KTFT, though, so far completing about 65% of it.³⁷⁴ As for the project’s overall physical and financial progresses, by the end of Falgun 2081/82, they stood at 38.80% and 40.24%, respectively.³⁷⁵ The official project completion date is currently set for mid-April 2027.³⁷⁶

CESIF’s previous research report has already discussed in detail the controversies and irregularities in the contract awards to the Chinese construction companies, which even led to parliamentary intervention.³⁷⁷ However, the project’s progress after its construction began in June 2021 has not been satisfactory, as suggested above. A number of factors have led to the project’s slow implementation, pushing its completion deadline from FY 2023/24 to April 2027.³⁷⁸ One of the key factors behind the delay has been insufficient budget allocation for the project, as claimed by the Chief of Army Staff, Ashok Raj Sigdel.³⁷⁹ Similarly, land acquisition issues, particularly in Khokana, have caused further delay in issuing the tender for the remaining package; the land acquisition processes for some 394 *ropani*, out of the total 5,204 *ropani* private land, are in different phases.³⁸⁰

A notable observation regarding the KTFT’s implementation is the Chinese Ambassador’s active role in promoting the success of Chinese companies as part of China’s broader effort to export its development model. At the breakthrough ceremony of the Package II tunnels, Ambassador Chen Song praised Nepal-China cooperation as a model of progress.³⁸¹ This visible enthusiasm reflects a broader pattern: Chinese diplomats in Nepal not only highlight success stories but also appear to wield influence over infrastructure governance. For instance, multiple

sources suggest that Ambassador Song played a behind-the-scenes role in softening Nepal's stance toward underperforming Chinese firms—most notably in the Butwal-Narayanghat road upgradation project, where expected retaliatory measures were reportedly watered down.

5. Bheri-Babai Diversion Multipurpose Project

First identified in 1977, the Bheri-Babai Diversion Multipurpose Project (BBDMP)'s construction began in 2014-2015, even though it was planned to commence in 2011-12, with Nepal's own investment as a National Pride Project. According to the government's Strategic Plan, the project includes the construction of a 114-meter-long barrage along with a 158-meter descending basin and tunnel portal in the Bheri River—in Chiple of Surkhet district's Bheriganga Municipality. It aims to divert 40 cubic meters per second of water from Bheri to Babai River through a tunnel, with a diameter of 4.2 m and length 12.2 km. The additional water volume in the Babai River will irrigate 51,000 hectares of agricultural land in Bardiya and Banke districts. Similarly, the project includes constructing a power station that will generate 400 gigawatt hours of electricity using two 23.4 MW turbines.³⁸² Initially expected to cost NPR 16.43 billion, a revised estimate raised it to NPR 36.80 billion.³⁸³ Its initial deadline was set at 2024, but the project's overall physical progress by March 2025 was only 51%.³⁸⁴ Although the first phase of the tunnel's construction project was completed a year ahead of schedule, the second and third phases have suffered delays; the second phase includes the construction work of the dam, powerhouse, hydro-mechanical, and electro-mechanical installations with other associated infrastructure, whereas the third phase focuses on channeling water from the Bheri river for irrigation. According to the project's Information Officer, Pawan Adhikari, the second and third phases had seen an overall progress of 50% and 40%, respectively, by February 2025.³⁸⁵ Due to the slow progress, the project's deadline has been extended by four years, till 2028.³⁸⁶

As discussed in CESIF's previous research report, China's involvement in this has been through multiple Chinese companies that have been awarded different contract packages for its construction. The China Overseas Engineering Group Co. Ltd. and China Railway No. 2 Engineering Group Co. Ltd., two subsidiaries of China Railway Group Ltd., were jointly awarded the USD 90 million contract for the 12.2 km tunnel construction. The Chinese contractors completed the tunnel's

construction in 2019, a year before its deadline.³⁸⁷ For the civil work—to construct headworks, surge shaft, penstock and powerhouse—the project awarded the contract to Guangdong-Yuantin-Raman JV, a Nepali-Chinese joint venture, for NPR 6.16 billion in July 2019. Similarly, for the hydromechanical and electromechanical work, another Chinese company, Zhejiang Orient Engineering Company, won the contract for the construction of the headworks, the powerhouse, and the dam.

Despite a high priority for this National Pride Project, the BBDMP has encountered a number of obstacles during its implementation, which has caused a significant delay in its completion. Interviews with the project's officials revealed that although the government has been supportive of the project, providing necessary resources and interventions to address the issues that arise, the project faces frequent local resistance, with some even escalating to vandalism. While some are politically-driven, others are caused by the locals' dissatisfaction over the compensation for land acquisition, frustration due to a lack of work opportunities during the project's execution, or even criticisms regarding the project's potential environmental and social impacts. In addition, even the construction workers often voice concerns about their poor working conditions, due to extreme heat that forces them to extend their shift late into the night just to meet deadlines. In September 2024, a union strike caused the project's closure for 5 days.

Another factor behind the project's slow progress is budget constraints. Although the government has been allocating funds through the annual budget, these have proven insufficient to meet the project's requirements. To address the shortage, the project authorities requested a budget ceiling increase of 30-35% in the FY 2081/2082, hoping it would ease the financial pressure and allow the project to proceed more smoothly.³⁸⁸ In the previous fiscal year, the budget stood at NPR 1.57 billion,³⁸⁹ which was raised to NPR 1.77 billion. While this increase offers some relief, it is still insufficient to cover all the costs associated with the project, especially given the rising costs of materials and labor. The project's third trimester progress report also outlines a tedious bureaucratic process for approval for foreign currency payment and legal permission for foreign workers as other factors causing delay in the project's implementation.

Despite the myriad challenges, the overall sentiment among the local population remains cautiously optimistic. They expect the project to bring major opportunities in terms of hydroelectricity and irrigation. The

potential for enhanced agricultural productivity and energy generation keeps the local community engaged despite their frustrations with the slow pace and the lack of their direct involvement in the project. The locals' perception of the Chinese contractors has also been largely positive, with some even implying that the tunnel's timely construction was due to the Chinese contractor's proactiveness and lack of union politics. Furthermore, project officials describe Nepal's construction environment as increasingly discouraging for reputable foreign construction companies, citing persistent challenges and unnecessary bureaucratic hurdles that have deterred them from bidding on infrastructure projects.

6. Budhi Gandaki Hydropower Project

CESIF's previous research on Chinese Emergence in Nepal's Infrastructure explored the fate of the Budhi Gandaki Hydropower Project (BGHP), mired in a series of procurement controversies, political instability, policy discontinuity, and geopolitical pressures.³⁹⁰ Initially awarded to the China Gezhouba Group Corporation (CGGC) on 24 May 2017, the CGGC's license was revoked by the Deuba government in April 2022. The 1200-MW hydropower project is now slated to be developed using a company model, for which the Budhi Gandaki Jalbidhyut Public Limited was established in June 2022. In April 2023, a decision to move the project forward by giving the Nepal Electricity Authority (NEA) the ownership of its majority shares was made.³⁹¹ However, despite Nepal government's commitment to forward the BGHP,³⁹² the project continued to be in limbo for a long time, with no major development, due to the underlying uncertainties around the funding modality and sources.³⁹³ Eventually, in November 2024, however, the K.P. Oli government granted the Investment Board of Nepal an investment approval for the 341 MW Budhi Gandaki Hydropower Project; the estimated cost of the project is NPR 70 billion. Located in Gorkha, this project is a semi-reservoir hydropower initiative promoted by Times Energy, with Sahas Urja as the main investor.³⁹⁴ The financial structure includes NPR 52.5 billion in bank loans and NPR 17.5 billion (51% equity) from Sahas Urja.³⁹⁵

7. Sunkoshi Marin Diversion Multipurpose Project

The Sunkoshi Marin Diversion Multipurpose Project (SMDMP) is a National Pride Project, being developed by Nepal government's Ministry of Energy, Water Resources, and Irrigation. As "an inter-basin water transfer project," the SMDMP aims "to transfer water from the Sunkoshi River to the Marin River" by using a 13.3 km-long tunnel to help "irrigate an additional 122,000 ha of land in Rautahat, Dhanusha, Mahottari, Sarlahi, and Bara" by enhancing the Bagmati Irrigation System.³⁹⁶ Estimated to cost NPR 83.5 billion, the project also includes the construction of a power station that will generate 31.07 MW of electricity. The contract to construct the 13 km-long tunnel, using the American Robbins Company's tunnel boring machine (TBM), was awarded to the China Overseas Engineering Group Co. Ltd. (COVEC) for NPR 10.05 billion in February 2021.³⁹⁷ Starting the construction in October 2022, some 19 months after signing the contract,³⁹⁸ COVEC completed the tunnel's construction in May 2024, a year ahead of its schedule.³⁹⁹ The unveiling ceremony made big headlines in Nepali media, with the Chinese Amb. Chen Song hailing "Chinese speed with high quality and high standards."⁴⁰⁰

With a significant chunk of the work done, the project is well on track to meet the expected deadline of FY 2085/86; by the end of the fourth quarter of FY 2080/81, its overall physical progress was 34.4%, whereas its financial progress was 30.96%.⁴⁰¹ The Project office has been working on the procurement process for the electromagnetic works.⁴⁰²

8. Tanahun Hydropower Project

The Tanahun Hydropower Project in Nepal is a 140 MW reservoir-based hydropower plant under construction on the Seti River in the Tanahun district. Designed to provide stable energy, especially during dry seasons, the USD 505 million hydropower project is developed by Tanahun Hydropower Ltd., a subsidiary of the NEA, with funding from multiple sources: 150 million from the Asian Development Bank (ADB), 184 million from the Japan International Cooperation Agency (JICA), 85 million from the European Investment Bank, and 86 million from the Nepal Government/NEA.⁴⁰³ Some key features of the plant include a 140-meter-high dam, a 1,203-meter-long headrace tunnel, and an underground powerhouse. The project aims to address Nepal's energy

imbalances by generating 587.7 GWh annually, with the capacity to produce energy for six hours daily during the dry season. As mentioned in CESIF's previous research, the entire project is split into four packages, with the second package won by China's SinoHydro Corporation in January 2019.⁴⁰⁴

Despite initial issues related to land acquisition,⁴⁰⁵ the project's progress has been satisfactory and is on track to meet its deadline of July 2026. According to the monthly newsletter published by Tanahu Hydropower Ltd. in February 2025,⁴⁰⁶ Song-Da Kalika JV has completed 36.15% of the main headwork under package 1. Similarly, the Indian company KEC International Ltd. has completed 74% of the work under package 3, which covers the installation of 220 kV power transmission lines from Damauli to Chitwan.⁴⁰⁷ While the rural electrification is being carried out by NEA under package 4, the SinoHydro has also showed a satisfactory progress so far; according to the February 2025 report, the Chinese company has completed 36.65% of the work under package 2, which includes constructing a power plant, tunnel, and installing hydro mechanical and electromechanical equipment. While it has continued the tunnel works, the hydro and electromechanical work have also seen significant progress, with the Toshiba Energy Systems and Solutions Corporation securing the order to supply two 70 MW hydro-turbines and generators for the hydropower plant.⁴⁰⁸ As of December 2024, the overall physical and financial progresses for the project stood at 63% and 58%, respectively.⁴⁰⁹

4

Major Trends and Patterns of Chinese Engagement in Nepal's Infrastructures

While China's interest in Nepal is shaped by both its immediate and core national interests as well as broader ambition for the region and the world, its infrastructure engagement in the South Asian country reflects a more nuanced interplay of conflicting approaches, unmet expectations, governance mechanisms, and ever-complex geopolitical factors. Despite China's repeated insistence, lobbying, and even political interference to generate a favorable environment, it took over seven years for Nepal to finally sign the BRI Cooperation Framework, largely due to political disagreements at home over funding modalities for projects. Despite the unencouraging experience with Nepal, China continued to hail Nepal's "active participation in the Belt and Road cooperation and implementation of the Global Development Initiative (GDI)," be it during Chinese leaders' meeting with Nepali politicians and officials or in their unilateral categorization of projects under BRI.⁴¹⁰ Equally important and meaningful is China's continued emphasis on the Trans-Himalayan Multi-Dimensional Connectivity Network in Nepal, through which it aims to expand its access to the Indian and South Asian markets by helping transform the country "from landlocked to land-linked."⁴¹¹ However, a deeper look into China's recent engagements, as discussed in the projects above, reveals a more complex state of China's involvement in Nepal's infrastructure landscape. Some key trends and patterns are outlined below:

A. Chinese Reluctance to Fund Large Projects in Nepal

Perhaps the most striking, and yet less admitted pattern, that has been evident in the last decade is China's reluctance to fund large infrastructure projects in Nepal. Even for the assistance committed, China has not disbursed the funds, as highlighted by the continuous delay in some key infrastructure projects, such as the Kathmandu Ring Road second phase expansion and Syaphrubesi-Rasuwadhi road construction.⁴¹² While the Chinese side has the tendency to point out at Nepal's lengthy bureaucracy, political instability, policy discontinuity, and sluggish preparatory works, these factors alone do not explain China's unwillingness to expedite the projects, especially when every Nepali government, irrespective of its political inclination, shows an active initiation to implement China-funded projects. During a CESIF FGD, too, senior political leaders from all major parties admitted to being on the same page when it comes to implementing large infrastructure projects.

China's reluctance may have three interrelated explanations: a) its struggling economy; b) a grim financial viability for its investment in Nepal, due to India's reluctance to open up its market for China—a good example for the latter is the ongoing PDA negotiations on the China-Nepal Friendship Industrial Park in Damak; c) growing caution in the face of mounting global loan exposures under the Belt and Road Initiative (BRI), some of which have yielded limited returns or are now being written off as bad debt. Although Nepali officials and leaders, recognize Chinese “excitement” about investing in Nepal,⁴¹³ they are often unwilling to accept or perhaps even understand the constraints Chinese investors are bound by. In many cases, for instance, their calculations are hampered by geopolitical factors, including the Indian unwillingness to cooperate, as also exemplified by the Indian decision not to import hydroelectricity generated with Chinese direct investment or engagement.⁴¹⁴ According to a KI, China's economic performance does not affect its decision to provide financial assistance to Nepal, which suggests another explanation: China's dissipating generosity to Nepal may rather be shaped by Nepal's initial reluctance to commit to the BRI Implementation Plan, which over time became a matter of prestige and geopolitical contention. In any case, “a pattern of occupying projects without progressing to detailed study reports (DPRs)” is apparent in China-involved infrastructure projects in Nepal.⁴¹⁵

B. Strategically Motivated Chinese Engagement in Infrastructure

Despite the reluctance to invest or assist in large infrastructures, China has continued to engage Nepal, albeit more strategically, by prolonging the project's implementation and instead focusing on "small yet smart" livelihood programs that are less capital-intensive but more visible. While this shift has been China's overall approach globally in recent years,⁴¹⁶ its explanation for Nepal must consider the additional dimension of Nepal's domestic politics and geopolitical position.

At a CESIF FGD in Kathmandu, experts discussed the broader geopolitical goals, particularly of establishing influence in South Asia and securing its market largely define China's investment strategy in Nepal. China's prioritization of infrastructure connectivity in and with Nepal, under the broader frameworks of BRI and THMDCN, is a crucial component of China's strategic engagement in Nepal.⁴¹⁷ It has also strategically utilized the Belt and Road Initiative (BRI) as a framework for its engagement, even before the formal signing of the Cooperation Framework. It has unilaterally asserted the BRI tag on projects with its involvement and used the BRI implementation plan as a leverage point for broader economic cooperation and project execution. Besides the PIA, China has claimed four CIDCA-funded projects—expansion of the second phase of Kathmandu Ring Road from Kalanki to Maharjgunj, the Araniko Highway upgrade, a Nepal-China cross-border transmission line and the Hilsa-Simikot road—to be a part of the BRI. Its persistence on bringing Nepal under these larger strategic folds also suggest China's clear intention to establish and continue its strong presence in Nepal, an important gateway to South Asia.

C. Chinese Construction Companies: Mixed Results

One of the key features of China's infrastructure engagement in Nepal has been a strong presence of Chinese construction companies. Especially at a time when China's investment and assistance for large infrastructure projects are not in great shape, the Chinese construction companies have come to be the face of Chinese involvement in Nepal's infrastructure. However, as the case studies above highlight, their overall performance in Nepal has not been satisfactory. Instead, a number of factors, including corruption controversies, poor performance, and lack of transparency

and accountability, have worsened their image in Nepal over the years. A case in point is the upgradation of the Narayanghat-Butwal road, where the Chinese companies have demonstrated poor performance and periods of limited communication, causing significant delays. PIA has been another such project, with corruption investigations still ongoing.

Chinese companies have also shown impressive performance in some projects, though. For instance, the Kathmandu-Terai Fast Track, the Sunkoshi Main Diversion Project, and Tanahu Hydropower Projects have seen good progress from Chinese companies.

D. Low Transparency: Impacts on Nepal's Democratic Consolidation

A key finding, which is rather a continuation of the pattern seen for years, includes persistent difficulty in obtaining detailed information and engagement, thereby undermining accountability and transparency. This is particularly concerning when Chinese infrastructure engagement is increasingly seen to lack transparency, breed corruption and irregularities, and prioritize profit-making over all else. As observed during data collection for this research, neither Chinese companies and their agents/officials nor the Chinese Embassy entertain any question or scrutiny of their activities. The latter did not respond to the researchers' multiple requests for an interview.

This approach of discretion and secrecy has real implications for Nepal's democratic consolidation. Nepali officials, bureaucrats, and politicians are often reluctant to even discuss certain China-involved projects, let alone divulge details of any potential wrongdoings. In a democratic country, a government body is liable to its public and should not hesitate to share information of public interest. However, officials leading or assigned to China-involved projects display a high degree of reluctance to even interact with researchers exploring Chinese engagement. This hesitancy appears to stem from a combination of factors: fear of political backlash, concern over jeopardizing diplomatic relations with China, and a broader institutional culture that treats Chinese involvement as a domain requiring heightened caution and control. Over time, such practices risk being internalized in Nepal's broader infrastructure governance system, eroding norms of transparency and public accountability.

What further complicates the matter is China's subsequent effort to shape narratives around its engagement by showcasing its development model to Nepali leaders, professionals, and youths through exchange programs and fellowships. These curated visits often soften their stance on China and cultivate admiration, as observed during field visits. "Touting China's economic growth," as Daniel Mattingly argues, "CCP is soft selling autocracy...in the developing world, where many see the so-called China model as effective in delivering...a path out of grinding poverty and into the global middle class."⁴¹⁸

In Nepal's context, this is reinforced by political relationships between the Chinese Communist Party (CCP) and left-leaning parties, intellectuals, and media professionals, which ensures the continued popularity of pro-China narratives and enables selective dissemination of China's messaging. Moreover, a pattern of secret negotiations and agreements, evident in the PIA and other projects, has been observed, which reduces transparency and public scrutiny. This approach is not limited to contracts; it extends to environmental impact assessments, tax arrangements, and other governance protocols. For a country like Nepal, where democratic consolidation is already hindered by corruption and poor governance, such practices further erode public trust in democratic norms and institutions.

E. Influencing Infrastructure Governance in Nepal

CESIF's previous research had uncovered multiple instances of irregularities in procurement processes, with concerns raised about undue influence and outcomes that appeared to benefit Chinese companies in contract awards. However, even in the post-procurement period, during the project implementation phase, there have been clear instances of diplomatic channels being used to influence infrastructure governance in the country. For instance, when the Rastriya Swatantra Party (RSP)'s leaders led a march protest against the Chinese company's negligence in the Narayanghat-Butwal road construction or when Nepali Congress (NC)'s leader Pradip Poudel protested the delay in Kathmandu's Ring Road expansion phase II, the Chinese Ambassador to Nepal immediately summoned the leaders and made active efforts to diffuse the pressure building up against China and the Chinese construction companies. While the diplomatic meddling in the Ring Road project makes sense, as it is a CIDCA-funded project, the Ambassador's mediation efforts in the

Narayanghat-Butwal road project signifies a pattern where China is seen to be increasingly involved in, and sometimes even assertive, in infrastructure governance process. In PIA's case too, the ambassador had intervened and requested the Nepali side to facilitate the payment to the Chinese contractors.⁴¹⁹

Such (un)diplomatic engagement may discourage punitive measures against Chinese companies that have experienced significant delays or performance issues in certain projects. Consequently, such practices also further nurture and perpetuate irregularity through shady negotiations and back dealings. It also creates a vacuum for political parties and leaders to politicize infrastructure governance and even breeds a perception that each infrastructure project is a political project and, therefore, a priority for a particular party or politician. Naturally, the political rivals have the tendency to obstruct the project's smooth implementation. This pattern has been evident in the planned Tokha-Chhahare tunnel and the China-Nepal Friendship Industrial Park, often seen as priorities for NC's Prakash Sharan Mahat and CPN-UML's K.P. Oli, respectively.

F. Lack of Coordination with Local and Provincial Governments, Agencies, and Stakeholders

A common pattern in China-involved large infrastructure projects has been a lack of coordination with local and provincial governments, agencies, and stakeholders, especially regarding social and environmental safeguard. According to multiple key informants, the Chinese contractors and workers contact local bodies only when they are in trouble or need anything from them. In addition, the projects that are politically-driven or involve non-transparent negotiations appear to bypass stakeholder and local consultations during the planning and negotiation phase, which leads to issues of land acquisition and site clearance, delaying the project's implementation overall. While these issues arise in most infrastructure projects in Nepal, other development partners display a greater degree of willingness to incorporate stakeholders' concerns and grievances through consultative mechanisms from early on.⁴²⁰

G. Changing Perceptions: China is not Always Benign Afterall

Examples from the region and around the world as well as Nepal's own experience with the Chinese in infrastructure projects have contributed to a gradual erosion in Nepal's popular narrative that China is always a benign actor working in Nepal's interest. A key informant noted that "image projection" is a major Chinese Concern in Nepal. However, ongoing corruption investigations in PIA and GBIA, China's protracted reluctance to initiate the Ring Road second phase expansion, and the Chinese contractor's poor performance in the Narayanghat-Butwal road expansion project have tarnished China's image in Nepal to a significant extent. As a result, calls for open and transparent discussions and debates before signing such agreements, as in the case with the BRI implementation plan, have grown over the years. Similarly, public criticisms of Chinese companies' poor performance and lack of accountability, demands for terminating such contracts, and even calls for self-implementation of the projects being delayed by the Chinese have grown over the years. For instance, Chinese reluctance to release fund for Araniko Highway's maintenance led the Nepal government to carry it out with its own budget.⁴²¹ A government secretary argued that the Kathmandu Ring-Road Phase II expansion could also have been completed years ago if the Nepal government had done it on its own, without relying on Chinese funds.⁴²² This departure in attitude, psychology, or practices was noted as "welcome change" by a top politician at a CESIF focus group discussion.

H. China's Preference for Government-to-Government and Party-to-Party Channels

China often prefers to engage through government-to-government and party-to-party channels, a mode of operation that can bypass Nepal's formal bureaucratic procedures and established checks and balances. While such direct engagement may expedite decision-making and project approvals, it can also be harmful in the long term. By sidelining institutional processes, this approach increases the risk of irregularities, reduces transparency, and fosters political favoritism. For instance, projects may be awarded or managed based on party alignment rather than technical merit or public interest, contributing to the erosion of accountability. Moreover, the politicization of infrastructure projects can

deepen internal divisions and limit space for broader democratic oversight. The inclusion of at least two politically-motivated projects—Amargadhi City Hall Project and Jhapa Sports and Athletic Complex—in the BRI Cooperation Framework is a good example of this.

5

Conclusion

This research report has provided an overview of China's evolving engagement in Nepal's infrastructure sector, highlighting key trends, patterns, and the current status of various projects, particularly within the context of the Belt and Road Initiative (BRI). The findings indicate a strategic recalibration in China's approach, marked by a decline in large-scale grant assistance and investment in favor of strategically important connectivity projects and more visible "small yet beautiful" livelihood programs. The protracted negotiations surrounding the BRI Implementation Plan, eventually resulting in the signing of the "Framework for Belt and Road Cooperation" in December 2024, underscore the complexities and differing priorities of the two countries, influenced by geopolitical considerations and concerns over financing modalities.

A consistent pattern observed is the mixed performance of Chinese contractors involved in Nepal's infrastructure projects, often accompanied by procurement irregularities and a lack of transparency, which has contributed to delays and a less favorable public perception of China's role. Case studies such as the Pokhara International Airport (PIA) and 5G expansion project further illustrate the challenges, including financial sustainability issues, operational limitations, and ongoing corruption investigations. Despite the formalization of BRI cooperation, ambiguities remain, particularly concerning project financing, suggesting that future collaborations will require careful negotiation and adherence to principles of mutual benefit and transparency. Ultimately, Nepal's ability to leverage Chinese infrastructure engagement for its development hinges on its capacity to prioritize national interests, ensure accountability, and navigate the intricate geopolitical landscape.

Research Limitations

This research employed a qualitative approach, drawing upon a review of relevant literature, media reports, government documents, key informant interviews, focus group discussions, and case studies. While this methodology allows for an in-depth understanding of the nuances of China's infrastructure engagement in Nepal, it is subject to certain limitations. The selectivity inherent in purposive sampling for case studies might not fully represent the entire spectrum of China-involved infrastructure projects in Nepal. Furthermore, the reliance on media reports and government documents could be influenced by prevailing narratives and official positions.

The research also acknowledges the challenges in accessing complete and transparent information, particularly regarding the terms and conditions of Chinese-funded projects and the internal decision-making processes on both the Chinese and Nepali sides. While key informant interviews provided valuable insights, the perspectives shared are subject to individual experiences and potential biases. The report also notes that it builds upon previous research by CESIF, inheriting any limitations inherent in that earlier work, as indicated in its own "Limitations" section. The rapidly evolving nature of geopolitical dynamics and project developments also means that the information presented reflects the situation up to the point of data collection and analysis, concluded in late 2024 and early 2025.

Way Forward

Nepal's economic realities demonstrate a chronic need to address the infrastructure gap. However, doing so requires close cooperation with its external partners, including India and China that have achieved impressive all-round growth and prosperity over the years. While these countries offer immense opportunities for Nepal to piggyback on their successes, navigating the complexities on the path to a balanced cooperation with all major powers is equally challenging. With regards to China's engagement in the infrastructure sector, Nepal faces an even more challenging task of not only generating a political consensus on how to deal with China and its ambitious infrastructure initiatives but also subsequently recognizing and addressing the geopolitical and national security sensitivities of its other partners including India and the U.S.

Most importantly, now that Nepal has signed the BRI Cooperation Framework, the PIA's case offers a good lesson for cooperation with China under its BRI framework in the future. Nepal's experience of prolonged negotiations and controversies regarding possible corruption and irregularities in China involved projects suggest that Nepal should focus on establishing proper mechanisms to not only discourage such illegal practices but also investigate the wrongdoings. Given Nepal's geopolitical sensitivities and often overlapping interests of major powers, Nepal's negotiations with China should consider these factors from the very beginning. Similarly, the Nepal government should consult local stakeholders, government bodies, and agencies, listen to their concerns and voices, and implement large infrastructure projects by taking all concerned parties into confidence. This consultative process helps avoid unnecessary delays and coordination issues that often arise during the projects' implementation.

Another important point to consider is China's preference for party-to-party relations over available state mechanisms because it provides them a political expediency to forward their interests. However, this process undermines Nepal's democratic governance and gives rise to irregularities and unnecessary politicization. Therefore, the government should pursue a cooperation mechanism that helps further streamline China's assistance and involvement in Nepal's infrastructure. It will not only equip Nepal with a centralized and transparent system, but also help avoid unnecessary policy discontinuities that often hamper project implementation due to Nepal's political instability.

Nepal's infrastructure landscape has received continued interest from not only its immediate neighbors, India and China, but also the US, Europe, and multilateral agencies such as the World Bank (WB), the Asian Development Bank (ADB), and the United Nations. Nepal should be mindful of the broader strategic picture and geopolitical factors in its analysis and assessment of the infrastructure projects since the inception phase because their success and failure are also shaped by geopolitical factors, as seen in the PIA's case. Therefore, instead of unrealistic optimism and expectations, Nepali leaders and politicians should adopt a more pragmatic approach to engaging external actors in its infrastructure sectors.

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