

Issue Brief

June 2025

Current Status of BRI and Chinese Investments in Nepal

Prime Minister K P Sharma Oli visited China from December 2 to 5, 2024. During the visit, Nepal signed nine MoUs as well as the BRI Framework Agreement.

The new agreement on BRI, now termed “Framework for Belt and Road Cooperation”, was signed on December 3, 2024. The revised “understandings” were able to insert Nepal’s priorities in economic development cooperation. The current agreement lists 10 potential projects to be negotiated on an individual basis, and outlines cooperation in five areas, namely: economic cooperation; financial sector cooperation; transport, connectivity and logistics cooperation; trade, industrial capacity, and investment cooperation; and customs cooperation.

The Nepali Congress and the UML had contradictory positions over whether Nepal should go for loans or not. According to those privy to negotiations, originally, China had proposed several funding modalities ranging from blended financing models to commercial loans. Nepali Congress had been insistent that it would not be taking commercial loans under BRI, but the final agreement adopted the phrase “aid financing modalities” in place of the “grant financing modalities” insisted upon by the Nepali Congress party.

This legally binding framework will be effective for three years, with an auto-extension mechanism. However, the financing models for the individual projects are not known.

In the negotiations over the BRI Framework agreement, Nepal has managed to temporarily protect its interests. China’s negotiation strategy always has a long-term view, and every agreement is viewed as a temporary arrangement.

According to the Prime Minister’s Chief Adviser, Bishnu Rimal, Nepal will focus on utilising existing grants before seeking loans, and Nepal will not need to take loans from China as it has pledged sufficient grants. He added that all future Chinese investments will now flow through the BRI window.¹ This implies that the current Framework for Belt and Road Cooperation may be unable to cover all future Chinese investments, necessitating further negotiations and agreements.

Shortlisted BRI projects

The projects listed in the BRI Framework are as follows:

1. Tokha-Chhahare Tunnel
2. Hilsa-Simikot Road Project

¹ Bhusal, Thira Lal. "[China Signed the Agreements on Our Terms.](#)" The Kathmandu Post, December 9, 2024.

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
6. Jilong-Rasuwadhi-Chilime 220 KV Cross Border Power Transmission Line
7. Madan Bhandari University of Science and Technology
8. Kathmandu Scientific Center and Science Museum
9. China-Nepal Friendship Industrial Park (Damak)
10. Jhapa Sports and Athletics Complex

Current Status

Officials at multiple government agencies interviewed for this issue brief said they were “very positive” about the implementation of these projects during PM’s China visit in December 2024, but now they have hardly anything new to share.

On May 23, 2025, the second meeting of the Mechanism for Facilitation on the Implementation of Nepal-China Cooperation Programmes and Projects was held between Nepal and China. During the meeting, both sides reviewed the status of projects, including those under BRI. The two sides were led by Foreign Secretary Amrit Rai and Chinese Ambassador to Nepal Chen Song. According to the Ministry of Foreign Affairs (MoFA), they identified measures to expedite the timely and effective implementation.

So far, both countries have agreed to complete a feasibility study for the Tokha-Chhahare Tunnel as soon as possible. The **Chinese side** is pushing to complete an **Environmental Impact Assessment (EIA)** before the pre-feasibility study begins.

Nepal-China technical teams have advanced the feasibility study for the Jilong-Kathmandu cross-border railway. As of late 2024, about 60% of ground surveys were accomplished, with geological assessments scheduled for completion by June 2026 and final feasibility expected by the end of 2026. According to officials, construction in the Chinese section could start in 2025, aiming for a 2030 opening up for the railway on the Chinese side.

Both sides aim to finalise the China-Nepal Electric Power Cooperation Plan and initiate construction of the Nepal-China Power Grid Interconnection Project (Chilime-Kerung) soon, funded through a grant. The Chinese side has consented to conduct a **repeat study** of the proposed line to ensure it meets their standards. Under the current proposal, only **26 km** of the transmission line will be in Nepal, with the majority, **97 km**, running through Chinese territory. Beijing has designated **China Power** as the design consultant for this project.

Nepal and China recently exchanged a letter to move forward with the construction of the **96-km Hilsa-Simikot road**, a key component of the **Karnali Corridor**. Additionally, Kathmandu has requested Beijing to build a **motorable bridge** in Hilsa. Nepal has already formally asked China to conduct **pre-feasibility studies** for both of these significant projects.

The Kimathanka-Khandbari Road and Bridge Project is currently at the proposal stage and will need to be negotiated individually. At present, the Nepali side is working on the project.

Discussions are underway regarding the progress of the **Madan Bhandari University of Science and Technology**. The Chinese side expressed dissatisfaction with the initial proposed location in **Chitlang, Makawanpur**. As a result, the Nepali side has put forward an alternative site in **Panchkhal, Kavre**. Construction of the **Madan Bhandari University of Science and Technology** has already begun in **Chitlang, Makawanpur**, and the university is currently offering **Master's and PhD courses** there. Discussions are now focused on expanding the university's facilities, potentially including the **Panchkhal, Kavre** site, with support from **Chinese grants**.

Concept notes for Amargadhi City Hall in Dadeldhura, Kathmandu Scientific Centre and Science Museum, and China-Nepal Jhapa Sports and Athletics Complex have been sent to the Chinese side for consideration. Feasibility studies will proceed once China gives its approval.

Environmental Concerns

Amid these developments, concerns about the environment have emerged. Several BRI-linked projects—especially those traversing protected or national park areas—have been halted due to Supreme Court rulings. On January 15, the Supreme Court delivered a landmark verdict banning development in protected areas, a decision that sent shockwaves throughout the country, which is yet to be challenged by the government.

The SC's ruling has significant consequences, with environmentalists applauding it, while those involved in ongoing or proposed projects in protected areas have expressed concerns. They fear that the decision could negatively impact both their projects and the country's overall economy, including projects under the BRI. One of the projects affected by the ruling would be the Jilong-Kathmandu railway.

Industrial Park

The Damak Industrial Park, being promoted by Chinese companies as a joint venture, seeks access to the Indian market through the Kakarvitta and Birgunj ports. Chinese Ambassador Chen Song recently visited the project site, highlighting its ongoing importance.

However, a significant hurdle for the Nepali government is the Chinese side's request for substantial tax exemptions, not only during the construction phase but also for many years after the project's completion. This demand has become a major point of contention. Nepal's Finance Ministry has so far resisted the proposal, strongly opposing such extensive tax breaks. Despite this, the 62nd meeting of the Investment Board of Nepal, chaired by Prime Minister Oli, decided to accelerate the project and instructed officials to reach an agreement after discussions with relevant stakeholders.

Despite these efforts, a breakthrough on this project, particularly regarding the contentious tax issue, isn't anticipated anytime soon. As per the original plan, the park requires as many as 22,000 bighas of land. However, the local management committee has failed to acquire the land.

According to people with direct knowledge, India had communicated that the project constituted a “red line” and had advised both the Nepali Congress and the UML not to move ahead. Now that the project is part of the proposed BRI projects, India has expressed its displeasure, and its relationship with the current coalition government has been affected. If instances like these build up, India would continue to respond through countermeasures that can affect trade and market access.

What's holding up the implementation of the BRI?

BRI projects in Nepal are stalled because of a mix of factors: **Nepal's fiscal caution**, internal **political disagreements**, **geopolitical balancing** between major powers, and a strong demand for **more**

transparency and fairer financing terms. Nepal is keen on these development projects, but only if the terms are affordable, ideally through **grants** or **very low-interest loans**. The country also insists that these projects must align with its national interests, ensure significant local involvement, feature fair bidding processes, and, crucially, avoid leading to **unsustainable debt**.

The situation could change significantly if China were to offer more **grants**, provide **soft loans with interest rates below one per cent**, or if there were a broader **political consensus** within Nepal. Additionally, a clear, agreed-upon project implementation plan, transparent financing terms, open tendering, and strong performance safeguards would likely accelerate the progress of these vital projects.

Environmental review outcomes and/or court decisions could affect the schedule in protected areas. The development of the projects could also depend on debates over the funding mechanisms.

- **According to the Development Financer Information Management System (DFIMS) of the Ministry of Finance, China's total aid commitments to Nepal at present stand at US\$1.4 billion, while total disbursements stand at US\$545.3 million.**

Private sector Chinese investments in Nepal

As of mid-July 2023, India was Nepal's largest foreign direct investor, with investments totalling Rs. 103.5 billion. China followed with Rs. 35.5 billion, then Ireland (Rs. 22.6 billion), Australia (Rs. 19.1 billion), and Singapore (Rs. 18.8 billion). These five countries were the top investors among 58 nations contributing to Nepal's FDI.²

While China has historically made the **highest FDI commitments to Nepal**, its actual investment **stock** as of mid-July 2023 stood at just **12%** of the total (NRB, 2024). This is despite the Department of Industry reporting that **40% of approved FDI** in 2023-24, amounting to **Rs 226 billion**, originated from China.

Over the past year (through mid-June 2024), Nepal saw **21 joint ventures** and **233 solo Chinese projects** approved, bringing the total number of solo Chinese projects to **2,448**. Chinese investment during this period amounted to **Rs 12.24 billion**. For the fiscal year 2023-24, Chinese investors pledged **402 projects**, with **Rs 23.91 billion** committed across 275 projects, representing **44.33% of Nepal's total FDI commitments**.

Recent key investments and agreements include:

- **Fortuna Investment Pvt Ltd** (Nepal) and **Guizhou Maritimes Silk Investment Corporation** (China) signed a preliminary agreement in June 2025 for **Rs 5 billion** in high-hill crop production, infrastructure, and hospitality.
- **EXIM Bank of China** committed **Rs 24 billion** in November 2024 for the **139.2 MW Lower Manang Marsyangdi Hydroelectric Project**, a joint venture with Sichuan Provincial Investment Group, Chengdu Xingcheng Investment Group, Sichuan Qing Yuan Engineering Consulting, and Nepal's Butwal Power Company.
- During the April 2024 Investment Summit, **Next Gen Management Solutions Pvt Ltd** (Nepal) signed an MoU with **MABC Investment Pvt Ltd** (China), and the **Federation of Nepalese**

² Nepal Rastra Bank. (2024). A survey report on foreign direct investment in Nepal. *Research Department*.

Industry and Commerce (FNIC) signed an MoU with **China Dongguan Jingliang Lighting Product Company Ltd.**

- **Shakha Group** (Nepal) and **BOAR Group** (Hong Kong) signed an MoU for a **100 million Chinese Yuan** investment in a wellness hotel in Kapilvastu.
- A **\$190 million solar electricity plant** project by Chinese company **Risen Energy** in Banke and Kapilvastu, which was poised for a Project Development Agreement (PDA) at the Investment Summit, is currently on hold.

China's FDI stock in Nepal, totalling **Rs. 35.5 billion (as of 2023)**, shows a concentrated focus on specific sectors like energy. The investment structure indicates **Rs. 28.5 billion in paid-up capital**. However, it also carries **negative reserves of Rs. 10.3 billion**, which are offset by significant **loans of Rs. 17.3 billion**. This suggests that Chinese firms in Nepal are facing financial challenges and are employing an aggressive financing strategy, relying heavily on borrowed funds. This approach, while potentially boosting profits, also significantly increases investment risks.

Current status of Nepal-China relations

Nepal's relationship with China, while dynamic, has become notably one-sided since China eased COVID-19 travel restrictions. There have been significantly fewer reciprocal visits from Chinese political, diplomatic, or official delegations. China has increased its engagement with Nepali political parties, particularly leftist ones, with several senior leaders visiting China in what some view as an effort to foster communist party unity.

On the economic front, Chinese private investment in Nepal continues to grow, but progress on Belt and Road Initiative (BRI) projects remains unsatisfactory, with many agreements and announcements from high-level visits unaddressed. Nepal has also requested Chinese assistance to upgrade key infrastructure, including the Araniko Highway (Tatopani), roads to the Korala checkpoint (Mustang), and infrastructure for the Olangchung Gola (Taplejung) and Kimathanka (Sankhuwasabha) checkpoints.

China's main push in Nepal to expedite BRI projects and specifically the **Trans-Himalayan Multi-Dimensional Connectivity Network (THMDCN)**, a major component of the BRI, has not progressed as anticipated.

Future Outlook

Nepal and China have reached the implementation phase of their comprehensive Belt and Road Initiative (BRI) agreement. Despite some existing concerns, notably regarding the Damak Industrial Park and a cross-border railway, both nations should prioritise immediate negotiations to advance selected projects. The core objectives of BRI projects for Nepal are to **create jobs**, bridge **funding gaps**, and meet crucial **infrastructure requirements**. Projects like **Humla-Simikot** and the **Tokha-Chhahare tunnel** are ready for implementation, while others await feasibility studies.

Swift discussions on funding modalities are essential to boost Nepal's credibility and support China's ambitious BRI vision. Geopolitical and funding concerns are significant, and Nepal must navigate these carefully to ensure its national interests are met.

China remains Nepal's **leading investor**, and there's significant potential for further Chinese investment that prioritises **local job creation**. Encouraging such investment is vital for addressing Nepal's growing trade imbalance with China.

Nepal must conduct thorough discussions before undertaking any large-scale infrastructure projects, considering their **geopolitical, sociocultural, economic, and environmental impacts**. Concerns about "debt traps," observed in other countries with BRI projects, necessitate careful evaluation of the massive investment required for projects like the railway in hilly regions and a clear estimation of returns to avoid long-term debt burdens.

Nepal must also work to ensure that BRI maximises the positive impact of infrastructure to achieve sustainable growth and development, raises economic efficiency in view of life-cycle cost, integrates environmental considerations, builds resilience against natural disasters and other risks, integrates social considerations, and strengthens infrastructure governance.

