

Monitoring Brief

February 2024

Recent Trends in Nepal-China Relations

China and Nepal have a friendly relationship, marked by both cooperation and negotiation. China is an important development partner; positive Nepal-China relations can be mutually beneficial. For this, a more nuanced understanding of bilateral relations is needed.

This monitoring brief explores various aspects of Nepal-China relationship as it has evolved in recent years. In particular, the brief outlines recent trends in Nepal-China relations and provides a list of infrastructure projects that Nepal and China are planning. The monitoring brief is intended for the use of policy makers and experts interested in making Nepal-China relations more fruitful.

Some of the most important trends in recent years

1. Elevation of relationship to "strategic partnership," albeit without a substantive change and clarity

Chinese President Xi Jinping's visit to Nepal in 2019 was the first by a Chinese President in 23 years, elevating the bilateral relationship to a "Strategic Partnership of Cooperation."¹ Some 20 agreements were signed during the visit, including on the boundary management system and mutual legal assistance on criminal matters. The two sides also agreed to "intensify implementation" of the MOU on cooperation under BRI and enhance connectivity under the framework of Trans-Himalayan Multi-Dimensional Connectivity Network (THMCN).

This was the first-ever instance of a diplomatic communique between China and Nepal that envisioned a "strategic partnership of cooperation."² Immediately after Xi returned to China, both countries signed an agreement under which China committed 150 million RMB (approximately Rs 2.5 billion) in military aid to the Nepali Army. Except for such military aid, there has been no breakthrough in strategic cooperation,³ prompting Nepali experts to question the meaning of "strategic partnership of cooperation."

¹Ministry of Foreign Affairs. 13 October, 2019. *Joint statement between Nepal and the People's Republic of China*. <https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/#:~:text=Xi%20Jinping%2C%20President%20of%20the,welcoming%20banquet%20by%20President%20Bhandari>

²Giri, Anil. 19 October, 2021. *Two years since Xi's visit, Nepal- China 'strategic partnership' remains an enigma*. The Kathmandu Post. <https://kathmandupost.com/national/2021/10/19/two-years-since-xi-s-visit-nepal-china-strategic-partnership-remains-an-enigma>

³Giri, Anil. 18 October, 2019. *China to provide Rs 2.5 billion in military aid to Nepal*. The Kathmandu Post. <https://kathmandupost.com/national/2019/10/18/china-to-provide-rs-2-5-billion-in-military-aid-to-nepal>

2. Emphasis on policy exchange and party-to-party relations between the Communist Party of China and Nepal's left parties

There have been several high-level visits between Chinese and Nepali communist parties in the past, in recent years such exchanges and visits have increased.⁴ The first-ever joint workshop organized by the Nepal Communist Party (NCP) and the CPC in September 2019 initiated the party-to-party engagement between Nepal and China.⁵ On September 24, 2019, NCP and CPC signed a Memorandum of Understanding (MoU) for establishing party-to-party relations.⁶ Since then, CPC's members and politburo leaders have visited Nepal more often. After the NCP split, CPN-UML and CPN (Maoist Centre) delegations have also often visited China for political exchanges.⁷

China has stated its support for Nepal in finding its own development path, pursuing independent policies, and participating in the Belt and Road Initiative. For example, when Chinese Foreign Minister Wang Yi visited Nepal in March 2022, he told Xinhua that China supports Nepal in three key aspects.⁸

The first was that “China will support Nepal in **finding a development path** suited to its national conditions” and that “China's friendly policy” was “open to all parties and party factions and the people of Nepal.” He said China “encourages all parties and party factions in Nepal to jointly explore a **governance model** that is conducive to promoting political stability, economic growth, and people's livelihood.” Second, he said, “China supports Nepal in pursuing **independent domestic and foreign policies.**” This is a clear hint that China wants Nepal to free itself from the influence of India and the US and allow China to play a bigger role in the region. Third, he said, “China supports Nepal in furthering participation in the **Belt and Road Initiative.**”

China has also shown interest in organizing training courses for Nepali Government Officials “in order to strengthen exchanges and cooperation between Nepal and China in the field of Human Resources.”⁹

3. Stalled Engagement in China's Belt and Road Initiative

On May 12, 2017, China and Nepal signed a Memorandum of Understanding (MoU) on bilateral cooperation for the Belt and Road Initiative (BRI).¹⁰ During the initial phase, Nepal submitted 35 projects to be built under the BRI, however, the number was decreased to nine following China's suggestion.

⁴Rajbhandari, Aneka R. & Khatri, Raunab S. 28 June, 2021. *One Party, two countries?*. Nepal Times. <https://nepalitimes.com/news/one-party-two-countries>

⁵Peoples Review. 25 September, 2019. *NCP, CCP organize workshop on Xi Jinping's thought.* <https://www.peoplesreview.com.np/2019/09/25/ncp-ccp-organize-workshop-on-xi-jinpings-thought/>

⁶My Republica. 24 September, 2019. *NCP, CPC sign MoU pledging to deepen cooperation.* <https://myrepublica.nagariknetwork.com/news/ncp-cpc-sign-mou-pledging-to-further-deepen-sisterly-ties/>

⁷Bhattarai, Kamal Dev. 27 June, 2023. *China's steps up engagement with Nepal.* The Annapurna Express. <https://theannapurnaexpress.com/news/chinas-steps-up-engagement-with-nepal-44342/>

⁸<https://global.chinadaily.com.cn/a/202203/27/WS623fa47fa310fd2b29e537cf.html>

⁹<https://mofa.gov.np/day-3-press-release-official-visit-of-china-by-the-rt-hon-prime-minister-of-nepal/>

¹⁰Xinhua. 12 May, 2017. *Nepal, China sign bilateral cooperation agreement under Belt and Road Initiative.* Xinhuanet. http://www.xinhuanet.com/english/2017-05/12/c_136276949.htm

During PM Prachanda's visit to China in September 2023, both countries committed to finalizing the BRI Project Implementation Plan at the earliest. The BRI Implementation Plan, proposed by the Chinese side, has not been agreed upon by both parties, which is delaying the projects.

The current status of proposed BRI Projects are as follows:

1. Kathmandu-Kerung Railway: A technical team deployed for a detailed feasibility study.
2. Upgradation of Rasuwagadhi-Kathmandu Road: Agreement in September 2023 to accelerate the feasibility study. The road has two tunnels including the 4 km Tokha-Chhahare.
3. Kimathanka-Hile Road: Construction yet to start.
4. Dipayal to the South of China Road: DPR is yet to be prepared.
5. Tokha-Bidur Road: Feasibility study yet to be prepared.
6. Galchhi-Rasuwagadhi-Kerung 400 kv transmission line: Agreement to form a joint study team, but no progress after that.
7. Tamor Hydropower Project: No progress after three years of MoU between IBN, a joint venture between HIDCL and Power China. In the meantime, SJVN, an Indian company, has shown interest and is likely to get the project.
8. Madan Bhandari Science and Technology University: The University is in the development phase but assistance from China is uncertain.
9. Phukot-Karnali Hydropower (480 MW): MoU signed between NHPC, an Indian government enterprise, and VUCL, a company under the Nepal government in June 2023.

None of these projects under the BRI have been implemented, due to a lack of understanding of funding modalities (Nepal has been insisting on grant projects) and geopolitical influences.

4. The signing of agreements related to the Trans-Himalayan Multidimensional Connectivity Network

THMCN became an official terminology during Prime Minister KP Oli's visit to China in 2018. THMCN includes ports, roads, railways, aviation and communications that links Tibet and Nepal.¹¹

During Prime Minister K. P. Sharma Oli's official visit to China in March 2016, Nepal and China signed a Transit and Transport Agreement which gives Nepal access to seven Chinese ports (four seaports and three land ports) and six border points for trade. During President Bidhya Devi Bhandari's state visit to China in April 2019, both countries signed the Protocol on Implementing Agreement on Transit and Transport.

¹¹ <https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>

Despite the agreements, little transit has taken place through the territory of China, owing to lack of physical infrastructure, high cost of transit, and security considerations on the Chinese side.

5. Increased Chinese commitment to economic cooperation in aid projects, though the utilization of the same has been far from satisfactory

In recent years, China has emerged as one of the top five bilateral donors to Nepal.¹² Its aid is often utilized in infrastructure projects beyond BRI and THMCN projects.¹³ However, the committed amounts are seldom disbursed by China in full. During President Xi Jinping's 2019 visit to Nepal, China committed an assistance of Rs. 56 billion.¹⁴ About Rs. 15 billion was committed during Foreign Minister Narayan Khadka's visit to Qingdao in 2022.¹⁵ Nepal is yet to receive more than Rs 100 billion that was committed by China since 2008. The Chinese Ambassador to Nepal Chen Song in April 2023 committed to release Rs 80 billion of the amount.¹⁶

6. Seeking to engage Nepal in China's global initiatives

China has been pushing forward its soft power approach through the Global Development Initiative (GDI, 2021) and the Global Civilization Initiative (GCI, 2023) and its military interests through the Global Security Initiative (GSI, 2022). Nepal has already agreed to be a part of the GDI with two micro-level projects.¹⁷ Nepal has not officially signed GSI given its military connotations¹⁸ and Nepal's policy of non-alignment.¹⁹ Regarding GCI, Nepal has not taken a decision. However, Ambassador Chen Song mentioned that the Dragon Boat Festival in Pokhara held in June 2023 was part of GCI.²⁰

7. Increasing number of exchange visits with repetitive agreements

High-level visits between China and Nepal have intensified in recent years, including visits by presidents, prime ministers, and foreign ministers. However, despite a record number of visits and

¹² Ministry of Finance. 2023. *Development Cooperation Report FY 2021/22*. International Economic Cooperation Coordination Division, Ministry of Finance.

https://www.mof.gov.np/public/uploads/document/file/1701146502_1701128326_DCR%20Report%202022R.pdf

¹³ Liangyu. 17 January, 2019. *China among top five bilateral donors to Nepal: Nepali finance ministry*. Xinhua.

http://www.xinhuanet.com/english/2019-01/17/c_137751144.htm

¹⁴ Giri, Anil. 13 October, 2019. *On his first day in Kathmandu, Xi announces Rs 56 billion in economic assistance over the next two years*. The Kathmandu Post. <https://kathmandupost.com/national/2019/10/13/on-his-first-day-in-kathmandu-xi-announces-rs-56-billion-in-economic-assistance-over-the-next-two-years>

¹⁵ Giri, Anil. 11 August, 2022. *Beijing announces new Rs15 billion aid to Nepal*. The Kathmandu Post.

<https://kathmandupost.com/politics/2022/08/11/beijing-announces-new-rs15-billion-aid-to-nepal>

¹⁶ Giri, Anil. 30 April, 2023. *China to release Rs 80 billion pledged to Nepal since 2008*. The Kathmandu Post.

<https://kathmandupost.com/national/2023/04/30/china-to-release-rs80-billion-pledged-to-nepal-since-2008>

¹⁷ Embassy of the People's Republic of China in the Kingdom of the Netherlands. *List of First-batch Projects of GDI Project Pool*. <http://nl.china-embassy.gov.cn/eng/zgyw/202209/P020220921624707087888.pdf>

¹⁸ Giri, Anil. 21 September, 2022. *Bhandari attending Beijing's GSI event after foreign ministry's bungle*. The Kathmandu Post.

<https://kathmandupost.com/national/2022/09/21/bhandari-attending-beijing-s-gsi-event-after-foreign-ministry-s-bungle>

¹⁹ Upadhyay, Narayan. 19 September, 2023. *PM's China visit why it matters for Nepal*. The Rising Nepal.

<https://risingnepaldaily.com/news/32605>

²⁰ Song, Chen [PRCAmbNepal]. 23 June, 2023. *Spectacular, Chinese and Nepal culture converged at Fewa Lake during the #DragonBoatRaceFestival. #GlobalCivilizationInitiative. #DragonBoatRaceFestival2023 #Pokhara2023 #FewaLake2023* [Tweet]. X. <https://twitter.com/PRCAmbNepal/status/1672123286640291840>

agreements signed, many agreements are repetitive and few are implemented. Party-to-party engagement between the Communist Party of China (CPC) and Nepal's communist parties has also intensified in recent years.

The then President Bidhya Devi Bhandari's visit in April 2019 was followed by Chinese President Xi Jinping's visit to Nepal in October of that year. Other notable events include Chinese Foreign Minister Wang Yi's visit to Nepal in 2022, and PM Dahal's visit to China in September 2023. After the formation of PM Prachanda's government, about six senior leaders of CPC have visited Nepal, while about 18 senior Nepali delegates, including ministers, have visited China.²¹

8. *Emphasis on Track II diplomacy*

Particularly since 2015, China has increased engagements through soft power initiatives like trade fairs, language programs, and scholarships. Confucius Institutes at Kathmandu University and Tribhuvan University as well as scholarship programs in Chinese universities are targeted at key population groups, such as students, academicians, journalists, and political party leaders. Till 2022, 15 Chinese universities and institutes have signed MoUs with Tribhuvan University to exchange their academic experiences and facilities.²²

An ongoing CESIF study found that there are four media groups funded by China, 10 NGOs registered in China operating in Nepal, four Nepali NGOs funded by China and five friendship societies or student associations funded by China.

9. *Chinese engagement in loan projects (Pokhara International Airport and Chinese aircraft purchases) and the increased involvement of Chinese construction companies in infrastructure projects in Nepal*

China's economic engagement in Nepal involves investment and aid but carries certain complexities. While China has provided grants and loans for infrastructure projects like Pokhara International Airport and the purchase of four China-made airplanes (two more came as grants), these haven't always aligned with Nepal's long-term interests. For example, Nepal Airlines was forced to ground Chinese airplanes and is trying to sell them, but without success. Questions also linger about corruption and the commercial viability of Pokhara International Airport. The CIAA, Nepal's anti-corruption watchdog, has been investigating the case for alleged corruption.

Although China is a major source of FDI, Nepal navigates this engagement cautiously, as demonstrated by removing Chinese developers from two hydropower projects after India's stance on power exports. Out of 235 hydropower projects under construction, Chinese companies now have contracts for five.²³

²¹ <https://ekantipur.com/news/2024/01/14/in-hindsight-nepal-china-back-and-forth-39-30.html>

²² Nyaichyai, L. & Adhikari, K.N. January, 2023. *Chinese Public Diplomacy in Nepal*. (pp. 6-17). Policy Research Institute. file:///C:/Users/User1/Downloads/PRI17745_Chinese%20Public%20Diplomacy%20in%20Nepal%201.8.pdf

²³ Pokhrel, Mukesh. 24 May, 2023. *Nepal hydropower drive puts India over China, but what's the risk?*. Reuters. <https://www.reuters.com/article/idUSL8N36K1Z3/>

Overall, the relationship is marked by cooperation but also careful maneuvering by Nepal within China's broader goals.²⁴

10. Gradual move towards smaller and soft-power projects

Although big projects proposed under the BRI have not been implemented yet, certain smaller²⁵ ones²⁶ have been completed. Nepali experts whom CESIF interviewed have analyzed that those projects that are in the interest of China have been constructed by Chinese companies, whereas those not prioritized by China have yet to progress.

In July 2023, China launched a series of smaller projects related to education, culture, and economic empowerment as the Silk Roadster platform allegedly under the BRI.²⁷ The Silk Roadster platform was set up by the International Department of the CPC.

Another overtly political program is the “Lighting Up the Future China-Nepal Political Parties’ Livelihood and Poverty Alleviation Action” and a “Vibrant Village” demonstration project of China-South Asian Countries Poverty Alleviation and Cooperative Development Center. These two projects were mentioned in the joint statement issued after PM Prachanda’s official China visit in September 2023.

In some districts, Chinese small-scale aid is aligned closely with the interests of politicians from communist parties and supports projects patronized by these leaders.

China has been trying to redefine the BRI framework. For example, in June 2023, the Ambassador of China to Nepal, Chen Song pinned a tweet²⁸ about an opinion piece by Liao Fan,²⁹ describing BRI as “five connectivities, namely policy, infrastructure, trade, financial and people-to-people connectivities.”

11. Ongoing and potential Chinese involvements in the infrastructure sector

During Prime Minister Prachanda's visit to China in September 2023, the joint statement outlined several infrastructure projects. According to the statement,

- China will begin the fourth phase of the **Araniko Highway** maintenance.
- China will assist in repairing the **Syaphrubesi-Rasuwagadhi Highway** after Nepal completes demolition work.
- Both nations agreed to complete a feasibility study for the **Tokha-Chhahare Tunnel**, and

²⁴Global Times. 10 June, 2023. *Can India's attempts to squeeze Chinese investment in Nepal's energy sector succeed?*. <https://www.globaltimes.cn/page/202306/1292320.shtml>

²⁵Consulate General of Nepal. *Message from the Consul General*. <https://ctu.nepalconsulate.gov.np/message-from-the-cg/>

²⁶Ministry of Foreign Affairs. 8 December, 2020. *Press Release on the Joint Announcement of the Height of Mount Sagarmatha/ Zhumulangma*. <https://mofa.gov.np/press-release-on-the-joint-announcement-of-the-height-of-mount-sagarmatha-zhumulangma/#:~:text=A%20new%20height%208848.86%20meters.at%20a%20special%20ceremony%20today>

²⁷Giri, Anil. 19 July, 2023. *China launches 'Silk Roadster' projects under BRI in Nepal*. The Kathmandu Post. <https://kathmandupost.com/national/2023/07/19/china-launches-silk-roadster-projects-under-bri-in-nepal>

²⁸<https://x.com/PRCAmbNepal/status/1674307452282576896?s=20>

²⁹<https://news.cgtn.com/news/3d3d674d334d544d34457a6333566d54/index.html>

- Expedite the **Kathmandu Ring Road**'s second phase.
- A feasibility study for the **Keyrung-Kathmandu Cross-Border Railway** is ongoing.
- Both sides aim to finalize the China-Nepal Electric Power Cooperation Plan and initiate construction of the **Nepal-China Power Grid Interconnection Project (Chilime-Kerung)**.
- China will invest in the **China-Nepal Friendship Industrial Park** after signing a Project Development Agreement (PDA).
- In addition to these projects, Nepal and China also signed a MoU on the **Hilsa-Simikot Road Project**.

