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Nepali Prime Minister's Visit to China: Connectivity Initiatives on the Agenda

The main objective of Nepali Prime Minister K P Sharma Oli's proposed visit to China on 19 June 2018 is to increase the pace of the implementation of the previously agreed connectivity projects between China and Nepal. It is also seen as an opportunity for Nepal to address its high dependence on India.

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Nepali Prime Minister K P Sharma Oli is expected to visit China on 19 June 2018. The visit will be closely watched in the South Asian region.² In March 2016, Oli made a high-profiled visit to China during his first term as Nepali prime minister. During that visit, he signed a transit agreement with China and the latter offered several other forms of economic assistance to Nepal.³

Nepal's Foreign Minister Pradeep Kumar Gyawali visited China in April 2018 to prepare the ground for Oli's visit to the country. During Gyawali's visit, Chinese Foreign Minister Wang Yi proposed a Trans-Himalayan Multidimensional Transport Network, which will encompass

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² "June 19 proposed for PM Oli's China visit", Anil Giri, *Kathmandupost*, 21 May 2018. <http://kathmandupost.ekantipur.com/news/2018-05-21/june-19-proposed-for-pm-olis-china-visit.html>. Accessed on 2 June 2018.

³ "Joint Statement between the People's Republic of China and Nepal", *Xinhua*, 23 March 2016. http://www.xinhuanet.com/english/china/2016-03/23/c_135216927.htm. Accessed on 2 June 2018.

roadways, railways, cross-border connectivity and a petroleum pipeline. Oli's visit is expected to focus on the implementation of the 2016 Trade and Transit Treaty, cross-border connectivity and on selecting projects under the Belt and Road Initiative.⁴

China has plans to undertake road- and railway-linking projects with Nepal. While there is road connectivity between Nepal and China, railway connectivity is still under the planning stage. At present, China is not constructing any physical infrastructure in Nepal. Instead, it is focusing on data connectivity with Nepal and the South Asian region. On 12 January 2018, the Nepal-China cross-border optical fibre link came into commercial operation. Two state-owned telecommunication companies from Nepal and China – Nepal Telecom and China Telecom – established the linkage, providing Nepal with an alternative route to receive Internet services through China from major Internet hubs, including Hong Kong. According to the Chief Representative of China Telecom Wang Yonglin, the Nepal-China cross border optical fibre link "...is the shortest route for Nepal to get Internet service".⁵ He added that, "the route could also act as a gateway for Nepal to reach to Central Asia, Northeast Asia and the United States of America".⁶

With an estimated total investment of US\$1.54 billion (S\$2.05 billion), China is also building a cloud storage centre in Lhasa, the capital of Tibet Autonomous Region, to service trade and investment between Chinese companies and their counterparts in South Asia. It is expected to start operation by the end of the year 2018.

For China, the connectivity initiatives in Nepal are not meant just for Nepal. The aim is to also connect with the Indian market through Nepal. This Chinese objective is not hidden – it has been clearly articulated by Chinese officials in many forums and meetings between Chinese leaders and Nepali leaders. On September 2017, for instance, at a joint press conference after a bilateral delegation-level meeting between Deputy Prime Minister and Foreign Minister of Nepal Krishna Bahadur Mahara and Chinese Foreign Minister Wang Yi, the latter stated that China's intention is to make Nepal a bridge and link between the two

⁴ "Ahead of PM's China visit, Nepal looks to brand itself internationally", *myRepublica*, 4 June 2018. <http://myrepublica.nagariknetwork.com/news/ahead-of-pm-s-china-visit-nepal-looks-to-brand-itself-internationally/>. Accessed on 5 June 2018.

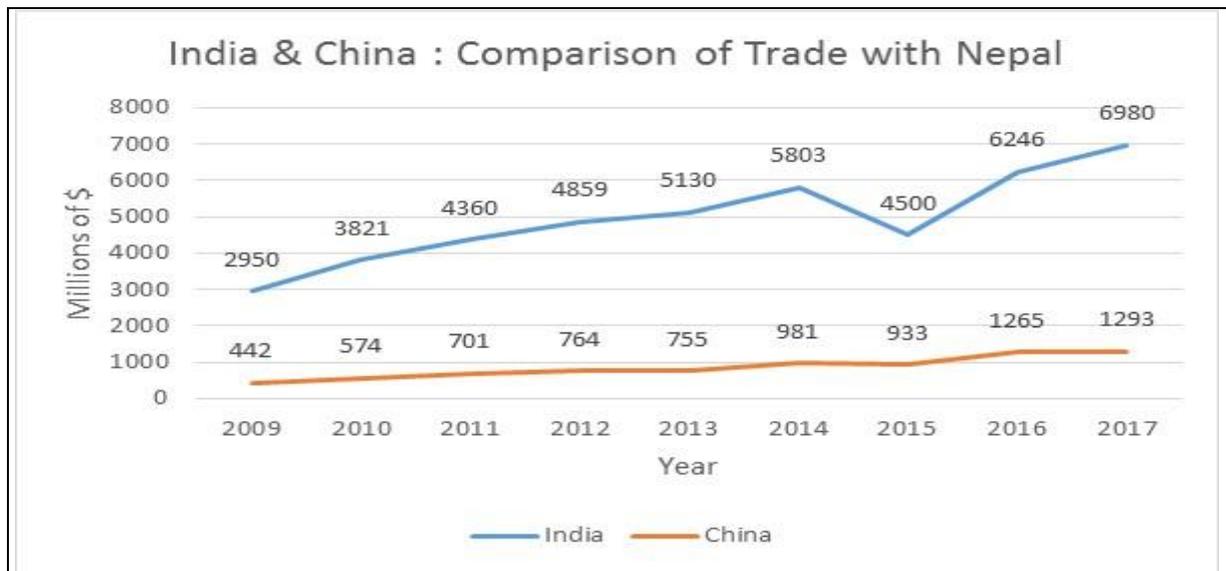
⁵ "Nepal-China cross-border optical fiber link starts operation", *Xinhua General News Service*, 12 January 2018, http://www.xinhuanet.com/english/2018-01/12/c_136891112.htm. Accessed on 3 June 2018.

⁶ Ibid.

emerging economies of China and India. He stated that, “China looks forward to gradually creating the conditions to explore and construct the China-Nepal-India economic corridor, and jointly promote the Himalayan region to a new high ground for Asian development.”⁷

The agenda for Oli’s visit shows the future promise of connectivity and the substantial increase in trade between Nepal and China. However, as of now, connectivity between the two countries is still far from developed. Indian imports enter Nepal through 22 border points between the two countries. In contrast, Nepal only has two official border points with China. China’s connectivity initiatives with Nepal are in the nascent stages. Arguably, it will take many more years for China to match the Indian level of connectivity with Nepal. However, with the increase in Nepal’s trade with China, Indian-origin products in Nepal may be crowded out, while Nepal may become another bridge for Chinese products to enter the Indian market. Nepal’s current trade is overwhelmingly with India and it is expected to remain as such in the near future (Figure 1).⁸

Figure 1: India and China: Comparison of Trade with Nepal



Source: Government of Nepal, Ministry of Commerce and Supplies Trade and Export Promotion Centre, <http://www.efourcore.com.np/tepcdatabank/compareexportimport.php?txtmode=search>, accessed June 4, 2018.

⁷ Sangeet Sangroula, “Nepal, China to expedite cross-border railway”, *Myrepublica*, 8 September 2017. <http://myrepublica.nagariknetwork.com/news/27151/>. Accessed on 2 June 2018.

⁸ “Making India relevant”, Bishal Thapa, *Myrepublica*, 12 December 2017. http://myrepublica.nagariknetwork.com/news/32429/?fb_comment_id=172262827755782_1764173716934571#/f5c1c5740825c. Accessed on 1 June 2018.

During Oli's planned visit, the stalled projects between Chinese companies and Nepal may emerge as a thorny issue. In May-June 2018, for example, there were reports of Nepal scrapping the deal with a Chinese company to build West Seti Hydropower project and instead deciding to build it with its own resources. Presenting the federal budget on 29 May 2018, Nepal's Finance Minister Yubaraj Khatiwada said that the construction work on West Seti would commence by mobilising internal resources. However, this report was subsequently denied by both the Chinese foreign ministry spokesperson and the Investment Board Nepal. The contradictory statements between Nepal's ministries as well as the Chinese government highlight the confusion and the difficulties in negotiations between the Nepal government and Chinese companies. The project, located in far-western Nepal, has been languishing in uncertainty after the Chinese company said it would not go ahead with the scheme if the power purchase rate was not increased. The negotiations between the Chinese company and Nepal government on this issue are still going on.⁹

There are challenges on both sides on the implementation of the connectivity initiatives as well as on planned investment projects. Oli's visit to China will be a step forward towards the realisation of these initiatives with China. It can also be an opportunity for Nepal to expand its trade linkages with China and decrease its dependency on India. Much is, therefore, expected from Oli's visit to China.

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⁹ "IBN refutes govt claim on West Seti Project, Says there has been no decision to scrap pact signed with China Three Gorges on 750MW undertaking", Bibek Subedi, *Kathmandupost*, 7 June 2018. <https://kathmandupost.ekantipur.com/news/2018-06-07/ibn-refutes-govt-claim-on-west-seti-project.html>. Accessed on 7 June 2018; and "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on 6 June 2018", Foreign Ministry of People's Republic of China. http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510665401/2511_665403/t1566463.shtml. Accessed on 7 June 2018.