

Finally, BRI Projects to Advance in Nepal?

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Summary

Seven years after the signing of the memorandum of understanding on the Belt and Road Initiative, Nepal and China recently signed the Framework for Belt and Road Cooperation. The next step is to conclude project-specific agreements and get the projects off the ground. How the two countries interpret the 'aid financing' specified in the framework agreement will perhaps determine whether the projects will actually hit the ground.

Nepal's Prime Minister K P Sharma Oli visited China from 2 to 5 December on the invitation of the Chinese Premier Li Qiang. Before Oli's visit to China, there was much commotion in Nepal and abroad, mainly on two issues. First, there were some concerns that Oli had planned his [China visit before visiting India](#). Nepal's prime ministers have mostly made their first official foreign trip to India after assuming office. Therefore, a change in this norm generates interests in some quarters. Oli's plans to visit China had come on the heels of [India not extending an official invitation to him](#).

Second, and more importantly, the fuss about Oli's China visit was related to the implementation of the Belt and Road Initiative (BRI) in Nepal. In 2017, Nepal signed the memorandum of understanding (MoU) on the BRI with China. Nine projects were also identified and mutually agreed upon to develop as BRI projects. However, the agreement did not proceed further due to the lack of an implementation plan. The past seven years since the signing of the MoU saw various kinds of debates and discussions at home and abroad on the future of the BRI in Nepal. Hence, making progress on the BRI was the most important agenda of Oli's recent China trip.

However, until the conclusion of his official meetings with Li Qiang and Chinese President Xi Jinping, there was no concrete agreement on the BRI implementation in Nepal. The [Joint Statement](#) released after the official meeting only stated that the two sides agreed to pursue deeper and even more concrete high-quality Belt and Road cooperation, and expressed their readiness to sign the 'Framework for Belt and Road Cooperation' as soon as possible.

The Nepali side was desirous to make this possible before its return to Nepal. Hence, it continued its discussions with Chinese officials even after the release of the Joint Statement. To the surprise of many, the Nepali delegation was successful in reaching an agreement and signing the Framework for Belt and Road Cooperation a day after the Joint Statement was released before the delegation returned to Nepal.

Earlier, China had shared a draft of the [BRI implementation plan](#) with Nepal. The content of the plan was not publicised, but as is [reported now](#), the plan was comprehensive, covering several issues, which Nepal was not in a position to accept. Also, there were differences

among the political parties in Nepal concerning the BRI. The differences were not so much on whether to advance the BRI in Nepal, but on the modality of cooperation. Particularly, the Nepali Congress, the largest political party in the country, was against accepting China's financial assistance for the BRI projects in the form of commercial loans. It wanted such assistance in the form of grants.

The current coalition government of the Nepali Congress and the second-largest party, Communist Party of Nepal (United Marxist and Leninist), the two main competitors in Nepali politics, was formed months ago due to various [domestic political factors](#). Surprisingly, these two parties appear to be managing their differences and cooperating well in running the country. A mutual understanding and cooperation between these two political parties on the BRI is a major reason for the success in signing the Framework for Belt and Road Cooperation.

With the understanding that Nepal was not able to accept the BRI implementation plan as drafted, Nepal's current coalition government requested China to agree on a framework for BRI cooperation based on a clause in the MoU signed in 2017. A [task force](#), consisting of members representing the political parties in the current coalition and a Nepali legal expert, had drafted the framework agreement, only including projects on connectivity, trade, energy and the like. They had also proposed 'grant financing' as the assistance modality. China accepted the framework agreement as shared but [did not agree on 'grant financing'](#). It suggested specifying 'assistance financing'. Nepal did not agree to this suggestion, and this held back the finalisation of the framework agreement before the release of the Joint Statement.

In the discussions that continued after the release of the Joint Statement, the Nepali side proposed specifying the assistance modality as 'aid financing', which could mean both grants and concessional loans. Ultimately, China agreed to this proposal and the Framework for Belt and Road Cooperation was signed by representatives of both governments after the release of the Joint Statement. The framework for cooperation has not been made public yet but as [reported](#), it includes the projects specified in the Joint Statement that are essential to strengthen Nepal's connectivity with China. The signing of this agreement has opened the door to advance the identified BRI projects in Nepal.

To implement the identified projects, the two countries need to sign project-specific agreements that will specify, among other details, the kind of aid that Nepal will receive to implement the project in question. Rather than having a blanket agreement for all BRI projects clubbed together, this modality provides Nepal the flexibility to decide the best form of aid for a particular project based on its importance and prospective returns, among others. The question is whether there will be a common interpretation of 'aid financing' specified in the framework agreement and whether the projects will actually get off the ground.

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