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Deepening Nepal-China Relations: A Shift in Nepal's Foreign Policy in 2022 or Continuing With the Status Quo?



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In a potential counter to the increasing presence of the United States, the Chinese State Councillor, Wang Yi, visited Nepal on the March 25, 2022, and signed nine agreements with the Government of Nepal. The agreements ranged from railway links to non-tariff agreements and the development of the energy sector. Nepal-China relations have been fraught for the past two years, given the non-official blockade of trade and other issues that cropped up during the Covid-19 pandemic. The visit comes in a bid to stymie the growing support for the United States and its Millennium Challenge Corporation (MCC) project in Nepal.

China has been able to maintain amicable relations with Nepal throughout most of its history. India has often had issues with Nepal's ruling parties, especially owing to its fears of close Sino-Nepalese ties. India's security concerns particularly rose after the 1962 debacle and have since made possible efforts at maintaining a friendly regime in Nepal. Nepal has historically been sandwiched between the rivalries of the two Asian powers. In fact, King Prithvi Narayan Shah, remarked as early as the Eighteenth Century "This country is like a yam between two boulders. Great friendship should be maintained with the Chinese emperor. Friendship should also be maintained with the emperor beyond the southern seas".

Nepal's dependence on India for trade was a matter of concern and the fears materialised in the aftermath of the 2015 Constitution and the subsequent unofficial blockade imposed by India that crippled Nepal's economy and brought the inherent problems of over-reliance to the forefront. Nepal gradually started approaching China and the Chinese offered to build infrastructure under its flagship Belt and Road Initiative (BRI). There were also concerns regarding the viability of the projects, amid a hysteria of debt trap – an occurrence that can be witnessed in some of the projects in Asia. The key example is the Hambantota Port in Sri Lanka, now on a 99-year-old Lease to Chinese State-Owned Enterprises. But the pandemic exposed Nepal's reliance on China.

Nepal has been peeved by the Chinese actions of imposing a non-official blockade that emerged in the aftermath of Covid-19. The said measure not only caused damage to the traders in Nepal but also prevented exports from Nepal. There is a clear imbalance of trade, and as The Kathmandu Post notes, Nepal has imported goods worth Rs.233.92 billion NPR in the year 2020-21, although its exports to China were to a tune of Rs.1 billion NPR – making it a total of 14 percent of the country's total trade deficit. Freight costs also rose during the pandemic, resulting in an ultimate hike in the price of the commodities. Apart from this, as pointed out by Professor Hari Bansh Jha, the Executive Director for the Centre for Economic and Technical Studies, there are issues surrounding Nepalese students enrolled in Chinese Universities who await the resumption of classes; unwarranted Chinese interference in Nepal's domestic affairs especially in regard to the United States' MCC project, and Chinese reluctance to provide Nepal with grants instead of loans for development projects.

The following agreements were signed between Nepal and China during Wang Yi's crucial visit:

i) Agreement on Economic and Technical Cooperation

China will increase annual assistance to Nepal from Rs.13 billion NPR to Rs.15 billion NPR. Further, it will finance some projects.

ii) Technical Assistance Scheme for China Aid Feasibility Study of China Nepal Cross Border Railway Project

The project is slated to transform Nepal from a landlocked to a landlinked county. The project study commenced in 2019 but there had been no progress owing to the pandemic. Another reason is the topography that poses serious difficulties not only in construction but also in sustenance in the long term.

iii) Cooperation Agreement on the Feasibility study of China-Nepal Power Grid Interconnection

The project includes a study and financing of the Ratamate Rasuwagadhi-Kerung transmission line. The project is slated to enable an exchange of electricity between China and Nepal.

iv) Protocol on Safety and Health Conditions for the Export of Haylage from Nepal to China

Haylage, which is used as animal fodder, is found in Nepal. China is interested in Haylage import owing to its benefits on milk production in animals. Given Tibet's climate constraints and the resultant paucity of fodder availability, Nepal has the potential to provide Haylage and improve cattle fodder. Although Nepal needs to work on Sanitary and Phytosanitary Measures (SPS) that have otherwise prevented the export of produce from Nepal.

v) Exchange of Letters on Duty-Free treatment to be provided by China to goods of Nepali origin covering 98 percent tariff lines

While China has been providing free access to Nepalese goods, making up to 95 percent of tariff-free exports, there has been a blockade owing to a number of reasons, including the pandemic, resulting in loss to Nepalese Traders. There is not merely a loss of exports from Nepal, but also imports from China. Two important trading points, Rasuwagadhi and Tatopani have been closed since January 2020.

vi) Handover Certificate of Araniko Highway Maintenance Project (Phase III)

vii) Minutes of the Seventh Meeting between Nepal and China on Enhancing Cooperation in the Railway Sector

viii) Protocol on Sending a Chinese Medical Team to work in Nepal's BP Koirala Memorial Cancer Hospital

ix) Delivery and acceptance Certificate of China Aid COVID-19 Vaccine to Nepal (Fifth and Sixth Batches) of four million Vero cell vaccines

China will donate an additional 4 million doses of Sinovac to Nepal. There is criticism concerning the Chinese supply of vaccines under commercial schemes, as opposed to a measure of generosity that other countries have practised.

The number of agreements does appear positive for Nepal-China relations, but Nepal must tread cautiously. The agreements could be an attempt to salvage the damage caused by MCC. The project was signed in 2017, during Prime Minister Sher Bahadur Deuba's tenure. While it remained in limbo in the following years, it was eventually ratified by the Parliament on February 27th 2022 with a two-thirds majority. The project aims to provide \$500 million USD in grants to develop 300 km of 400KV Transmission Lines from the Lapsipedi Galchhi Sunawal Corridor, along with repairing and maintaining 300 km of roads in different locations. Under the said project, Nepal was supposed to contribute \$130 million USD from its end.

According to Former Indian Diplomat Vijay Gokhale, "Wang's visit seems to have had three objectives: to repair political damage and rebuild China's image as a benevolent friend that looked out for Nepal's welfare; to ascertain how Washington had gained political ground in Kathmandu; and to test the waters on what China might do politically, especially with the Nepali Communists, to regain lost ground." From an Indian standpoint, the MCC project could be a boon, since they fit well in its long-term strategy of containing China. India has recently signed several agreements, including the development of hydropower in Nepal, in order to regain its losing ground. However, India must carefully assess its strategy if it wants to develop amicable relations with Nepal. Essentially what India does overtly, China also does rather discretely – viewing Nepal from a security angle. India could cultivate better ties with the help of long-term projects that generate employment and wealth in Nepal, by investing in crucial infrastructure that is sustainable and capable of generating employment and wealth.

[Photo by Ministry of Foreign Affairs, Nepal]

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