RIDING THE DRAGON: CHINA’S RISE AND ITS CHALLENGES AND OPPORTUNITIES FOR NEPAL

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Abstract

China’s miraculous economic growth over four decades since 1978 has brought about a remarkable transformation in the country. Increased wealth and concomitant state power have led China to expand its influence not only in its immediate neighborhood but across the globe. South Asia lies in geographical proximity of China, and its recent growth has significantly shaped the geopolitical and economic dynamics of the region. Nepal is one of the South Asian states that shares a border with China, and its long history of diplomatic engagement and cooperation centered around government and state elites has lately morphed into broader political, economic, cultural, and other people-to-people relations.

The engagement between China and Nepal has gained momentum since 2015 with the assertive policy adopted by China in the region after Xi Jinping’s ascendance to power coinciding with the Indian trade embargo on Nepal, which further strengthened Nepal’s desire to extricate itself from the overwhelming Indian influence in Nepal’s political, economic, and social life. In this context, the Nepali elite view deeper cooperation with China and its connectivity project under the Belt and Road Initiative (BRI) as promising opportunities to develop into a ‘vibrant bridge’ between China and India, ensuring rapid economic transformation and greater strategic freedom and maneuverability. While the expanding economic relationship has the potential to transform Nepal by filling the financial and technological gaps in the development of critical infrastructure and the creation of new employment opportunities for the youth through FDI in different sectors, the asymmetry in the relations means that Nepal suffers from ballooning trade deficit with China. The expanding military might of China not only enables greater cooperation in defence procurements and joint monitoring of borders but also other assistance for better disaster management, therefore significantly aiding the modernization of the Nepali Army. On the other hand, it has also led to greater surveillance and control of borderlands, circumscribing the mobility of the borderland population. China’s economic and military rise can also have a pernicious influence on the fledgling
democratic polity of Nepal. With the greater assertiveness to ensure their security and strategic interests, China is willing not only to micro-manage Nepali politics but also has shown the audacity to intrude into civil society and free press, attempting to desecrate and imperil Nepal’s fledgling democracy. There is an attempt to export Xi Jinping Thought thought and the Chinese model of development, which are deeply antithetical to Nepalese democratic values that are the product of decades of struggle.

Thus, this paper stresses the need for concordant consensus on foreign policy to deal with China. It is imperative for Nepal to continue adherence to the time-tested policy of non-alignment and Panchsheel in a deeply divisive strategic environment rapidly evolving into strategic rivalry. Nepal should refrain from engaging in any strategic or military alliance and seek to maintain neutrality in an increasingly fraught geopolitical situation. The policy should seek to continuously and fruitfully engage with China without imperiling Nepal’s democratic values and institutions, and it can be ensured by creating strong, transparent, and accountable institutions so that China does not hold undue influence over them. Moreover, Nepal should try to assuage genuine security concerns of China, India, and Western Powers and ensure that the country is not drawn into the vortex of geopolitics. Nepal should also seek to create strong universities, think tanks, and research centers to study Chinese politics, economy, culture, and environment, provide critical policy prescriptions, and empower civil society and media who remain bulwarks against attempts to erode Nepalese democratic ideals and practices.
Introduction

States that witness significant economic and military growth tend to redefine and expand their political interest in the international arena. China has seen unprecedented economic growth since Deng Xiaoping’s reforms, turning it into an economic behemoth. While China’s military capability curiously lagged behind its impressive economic growth, the recent strides made by China in terms of military power suggests that China has now emerged as one of the world’s preeminent military powers both in terms of conventional and nuclear capabilities concomitant with its economic strength.\(^1\)

Chinese territorial claims with cartographic aggression, borderland infrastructure, and heavy military presence have also generated friction and apprehension in the region.\(^2\) This tremendous growth of China and its new geopolitical assertiveness have confounded foreign policymakers and analysts across the globe. The confusion is more pronounced in South Asia, a region close to China, where countries enjoy deep-rooted historical ties with the ‘Middle Kingdom’.\(^3\) As Nepal shares a 1,389-km border with China’s Tibetan Autonomous Region (TAR), China’s rapidly expanding economic and military power and influence have been more consequential for Nepal.

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\(^1\) Rajesh Rajagopalan, “China’s military power is catching up with its military might. New era is indeed of war,” The Print, December 5, 2022, [https://theprint.in/opinion/chinas-military-power-is-catching-up-with-its-economic-might-new-era-is-indeed-one-of-war/1248889/](https://theprint.in/opinion/chinas-military-power-is-catching-up-with-its-economic-might-new-era-is-indeed-one-of-war/1248889/)


Nepal-China Economic Relations

Nepal and China (Tibet) have enjoyed a long and illustrious relationship dating back to the seventh century C.E., mostly built around Trans-Himalyan trade and exchanges. The establishment of diplomatic relations in 1955 and subsequent agreements formalized the ties between the two countries. Since then, China’s generous economic aid has been crucial in promoting industrialization and infrastructure development in Nepal. Nepal’s fate of geography entails more significant socioeconomic ties with its southern neighbor India compared to northern China, which is separated by the mighty Himalayas, making Nepal heavily dependent on India for trade and transit.

The Indian unofficial trade embargo along Nepal’s southern border, which disrupted the entire supply chain of Nepal in 2015, was a tipping point for the country historically craving greater strategic autonomy from India as the blockade laid bare Nepal’s precarity to Indian whims. This further pushed Nepalese political elites to seek the diversification of Nepal’s economic and trade relations. The condition of Nepal coincided with Chinese assertive engagement in the region under the ambitious framework of the Belt and Road Initiative (BRI), which China described as the ‘project of the century’.

Countries around the globe have perceived opportunities and threats associated with Chinese rise and BRI differently, viewing the growing Chinese influence and overtures with varying degrees of suspicion. The Nepalese public and the majority of political elites have been sanguine about the opportunities generated by China’s rise until

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recently. The signing of the Trade and Transit Treaty in 2016 between Nepal and China ensured Nepal to access Chinese ports for third-country trade. Subsequently, Nepal joining the BRI framework in 2017 was perceived with great enthusiasm among the Nepali elite because it promised to develop hard infrastructure and connectivity projects, which are the most urgent needs in the new federal republic emerging out of a decade-long civil war and protracted post-conflict political transition. In this regard, the proposed Kerung-Kathmandu railway and its possible extension to Lumbini and Pokhara under the Trans-Himalayan Multi-Dimensional Network is considered a potential game changer, transforming Nepal from a landlocked buffer state to a ‘vibrant bridge’ between China and India. Similarly, there are multiple projects beyond the BRI framework in Nepal, such as Kathmandu ring road expansion, construction of dry ports, Pokhara and Lumbini airports, where the Chinese are engaged. China has consistently ranked as Nepal’s top source of Foreign Direct Investment (FDI) for about a decade now, often eclipsing Indian FDI. Chinese investment is expected to turbocharge Nepal’s economic growth and help build critical infrastructure filling the financial and technological gaps, thus helping the nation reach its target to graduate from the least developed country by 2026 and emerge as a middle-income country by 2030.

In addition to being known for the exquisite Himalayan landscape and being a top destination for trekking and mountaineering, Nepal is also one of the most important Buddhist pilgrimage sites. Thus, it is a country of interest for Chinese, and Chinese tourists account for the largest number of foreign visitors to the country surpassed

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Samir Sharma and Preksha Shree Chhetri. “Nepal, China and ‘Belt and Road Initiative’: Prospects and Challenges” India Quarterly: A Journal of International Affairs 78, no.3 (2022):458


only by Indians\textsuperscript{12}. Nepal-China cooperation can play a pivotal role in the development of crucial tourism infrastructure in Nepal and in ushering a tourism sector boom in the country.

Despite the great opportunity that cooperation in trade, investment, and tourism brings to Nepal, the relationship is also characterized by the massive asymmetry between the two countries, patently visible in Nepal’s trade deficit with China and Nepalese passive recipient mindset in bilateral dealings.

With broader and deeper economic engagement between Nepal and China, it is unsurprising that China would want to deepen its military cooperation with Nepal to ensure business safety and strategic interest. China shares one of the weakest military relationships in the region with Nepal. They began bilateral military cooperation in 1988 when Nepal bought some military hardware from China, inviting Indian wrath. Furthermore, China continued to provide military assistance to Nepal during crucial junctures, like in 2005, to counter the Maoist insurgency when traditional military aid providers like India, USA, and Britain refused to provide such assistance to King Gyanendra. The relationship has blossomed and reached a new height in recent years, with the two countries engaging in a joint military drill named "Sagarmatha Friendship" every year. Technical and financial assistance to modernize Nepal’s army and deal with natural disasters and pandemics indicate deepening ties between the two militaries and represent Chinese attempt to displace Nepal’s traditional defense partners. Similarly, the trend was also reinforced by the internal political shift in Nepal. The unification of Communist parties and the ascendency of Communist leaders like Khadga Prasad Oli to the nation’s chief executive in 2017 also...
facilitated stronger military cooperation between China and Nepal. Furthermore, China through its military assistance, has cultivated a constituency inside Nepali Army that pushes for deeper military engagement with China.

Moreover, China has proposed a Joint Command Mechanism agreement for joint border patrolling and monitoring. Similarly, the Chinese proposal for the extradition treaty between the two countries also reflects Chinese attempts to deepen its security and strategic relationship with Nepal in the context of the continuing challenges of governing Tibet. The frequent requests made by China to Nepal to join the Global Security Initiative (GSI) indicates Chinese willingness to broaden and deepen security relations with Nepal amid great power rivalry brewing in the region.

20Nayak, “China’s growing military ties with Nepal,”
Nepal’s Connectivity Conundrum

It has been six years since Nepal signed the BRI project, but there has yet to be any progress in operationalizing the project. Instead, lots of complexities and confusion have emerged. There are dissonance and divergences between Nepal and China on understanding of BRI. The changing definition of BRI from hard infrastructure and connectivity to soft intervention mostly covering the cultural and educational sphere, has not been well received by a section of the Nepali elite. While none of the proposed BRI projects has seen the light of day, China’s unilateral declaration of the newly constructed Pokhara International Airport as the flagship BRI project created consternation in Nepal. Nepal remonstrated against the inclusion of projects that began before Nepal joined the Belt and Road Initiative under the BRI framework. The blurred definition of BRI can have severe repercussions as India remains the primary market for airports constructed by China, and is a vociferous critic of China’s BRI.

Moreover, the financing and funding modality of BRI is another crucial concern in the implementation of BRI projects in Nepal, as both sides have yet to decide whether loans or grants should fund the projects. Nepalese leaders expect to execute BRI projects through grants, as they believe the country cannot afford a loan for any project. China prefers commercial loans for BRI projects and has pushed for a diverse set of modalities. The financial modality is a thorny issue in Nepal amid concerns of Chinese debt traps and the

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22Sharma and Chhetri, “Nepal, China and ‘Belt and Road Initiative’
24Mulmi, “Nepal’s BRI-shaped dilemma”
26Khatiwada, “Why is China lumping projects under its Belt and Road Initiative”
financial non-viability of Chinese-constructed international airports in Nepal.

The trade and transit agreement ensures Nepal access to ports in China, which were expected to be Nepal’s new window to the outer world and create a more resilient supply chain. Nepal has not been able to access these ports for any significant shipments since the agreement. Rather, there is increasing trade volume and deficit with China. Similarly, the border between the two countries operates with Chinese prerogatives who unilaterally decide on the closing and opening of the border. The border in Tatopani and Rasuwasadhi remained closed for years after the earthquake and the COVID-19 pandemic. It has severely impacted the Nepalese business community, already reeling under the influence of the disastrous earthquake and the COVID pandemic. The grim reality of Nepal-China border, where cargo trucks from China struggle to enter Nepal, is in stark contrast to Nepalese expectations of conducting third-country trade through China. Moreover, unilateral border closure by China has posed a challenge to the borderland communities who are dependent on cross-border exchanges, trade, and work opportunities for their livelihood, forcing them to leave their Himalayan abode. It is quite a paradox that connectivity and other infrastructure development across the Himalayan borderlands have led to greater regulation, solidification, and securitization of the border region rather than facilitating the mobility of the borderland population.

28 Anil Giri, “7 years since transit deal with China, no shipment has moved”, The Kathmandu Post, April 22, 2023. Accessed on September 24, 2023 from https://kathmandupost.com/national/2023/04/22/7-years-since-transit-deal-with-china-no-shipment-has-moved
29 The Observatory of Economic Complexity, Accessed on September 24 2023 from https://oec.world/en/profile/bilateral-country/chn/partner/npl#:~:text=During%20the%20last%2026%20years,exported%20%2418M%20to%20China.
The Chinese policy of non-interference has been attributed to the historical cordial relationship between Nepal and China. But as ties have deepened over time, Beijing has emerged as an assertive actor in domestic Nepalese politics. Chinese envoys have been vocal and are blamed for ‘micromanaging’ left political parties in Nepal and are increasingly seen as making undiplomatic statements regarding Nepal’s relationship with its neighbors and friendly nations. Similarly, Chinese assertiveness was also apparent in the case of lobbying against Millenium Challenge Corporation (MCC) where China is believed to have funded the media for the same.

More seriously, the Chinese embassy’s undiplomatic statement rebuking one of the leading national daily newspapers and its editor-in-chief for a syndicated opinion piece during the COVID pandemic has raised lots of questions regarding putative Chinese intention to strangle democratic values and press freedom in Nepal. Similarly, there have been reports of Chinese encroachment of Nepalese land at various sites along the shared border between the two countries, and a meek response from the government, political parties, and

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civil society perhaps speaks of the tremendous asymmetry in the relationship. Such Chinese action has frustrated some Nepalese policymakers and the public and made them suspicious of China due to its apparent attack on the much cherished Nepalese democratic values, sovereignty, and territorial integrity.
A special situation of simultaneous competition and cooperation between two rising powers in the region has led to countries like Nepal having a window of opportunity to boost their returns from both the rising regional powers along with extra-regional powers without jeopardizing their relationship with any of the countries. But this short-term bargaining window created due to a mellowed balance of power and managed rivalry in the globalized and interdependent world is rapidly morphing into a strategic rivalry. Furthermore, with the entry of the USA into the South Asian regional picture through the Indo-Pacific Strategy and Quad, which suggests significant convergence between Indian and American interests in checking China’s rise, the regional geopolitics can turn more ruthless. The challenge is much more pronounced in the case of Nepal, as it lies between China and India and seeks to maintain an equidistant relationship between the two neighbors without losing its strategic autonomy.

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1. The asymmetry in the relationship between the two countries is exacerbated by Nepalese unfamiliarity with Chinese languages, culture, politics, and economy. Strong Nepalese research institutes and think tanks must understand China, formulate effective strategies, and grasp multiple opportunities generated by a deeper relationship between China and Nepal.

2. Despite signing Trade and Transit treaty with China, Nepal still suffers from lopsided dependence on India for trade and transit. The Nepalese foreign policy elite must generate foreign policy consensus, hence build ability to negotiate in favorable terms with China to alleviate one-sided dependency. Maintenance of political stability is must for effective execution of infrastructure plans and development projects to get more strategic maneuverability and autonomy in foreign policy engagement. Similarly, as the volume and trade deficit is increasing each year with China, Nepalese policymakers must try to find ways to reduce the trade deficit with China and push for much easier access for Nepalese goods into Chinese markets through preferential trade agreement. While there are reports of the Chinese pushing Nepal for a Free Trade Agreement, Nepal must refrain from signing any such treaty, which will further deteriorate Nepal’s trade balance with China. Even if China’s connectivity projects connect Tibet with the Indo-Gangetic plains, Nepal currently lacks significant potential to benefit merely as a transit state even if China-Nepal-India trilateral trade and connectivity materializes.

3. Nepal should develop a clear roadmap for infrastructure development and attempt to alleviate any ambiguities regarding BRI projects. While the Western narrative about the Chinese ‘debt trap’ does not hold among Nepalese, newly emerging issues like Pokhara International Airport raise concerns as they turn into white elephant projects posing severe financial problems to Nepal. The government should ensure that projects such as Pokhara International Airport,
considered financially unviable by experts, will not be constructed with Chinese loans just because of political pressure and vested interests. Any proposed project must go through a rigorous procedure of due diligence.

4. Nepalese policymakers should seek to ensure that unprecedented development in the Himalayan borderlands is not used as a means to control the Himalayan population and circumscribe their mobility across the border, which is not only essential for livelihood but also to facilitate relationships like marriage and kinship that have existed for generations symbolizing the ancient civilizational linkages between Nepalese and Tibetan societies. Nepal must always maintain the need to ensure mobility across the Himalayas, and anti-China activities do not become a pretext for greater Chinese control of the borderlands. It is necessary to reassure China that Nepal will not allow Nepalese soil to be used for anti-China activities like the U.S.-sponsored Khampa rebellion in the 1960s. Nepal must withstand Chinese pressure to sign an extradition treaty, as it can lead to persecution of those fleeing China to enter Nepal. Thus, policymakers must try to assuage Chinese insecurities, mostly regarding Tibet, without eroding the sovereignty, norms, values, and integrity of the Nepalese state.

5. Nepal should refrain from engaging in Chinese initiatives like the Global Security Initiative, which is often considered a security alliance, and the Chinese attempt to provide an alternative to the American international order as it can bring Nepal into confrontation with Western powers. Similarly, Nepal must not look into being part of any other military or security alliance that can ruffle Chinese feathers, like the Indo-Pacific Strategy or State Partnership Program.

6. Despite the years of political instability and volatility, Nepal boasts of relatively high level of political freedom, openness and harmonious inter-community relations among its South Asian peers. China has

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displayed its intention to export Xi Jinping’s thought and has also used programs like ‘Silk Roadster’ to influence local government functionaries and party workers and Nepalese communists’ acquiescence can pose a threat to Nepalese democratic norms, values, and institutions. Similarly, the Chinese have tried to influence Nepalese media, intelligentsia, and civil society against India and Western powers to scuttle projects like the Millennium Challenge Corporation (MCC) compact, which is emerging as an alternative to BRI. Nepal, while maintaining freedom in these spaces, must ensure that China doesn’t wield undue influence on Nepalese politics through its immense economic and political clout. Government should strengthen and collaborate with civil society actors to promote those democratic values as the civil society has the potential to serve as a bulwark against Chinese intrusion.

7. Nepal must maintain a delicate balance between China, India, and the USA and not play one against the other for any short-term and partisan interest. Furthermore, Nepal must unequivocally convey that it doesn’t endorse any unwarranted geopolitical manipulation and coercive diplomacy. There is a need to focus on the greater national interest, and the Nepalese political elite must seek to forge a consensus regarding foreign policy to deal with resurgent China. Similarly, relations with China should be a constant priority for the Nepalese government, unlike the tendency to ramp up relations with China when the relation with India sours. The lack of progress in several agreements under the framework of BRI and outside is a telling sign of Nepal’s neglect of its relationship with China while the relationship with India attains normalcy. Using a ‘China card’ does not benefit any party, and Nepal must refrain from it.

Conclusion

China’s rise has created several opportunities for Nepal, including diversification of its relations and overcoming its lopsided dependence on India. On the other hand, it has exacerbated the existing asymmetry in the relationship between the two countries, enabling China to have undue economic, military, and political influence within Nepal. This has putatively eroded Nepal’s sovereignty and led to an assault on Nepal’s dearly held political values. Similarly, it has also pointed towards the danger of Nepal becoming a geopolitical battleground between two rising neighbors and other extra-regional actors if Nepal does not play its game well. There is a need for nuance and pragmatism in Nepalese foreign policy so that Nepal can manage geopolitical competition by refraining from taking sides in the ongoing contest for supremacy in the Himalayas and beyond in South Asia. Nepal must convince its neighbors and development partners that its priority is economic development, and it wants to reap benefits from all the economically capable actors who serve its interests while staying away from any geopolitical sides. Thus, there is a need to balance the concerns and sensitivity of China, India, and other extra-regional players. The principle of non-alignment and Panchasheel worked well for Nepal even during the days of the Cold War. Now, when the new Cold War is brewing in the neighborhood, there can hardly be a better policy instrument for the state’s survival and success. Moreover, earnest attempts are necessary to alleviate the negative impacts of asymmetry in economic and military relations.
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