

21.0 The Belt and Road Initiative in Nepal: An Analysis of Opportunities and Challenges

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Abstract

In 2017, Nepal joined the Belt and Road Initiative (BRI) by signing the Memorandum of Understanding (MoU). After seven years of signing the MoU, China and Nepal signed the “Framework for Belt and Road Cooperation” in December 2024. Initially, Nepal proposed thirty-five projects under BRI, including sectors such as roads, railways, energy, and trade. However, the negotiations with China reduced the projects to ten by 2024. Through BRI, Nepal intends to transition from a landlocked country to a land-linked country. However, there has been slow advancement in the implementation of BRI projects in Nepal. That highlights a gap between the strategic intent and the on-ground progress of BRI projects. The paper aims to examine the barriers that restrict the advancement of BRI projects. This study will employ a qualitative and descriptive methodology. The study finds that overlapping internal and external factors hinder the progress of BRI in Nepal. Internally, factors such as bureaucratic incapacity, frequent political changes, disagreements over project terms, and environmental concerns limit the progress of BRI. Externally, India’s concerns over the increasing presence of China in the region influence Nepal to take a cautious approach towards BRI and China. As a result, the progress of BRI is slow in Nepal. To gain from BRI, Nepal needs to maintain a balance among these factors.

Keywords – China, Nepal, South Asia, BRI

Introduction

In 2013, President Xi Jinping announced the Belt and Road Initiative. The initiative is a global infrastructure initiative that aims to connect China with the rest of the world through a network of roads, railways, and ports. Since its launch, the initiative has expanded its geographical scope and sectors including digital connectivity and space collaborations (Tekdal, 2017; Xiao & Ding, 2023). The BRI is a keystone of President Xi’s foreign policy. Its areas of cooperation include infrastructure construction, financial integration, policy coordination, trade facilitation, and people-to-people interaction (Kumar, 2022). The BRI has two main corridors: the land corridor - Silk Road Economic Belt and the sea route – 21st Century Maritime Silk Road (Barman, 2023).

South Asia is crucial for BRI as it connects the land and sea corridors. In this region, Nepal has emerged as a relevant case for the study to analyse the complexities of BRI implementation. Nepal signed the Memorandum of Understanding (MoU) in 2017. Kathmandu joined the BRI with the aim to improve the infrastructure in the country, however, the initiative has faced constant hurdles and delays in Nepal (Martadinata et al., 2024; Shekhawat, 2024). Later in December 2024, Nepal and China signed the ‘Framework for Belt and Road Cooperation’ (Desheng & Weiwei, 2025).

For decades, Nepal has relied on foreign aid and investments from bilateral partners and multilateral organisations for its development programmes. Infrastructure development

is essential for Nepal to transform itself from being a land-locked country to a land-linked country (Prajapati, 2024). In Nepal, infrastructure development programmes are viewed as an indicator of development, or 'Bikas' as it is called in Nepali. Nepal joined BRI with the hope to address its internal challenges such as poverty and dearth of economic development (Murton & Plachta, 2021). Even though it has been more than seven years since the MoU was signed, there is slow progress in the implementation of the BRI projects. Hence, there have been concerns over the lack of advancement in BRI projects. There are certain factors hinder the progress of these projects. I

Research methodology

The study will focus on the factors, such as political, economic, social and geopolitical, that hinder the progress of BRI projects in Nepal. The study employs a qualitative and descriptive research methodology. The objective of this paper is to understand the factors that impact the implementation of BRI at the ground-level with the BRI partners. The paper also aims to understand how multiple factors are interconnected and together impact the BRI on ground. The aim of this paper is to expand the micro-level understanding of BRI. The paper will answer the following question:

- What are the barriers that hinder the progress of BRI projects in Nepal?

Nepal's engagement with bri

In 1955, the formal relations between Nepal and China were formed. Since then, China has provided financial support to Nepal's development policies through several engagements, such as the China-Nepal on Economic Aid (1956). In 1961, China committed to developing the Lhasa-Kathmandu Highway in 1961. Later, in 1965, the Pokhara to Naubise highway was funded by China (Kumar, 2022; Mulmi et al., 2023). Under the leadership of Prime Minister Puspa Kamal Dahal, Nepal joined BRI in 2017. After signing the BRI MoU in 2017, the finance and foreign secretaries from both countries were given the task of selecting projects that will fall within the framework of BRI. Initially, Nepal proposed thirty-five projects that would be funded by China under BRI. However, Beijing requested Kathmandu to reduce the number of projects and bring it down to a single digit. (Giri, 2023; Sabu, 2024).

List of BRI projects in Nepal (Anupam, 2024; Jha, 2025).

- Amargadhi City Hall in Dadeldhura
- China-Nepal Friendship Industrial Park in Damak
- Hilsa-Simikot Road
- Jhapa Sports and Athletic Complex
- Jilong-Kerung-Kathmandu Cross-Bridge Railway
- Jilong-Kerung-Rasuwa-Gadhi-Chilime 220KV Transmission Line
- Kathmandu Scientific Centre and Science Museum,
- Kimathanka-Khandbari Road and Bridge
- Madan Bhandari University
- Tokha-Chhahare Tunnel Road

Nepal's Interest in BRI

Traditionally, Nepal has been dependent on its neighbours for trade and commerce, with India serving as a traditional gateway for Nepal to connect with the global markets. The motivation to join BRI resulted from unique geography, pressing political interests, geopolitical challenges, and the long-term development opportunities (Acharya, 2024; Sabu, 2024).

The India-Nepal relations deteriorated in 2015 due to the constitutional crises followed by the unofficial economic blockade imposed on Nepal by India. The blockade happened at a time when Nepal was recovering from the 2015 earthquake, and the blockade created acute shortages of essential goods in Nepal. The blockade exposed their heavy dependence on India for essential goods. This prompted Kathmandu to reassess its foreign policy (Acharya, 2024; Sabu, 2024). Against this backdrop, the BRI offered opportunities that would revitalise trade with China and reduce reliance on India (Devkota & Koirala, 2023; Kafle, 2025).

BRI investments in Nepal are also seen as a source of industrialisation and job creation. Further, Nepal is an agriculture-based economy and the proposed hydropower projects and industrial parks within BRI has the potential to diversify Nepal's economy beyond agriculture sector (Devkota & Koirala, 2023; Kafle, 2025).

China's Interest in BRI

China did not share a border with Nepal until the incorporation of Tibet into China in 1950, an event that redefined the relevance of Nepal for Beijing. The BRI projects in Nepal are a result of strategic necessities, economic divergence as well as soft power projection. For decades, Nepal and Tibet shared trade, cultural, and religious ties, while Nepal also served as a passage for Tibetan refugees migrating to India, with several settling within Nepal. China's concerns over Tibetan activism in Nepal have become a sensitive issue. China has established a presence in border districts such as Mustang to monitor on Tibetan activism, promoting increased restrictions on Tibetan activism within Nepal (Ramchandran, 2022; Gupta, 2023; Acharya, 2024).

China remains cautious about external influence, particularly the role of India and the United States of America (USA) in Nepal. While the USA has extended its support to the Tibetan communities through the Tibetan Policy and Support Act and the Millennium Challenge Corporation (MCC), India hosts the Tibetan Government in exile and the Dalai Lama which has heightened the Chinese attention to Nepal's foreign policy. Therefore, by improving ties with Nepal, China aims to mitigate activities that may challenge its security. Moreover, Beijing aims counter the influence of India in South Asia by expanding its presence through BRI (Ramchandran, 2022; Gupta, 2023; Acharya, 2024).

Barriers to implementation of the bri projects in nepal

There are certain factors that delay the implementation of BRI projects in Nepal. It includes factors, such as political, economic, social and geopolitical, that have delayed the implementation of BRI projects in the country.

Political

The continuous political instability in Nepal is a significant barrier to BRI implementation in Nepal. Due to political instability, there is policy inconsistencies. The BRI has raised concerns over corruption and sovereignty. Within Nepal, the views towards BRI are divided. Within Nepal Prime Minister Oli's Communist Party of Nepal (United Marxist Leninist) (CPN-UML) has supported the BRI. Whereas, the Nepali Congress (NC), a key coalition partner of CPN-UML, is apprehensive towards BRI While the NC demands grants-only financing, the CPN-UML supports other hybrid models, including loans. These differences over the financing model prevent the finalisation of BRI projects The BRI projects are also used as a political tool by electoral parties to fulfil their political interests (Bhattarai, 2024; Anupam, 2024).

Economic

There is a difference between the two countries over project financing. Nepal has requested grants as a model of project financing. However, China does not agree with that model of financing (Giri, 2024). Nepal prefers concessional loans besides grants to finance BRI projects. Nepal is unwilling to receive high-interest loans that might get it trapped into unsustainable debts, something that happened with Sri Lanka (Anupam, 2024; Tshering, 2024). Nepal seeks loans from institutes including the World Bank and the Asian Development Bank, which provide loans at a low interest rate, with a long grace period, and with relaxed repayment terms. Whereas China provides loans at a high interest rate of 4.2-4.5 per cent, a grace period of 5 years, and repayment within 10-15 years. Such loans, along with strict disclosure policies and limited refinancing options, have raised concerns of falling into a debt trap (Majumdar, 2025).

Environmental

The environmental groups in Nepal have complained regarding the inadequate environmental impact assessment, especially in BRI projects. For instance, China wants to tap into the water and energy resources in Nepal that would be useful to fulfil the needs in Tibet and the western part of China. However, in Nepal, projects such as the West Seti Hydropower deal have seen pushback to give priority to long-term needs over immediate benefits (Sabu, 2024). The BRI projects in Nepal overlap and cut through the fragile landscape like the Terai Arc and Chitwan-Annapurna which houses unique biodiversity. While Nepal has environmental safeguards such as the Environmental Impact Assessments and Forest Act, their implementation is weak, and the political actors often avoid the due processes. Without adherence to environmental laws, the projects will jeopardise the ecological system in Nepal (Das et al., 2021).

Geopolitical

Nepal's commitment to be neutral and non-aligned is challenged by its expanding engagement with the BRI. Acting as a buffer state between India and China, Nepal has maintained a balance in its ties between the two key giants in the region (Gupta, 2023). Nepal shares a border with India on three sides in the west, south and east for a total of 1751 km and borders China in the north, covering 1414 km (Ministry of Home Affairs, 2004; Embassy of Nepal, Beijing, n.d.). The USA has provided Nepal with an alternative MCC to counter the BRI. The geopolitical competition among the great powers has created pressure on Nepal to maintain a balance and choose between competing development models. Often Beijing's concern over security in Tibet has limited the potential of BRI in Nepal (Ramchandran, 2022).

Analysis

As Nepal expands its relations with China, it now falls between two major power (India and China) competition (Oli, 2025). While Nepal expands its relations with China, it has also engaged with states beyond its immediate neighbourhood, like the USA. The ratification of MCC of the USA shows that Nepal is trying to create a balance among the major powers. While Nepal's engagement with the USA highlights that Kathmandu wants to further diversify its partners, for China it makes the BRI projects look stalled. Further, as Nepal diversifies its partners, it also reduces China's monopoly over Nepal's development course (Tiezzi, n.d.; Poudel, 2023; Kumar, 2024).

Nepal's consistent request for grants rather than loans, has caused tensions. China is trying to rebrand ongoing projects in Nepal as a part of BRI to show some BRI success. This was visible during the opening of the Pokhara International Airport, when China unilaterally

stated the project as a part of BRI. Later, Nepal refuted that claim and stated that the development of the Pokhara International Airport commenced before 2017 and the project was not a part of BRI project (Sabu, 2024; Jha, 2025; Acharya, 2025).

Then again in 2023, when WeChat was launched for cross-border payment service, Chinese Ambassador Chen Song stated that the initiative was a part of BRI. Subsequently, the then Foreign Minister of Nepal clarified that no projects under BRI were implemented. Such developments have created controversies regarding BRI projects in Nepal. China's desperate need to add every project under BRI comes from the need to increase their visibility in Nepal. Some believe that the desperate need of China to add every project under BRI might erode their diplomatic credibility. This also makes BRI look like an image-driven initiative (Khatiwada, 2023).

China has insisted Nepal join the Global Security Initiative (GSI), nonetheless, Kathmandu is reluctant to join the initiative, hinting at concerns over transparency, data security and sovereignty. Although China has achieved security cooperation with programmes such as the Sagarmatha Friendship military exercise, other initiatives have faced resistance (Giri, 2023). In 2019, China wanted to sign the Extradition Treaty with Nepal, which failed due to the concerns over the Tibetan rights, and instead signed the Treaty on Mutual Legal Assistance (Gupta, 2024). Nepal's resistance to such initiatives, along with slow progress in the BRI, casts a weaker light on BRI, raising questions about the viability of the BRI everywhere else (Poudel, 2023; Rossi, 2025).

Conclusion

The development needs of Nepal, and the strategic ambitions of China converge within the BRI framework. For Nepal, BRI offers an opportunity to expand trade and transform its economy. For China, Nepal is critical as it shares a border with Tibet; its projects in the country give China an opportunity to counter India. The BRI projects bring opportunities for Nepal to improve its infrastructure; however, the challenges caused by these projects must not be overlooked.

All these challenges do not function in isolation from each other rather they are interconnected. For instance, political instability directly impacts economic situation of Nepal. This frequent change in government disrupts the negotiations, this prevents Nepal to present a consistent position on loans versus grants issue. Further, economic constraints interact with environmental concerns. Pressure to secure investments leads to bypassing environmental assessments and concerns related to the BRI. Moreover, geopolitical pressures intensifies all these challenges. The geopolitical pressures causes caution and domestic political hesitation and reduces the momentum that BRI was expected to generate.

The partnership between Nepal and China depends on the ability of Nepal to negotiate grant-based finances and work on mutually beneficial projects. Nepal needs to ensure that it does not fall into unsustainable dependencies. Further, the rate at which China can deliver its promises without compromising the sovereignty of its partners will determine the future of BRI in not only Nepal but also in the neighbouring region. Therefore, Nepal's domestic institutional strength, bargaining strategies and regional geopolitics will play a decisive role.

In the end, Nepal is standing at the juncture of development necessities and great-power competition, making its experiences with BRI both a domestic issue and a regional geopolitical litmus test.

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