

Round table discussion
on
Nepal-China relations and contours for economic cooperation

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SAWTEE premises, Baluwatar, Kathmandu

An event organized by South Asia Watch on Trade, Economics and Environment (SAWTEE)

Rapporteur's Report

by

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SOUTH ASIA WATCH ON TRADE, ECONOMICS AND ENVIRONMENT (SAWTEE)

Table of Contents

Executive Summary	1
Summary of the important deliberations at the round table discussion	2
Summary of the opening remark by Dr. Posh Raj Pandey	2
Summary of the presentation by Mr. Gyan Chandra Acharya	2
Summary of panel discussions	3
Summary of remarks by Dr. Rajan Bhattarai	3
Summary of remarks by Mr. Gyanendra Lal Pradhan	4
Summary of remarks by Mr. Madhu Raman Acharya	5
Summary of floor discussion	6

Proceedings Report for round table discussion on “Nepal-China relations and contours for economic cooperation”

Executive Summary

South Asia Watch on Trade, Economics and Environment (SAWTEE) organized a round table discussion on 15 June, 2018 with a primary objective to discuss the current state of Nepal-China relations and to identify the issues to be prioritized during the forthcoming state visit of Prime Minister K.P. Oli to China on June 19. The round table brought together a diverse group of experts, including policy makers, diplomats, scholars, and private-sector representatives. The presentation, remarks from the panelists, and the discussions were comprehensive, insightful and lively with contributions from a wide range of participants. This report encapsulates the proceedings of the day.

The following major themes emerged from the discussions:

- Clarity is needed on what our national agenda is and where our national interests lie regarding cooperation with China
- Deepening ties and enhancing cooperation with China shouldn't be concomitant to shifting dependency from one neighbor (India) to the other.
- Strategic independence and freedom of choice for Nepal must be maintained at all costs.
- Investments in trade, connectivity, and other instruments of economic cooperation must have clear linkages to increasing productive capacity.
- While Chinese cooperation must not be grants alone, loans must be concessional in nature and justify its worth through being linked with national priority projects and through productivity gains.
- The projects have to be judged on the basis of their feasibility and potential gains and not on whims and fancies. In other words, economics has to guide our priorities, not sentiments.
- Caution is needed to ensure that our agreements do not lower the threshold with regards to existing benchmark of bilateral relationships.
- Opening Nepal to Chinese investments in Renminbi could be instrumental in attracting more Chinese investments to Nepal.
- Trans-Himalayan railway connectivity may be on table but that does not mean Nepal should lose focus on opening up alternative road routes besides existing Rasuwa-Keyrung and now defunct Tatopani.

Summary of the important deliberations at the round table discussion

Summary of the opening remark by Dr. Posh Raj Pandey

Dr. Posh Raj Pandey is the Chairman of South Asia Watch on Trade, Economics and Environment (SAWTEE)

Dr. Posh Raj Pandey, in his opening remark, pointed out the exploration of potential avenues for economic cooperation as the objective of the round table discussion and mentioned different channels like connectivity and transfer of technology which could act as mediums for facilitating economic cooperation. Dr. Pandey, talking about the current status of Nepal-China relations, pointed out huge imbalance of trade, lack of increase in share of Chinese tourists, and negative growth of China's foreign aid share as the current realities of Nepal-China relations. Mapping China's ascendancy as a global power and pointing out the geopolitically sensitive nature of Nepal-China relations, Dr. Pandey argued that Nepal is at a crossroad in defining, or if need be, in redefining the relationship with China. He asserted that against the backdrop of these observations, potential avenues and the modalities for Nepal-China relationship must be sought.

Summary of the presentation by Mr. Gyan Chandra Acharya

Mr. Gyan Chandra Acharya is the former Under-Secretary-General of the United Nations; former High Representative for the Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDS); and former Foreign Secretary of Nepal.

Mr. Gyan Chandra Acharya pointed out the need to view the topic of Nepal-China relations in terms of economic, political and strategic implications. The changing global landscape - China's rapid rise at the global level; China's ambitions to compete for global leadership; resulting competition for influence around the world; China's significant interest in maintaining global order and current level of international interaction; existence of both cooperative and competitive elements in regional geostrategic and geopolitical scenarios; China's strong interest in the affairs of developing worlds; and also plethora of challenges that China face – are the contexts in which Nepal's relationship with China has to be considered, argued Mr. Acharya.

He presented a framework of defining Nepal's interest through two broad interests: defensive interest and promotional interest. The defensive interest refers to the need to defend sovereignty, protect independence, and preserve mutual interests. He asserted that while defensive interest is fundamental and absolutely indispensable, it is not sufficient, and hence promotional interests are also important. The promotional interests lie in enhancing trust and goodwill; economic collaboration; improvements in terms of trade and cross-border transit; connectivity in investment as well as people-to-people relations. He also emphasized the fact that both these vital interests reinforce each other and for preserving both the interests, we have to be proactive and make efforts.

The other important point Mr. Acharya emphasized was the indispensable importance of freedom of choice in matters of transit, trade, and economic interactions, for landlocked countries like Nepal. Attempting to rectify overreliance on India by shifting the dependency dynamics to China, that is, by being overly dependent on China, is not a very good policy either. To avoid these extremes, the level of

dependence has to be well diversified; diversification in interaction and diversification of core activities are critical, argued Mr. Acharya.

He also pointed out that fundamental basic human security at all times, in addition to territorial security, is crucial to countries like Nepal. Furthermore, he stressed that we shouldn't confine ourselves to two neighbors, but rather should always strive to go beyond to the larger international community.

Since security concerns are important component of bilateral relations, he mentioned the need to convey a clear message that Nepal is not a threat to its neighbors, while being mindful not to be enmeshed in the defense related issues of other countries.

With regards to economic issues, Mr. Acharya elaborated on the importance of trade, transit, connectivity, investments, among others. He pointed out the nature of our trade imbalance with China particularly problematic and suggested that trade agreements include duty-free quota-free access for Nepal's star export products, which are currently excluded from preferential treatments. Regarding the issue of connectivity, he stressed the importance of linking connectivity initiatives with productive capacity building. Likewise regarding transit, he maintained the importance of opening transit opportunities, but also stressed on the importance of ensuring that we have the best of the transit treaties. Similarly, integration into value chain should be sought and we should learn from the success of Special Economic Zones (SEZs) in China, argued Mr. Acharya. He also mentioned the possibility of cooperation in areas like Artificial Intelligence (AI), space technology, internet of things, etc. given China's rising prowess in the fields of Science and Technology.

Offering examples of both positive and negative outcomes associated with China's BRI projects, he advised that although loans could be used given the comfortable level of our debt, we have to ensure that the projects are in our national priority list, that they will be productive, that the loans are transparent, and ultimately that there is concessionality.

Lastly, he pointed out the need to follow up the agreements given Nepal's history of signing agreements but failing to implement them.

Summary of panel discussions

Summary of remarks by Dr. Rajan Bhattarai

Dr. Rajan Bhattarai is a Member of Nepal-India Eminent Persons Group (EPF)

Given that Nepal has started a path of stability achieved through promulgation of the new Constitution and through successful conclusion of elections, and since economic issues, developmental issues, and issues of social transformations have become its priorities, Dr. Bhattarai argued that Nepal has finally arrived at that exact point where it can exploit the long talked about geostrategic importance of its location.

He also emphasized that Chinese interests in South Asia is at an unprecedented level and interest in Nepal has been compounded by the fact that China's vulnerable zones are shifting from places like Macau, Taiwan, Hong Kong to South-west regions like Tibet, which we are connected to.

He also pointed out that we can't have the same mindset about Nepal-China relationship as that in the past as both the countries have undergone fundamental changes.

He argued that there is no alternative to endeavoring greater cooperation with China, but we have to first clearly define our national interest to ensure positive benefits. In addition to this, being mindful of core interests of our friends beyond the two neighbors is also important, argued Dr. Bhattarai.

Regarding the much debated issue of rail connections, he conveyed his understanding that the Prime Minister is insistent that significant amount of investment in the construction of railways has to be executed through grants, not loans.

Lastly, he acknowledged the importance of enhancing Nepal's capacity for exports and productive capacity as well as the need for detailed investigations and studies on the potential of different sectors like agriculture, tourism and hydropower.

Summary of remarks by Mr. Gyanendra Lal Pradhan

Mr. Gyanendra Lal Pradhan, hydropower expert and entrepreneur, is also a representative of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI)

Based on his long experience in dealing with China, frequent travels to China, and representation of South Asia at the South Asian Water Energy Infrastructure, Mr. Pradhan argued for establishing clarity on where Nepal's needs align with China's strengths and focused on portraying how Nepal and its vision are viewed by the Chinese.

He considered Nepal's location as of utmost importance to China as Nepal is the connecting link between China's upper maritime line and the lower one. Based on our important position in China's connectivity ambitions, Rasuwagadhi-Kathmandu railways is highly possible, but it would take a large amount of time given the technical difficulties associated with this project, explained Mr. Pradhan. In light of this, their preference seems to be on a four-lane road instead as it could be delivered in a short period of time. Thus, he stressed that while road connection could be immediately developed and hence could be prioritized, railway connectivity can remain a long-run project.

He also pointed out the importance of opening up to Chinese investments in Renminbi instead of US dollars. This choice can make Nepal lucrative destinations for potentially greater Chinese investments and he also pointed out the effective negative interest rates associated with Renminbi investments an attractive factor.

While he pointed out that given our disadvantages in the matters of farm size, lack of subsidies, hybrid seed availabilities, agricultural exports might not be competitive in China, however, hydropower projects and transmission lines are viewed positively by China. While there is almost no possibility to export power to China, transmission lines could nonetheless be a useful tools for energy banking, argued Mr. Pradhan. Similarly, China could be potentially interested in building Pokhara-Jomsom-Korala road to balance India's intended expansion of Siddhartha highway, pointed out Mr. Pradhan.

The impediments caused to Nepalese side by lack of proper payment channels and hence the need to open up branches of Chinese banks in Nepal was also highlighted by Mr. Pradhan.

He also emphasized Chinese interest in establishing seven vocational schools in seven provinces which could have important benefits in terms of developing human resources and providing employment opportunities.

Summary of remarks by Mr. Madhu Raman Acharya

Mr. Madhu Raman Acharya is the former Foreign Secretary of Nepal

Mr. Madhu Raman Acharya opened his remark by pointing out the need for Nepal to address the important question of how do we accommodate the rise of China and how can we benefit from it? In light of the new equations developing in international relations, we have to figure out where we fit in the China's model of global governance, multilateralism models and alternative multilateral structures, pointed out Mr. Acharya.

While many things are known regarding where our interests lie in Nepal-China relationship – we have to diversify our relations, we have to reduce our dependencies, we have to increase our connectivity, we have to increase investments, we have to emulate their successful use of Special Economic Zones, we have to build transmission lines, we have to invest in energy, and so on - the real issue is what is preventing us from getting there, asserted Mr. Acharya. He offered an example of failure to resume the functionality of Tatopani custom point as a point in case.

He elaborated that there are three major factors for the lack of implementation of agreements. He mentioned trust deficit as the first factor. Mr. Acharya explained that haven't been able to earn China's trust that we can go forward in a pragmatic and consistent way and implement the agreements. However, there is now an opportunity to amend this trust gap especially given we have a new government now, argued Mr. Acharya.

Our sensitive geopolitics was pointed out as the second factor for failure to implement the agreements. Now is the time to manage our geopolitics smartly by letting our national interests and independent foreign policy guide us while ensuring our strategic autonomy, stressed Mr. Acharya.

He mentioned that the third factor for this failure to implement agreements in a timely manner is that our domestic politics is somehow not conducive. Our foreign relations have to be guided by national interests and not like the current situation where big projects are determined through the interests of political parties, argued Mr. Acharya.

Lastly, the other major impediment that is preventing us from reaching the high potentials of Nepal-China relations is the element of security, according to Mr. Acharya. He argued that China is careful not to open up many channels of cooperation that can compromise their security. This is evident in delays in opening up Tatopani customs point, closing another custom point after resuming for a month, and other such acts. He believes that traditional reiterations like commitment to One China Policy is not enough to convey message that we are guarding their security interests. To remedy this situation, we have to change our conduct; we have to really understand what we need to do to guarantee their security interests and be able to assure them just that, according to Mr. Acharya.

Regarding the controversies surrounding OBOR, he mentioned that while huge projects like OBOR will undoubtedly have elements of strategic interests for China; what is important to us, however, is how we ensure our interests by avoiding pitfalls.

He also stressed that the road to prosperity cannot be paved on grants alone. For projects that are beneficial to us, we should be able to put our own investments as well and we should also look forward

to accessing investments through instruments like Silk Road funds, BRICS bank, EX-IM Banks, etc. Moreover, we should also be willing to accept concessional loans and given our comfortable debt level, we are not vulnerable to falling under debt trap as some critics point out, argued Mr. Acharya. He further elaborated that our approach must not be expecting mercy grants from Chinese side but rather we should aim for priority projects that we can work on mutually.

He emphasized the important role of diplomacy in achieving all that he discussed. Beside diplomacy, he explained that actionable projects based on in-depth studies are essential for achieving a mutually beneficial relationship.

He urged for attention towards the lesser discussed issue in Nepal, which is how China views us and where can we accommodate China's interest in our national interest. By identifying converging interests in areas like trade, investment, tourism, regional cooperation, economic integration, connectivity, we can expedite the cooperation in those areas, argued Mr. Acharya.

Lastly, he emphasized on proper implementation of the agreements as a key to a mutually beneficial relationship and also expressed the view that economics, rather than sentiments, must guide our aspirations in regards to Nepal-China relationship.

Summary of floor discussion

The panel discussion was followed by a lively floor discussion. Contributions to floor discussions were made by Mr. Chandra Kumar Ghimire, Mr. Gyan Chandra Acharya, Dr. Jagadish Chandra Pokharel, Mr. Yubaraj Ghimire, Mr. Surya Raj Acharya, Mr. Dhruva Adhikary, Mr. Kamal Pande, Mr. Purushottam Ojha, Mr. Jib Raj Koirala, and Mr. Bhoj Raj Poudel.

The important issues raised during the floor discussion are as follows

- The timing is very apt to convey the message that Nepal is keen on maintaining balance of influence between India and China by elucidating that this is not an either or situation.
- We have to be mindful of the power paradox: domestic political power does not necessarily correspond with negotiating power.
- There is a striking lack of research regarding where interests of Nepal and China converge and where they diverge.
- Chinese infrastructure engineering is highly advanced but unfortunately Nepal has shown zero preparation towards learning technical intricacies of railways.
- There is a severe lack of macro level planning and projections regarding railways connectivity.
- In the name of diversifying relations, Nepal should not increase its dependency on China.
- Agreements without implementation commitments should be avoided
- We need to be conscious that if any agreement does not provide mutual benefits to China then we cannot expect it to be implemented.
- Nepal's export to China face substantial SPS/TBT barriers, and these requirements are waived only if these products are demanded by China.
- We shouldn't be too fearful of how India perceives our relationship with China as a recent statement by foreign minister of China Wang Yi demonstrates: "Whether it's China or India, our two countries shall be happy to see Nepal's new development after its political transition."

- The most important factor regarding Nepal-China relations is to clearly identify the national interest. For example: In reciprocal duty provision of Nepal-India trade treaty, while India has specified all the appropriate products, Nepal has asked for duty-free provisions in Yak's tail. We have to be mindful in not repeating similar mistakes while we move forward in Nepal-China relations.
- All the agreements we undertake must ensure strategic independence of Nepal.