

## Roundtable Discussion

on

# Belt and Road Initiative: Nepal's perspective

17 April 2019

SAWTEE Premise, Baluwatar, Kathmandu

*An event organized by*

*South Asia Watch on Trade, Economics and Environment - Centre for Sustainable Development*

*(SAWTEE-CSD)*

## Event Summary

by

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

## Event Summary

South Asia Watch on Trade, Economics and Environment- Centre for Sustainable Development (SAWTEE-CSD), in an attempt to bring forth current national and international issues affecting Nepal's socio-economic development, has initiated a Roundtable Discussion Series. The roundtable discussion brings together a wide section of experts and stakeholders to participate in the policy discourse.

Organized on 17 April, 2019, "Belt and Road Initiative: Nepal's perspective" is second in the series of such discussions. Belt and Road Initiative (BRI), a mega project put forward by the Chinese government has been championed as a vehicle for infrastructure development and connectivity across Asia, Africa and Europe. Nepal signed a Memorandum of Understanding (MoU) with the Chinese government in 2017, making her a party to the BRI. Against this backdrop the objective of this dialogue was to bring together relevant stakeholders to discuss the possible opportunities and challenges BRI may bring to Nepal.

Dr. Posh Raj Pandey, Chairman SAWTEE opened the discussion with a brief introduction of Belt and Road Initiative. The key takeaways of his opening remarks are as follows:

- Open for cooperation, market-based approach where private sector actors are major players and mutual benefit for the participating countries are the three principles of BRI. The strategy for implementation is to identify the country first then the sector for cooperation.
- The Chinese government's country selection priority criteria are the level of industrialization (preference being the highly industrialized ones), political non-interference and the geographical location of the country. The sector priorities are infrastructure development mainly transport and energy.
- Nepal has signed an MoU with the Chinese Government with the following five areas as priorities: policy cooperation (although there is not much clarity in this area); infrastructure and logistics connectivity (roads as the driver of growth); unimpeded trade (by a Free Trade Agreement between the two countries); financial integration (China has been promoting the use of Renminbi in trade and investment); people to people contact ( research and civil society cooperation).
- While China's version of BRI is international development not just China's development, western literature counters this. The western perspective has been that BRI is China's strategy to dominate the high seas through debt diplomacy.
- BRI is not limited to infrastructure, but our discourse is lopsided towards it. We need to think towards being integrated to Chinese value chain through investment and infrastructure.
- In the midst of these ambiguities, lack of transparency and clarity on the strategies and the possible projects for cooperation Dr. Pandey ended his remarks by raising some very important issues that needed to be reflected upon, namely, ensuring financial sustainability, maximum utilization of local resources and environmental protection. He also reminded the participants that there is a need to consider the geopolitical neutrality of our country.

Dr. Shankar Prasad Sharma, Former Vice-Chair of the National Planning Commission of Nepal made his presentation that set the stage for the roundtable discussion. The summary of the presentation is as follows:

- The Belt and Road Initiative, basically is an infrastructure investment program creating a web of transportation system including roads, railways, telecommunications, energy pipelines, and ports across regions. This would serve to enhance economic interconnectivity and facilitate investment, increase trade and enhance people to people relations across Eurasia, East Africa and Asia.
- The cost of implementation could range from USD 1.3 trillion to USD 5 trillion which will be financed by i) Silk Road Fund, ii) Asian Infrastructure and Investment Bank (India is also a shareholder), iii) BRICS development bank.
- The benefits for Nepal span from infrastructure development to trade, investment, tourism among others. China also sees potential benefits from partnering with Nepal in the form of export of expertise, increased access to the Indian market through the Nepal-India open border etc.
- Numerous hydropower projects have been in talks with the Chinese government but there is a need to apply caution while seeking loans under BRI, firstly because of the Debt GDP ratio and Debt/Revenue ratio which are already high and secondly because of the government's lackluster performance history of loans and grant utilization.
- Bilateral loans (including China's) are expensive and will have more stringent conditions. It is necessary that we balance the need for these development projects with the vulnerabilities created by increased debt levels (if it is loan financed) and therefore look for appropriate financing mechanism (grant)

### **Summary of the Floor Discussion**

- BRI is a business venture and there is no provision of grants and the provisions of the loans to be provided are not very clear.
- Loans in Renminbi (RMB) rather than United States Dollar could accord lower interest rate.
- Railways is a farfetched dream therefore our strategy for connectivity should be focused on seeking cooperation on building roads which is a low hanging fruit. The other sector for cooperation could be hydropower development.
- There is already existing cooperation between the two governments therefore there is no need to put all the possible projects for cooperation under BRI which is intrigued with geo-strategic interest.
- Nepal government has not been transparent regarding the projects under BRI. There is a need to narrow down the projects that would be beneficial to us.
- A team consisting of business sectors actors and independent researchers should regularly follow up on the progress under BRI to ensure transparency.
- Infrastructure development without increasing productivity of the industrial sector could mean that the forecasted benefits may not be achieved. There is a need to link infrastructure development with the productive sectors. Thorough analysis of the projects should be undertaken so as to ensure they are outcome oriented.
- China has already clearly stated its vision in the MoU signed by the two government. Instead of vying for viable projects, such as cross-border Special Economic Zones, Nepal is more focused on dubious projects such as railways, which has become counterproductive.
- There is a need to focus on connectivity under BRI so as to reduce our asymmetric dependency towards India, but not at the cost of national sovereignty and debt trap.
- The lack of political leadership, weak bureaucracy and the lack of internal capacity are to blame for the delay in implementation.

- There is a lack of introspection and clarity about the vision of what to pursue under BRI, among the relevant stakeholders. Moreover, Nepal is stuck in perpetual policy-trap that is preventing discourse on the BRI modality from gaining momentum.
- Preoccupation with avoiding debt-trap has dominated the discourse on China's Belt and Road Initiative preventing Nepal from developing concrete plans.

Mr. Gyan Chandra Acharya, Head of SAWTEE-CSD, concluded the discussion by emphasizing that there is no template or formula of BRI, thus it is up to the nations to draw the contours of the agreements and cooperation. BRI is obviously a strategic agenda for the nations involved, therefore, it is imperative to discuss how we can get the best possible outcome from it.