

BRI and its Economic Impact on Nepal*

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Concept

- 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.**

Financing

- 65 countries at present (about one year earlier; except US, Japan and India)
- China will lead – Cost could be US\$1.3 trillion to US\$5 trillion project, depending upon its success
- Initiative is financed by
 - Silk Road Fund
 - Asian Infrastructure and Investment Bank (India is also a share holder)
 - BRICS development bank

Expected to have tremendous Impact

- **Big Size, Larger Scope:** BRI economies account for (i) two-thirds of world population, (ii) one-third of global GDP and (ii) 37% of world exports
- **Large potential** in the areas of trade, energy, industries and services. BRI countries' contribution to global exports has nearly doubled in the last two decades. Reduced trade cost will increase the size of the economy.
- **Improving connectivity.** It currently takes about 30 days to ship goods from China to Central Europe, with most goods being transported by sea. Shipping goods by train can cut transit time in half, but costs much more. BRI could reduce trade costs, particularly for **its most peripheral economies**, but needs to be accompanied by lower trade impediments and reform of domestic policies

Why useful to Nepal

- **Nepal also needs to diversify its economy**
- Energy supply (petroleum products)—almost everything (100%) imported from India
- Trade—2/3rd with India
- Exports—57% export of total is with India (Rs. 41.5 billion); exports to China only Rs. 1.7 billion
- **Transit route only in south and** dominated by Calcutta, one of the most inefficient ports— transit route in north provides alternative

Benefits to Nepal

- Utilization and revival of traditional silk road
- Supply security --- energy, trade
- Infrastructure development (roads, rail, hydro etc.)
- Development of border areas, including deprived areas
- Door opened not only to Tibet/China, but also trans-Himalayan route to Central Asia, SE Asia and beyond
- Benefits to tourism—Chinese can come to Pokhara/Lumbini easily and also benefits to Indian/Nepali to go to Mansarobar/Kailash
- Indian people and business will also benefit from it

New Avenues Opening for Nepal

- China will allow Nepal the use of four of its ports,
- China also agreed to allow Nepal use its dry (land) ports at Lanzhou, Lhasa and Sigatse as well as roads to these facilities
- The nearest Chinese port is also located more than 2,600 km (1,625 miles) from its border
- It was mainly the result of prolonged blockade by India in 2015 and 2016

Benefits to China

- Development of Western part of China which is deprived compared to East Coast
- Wider transport network could help to improve investment climate and business of China
- Exports of expertise and work (of the last 25/30 successful years; China's state owned to be transferred to Multinational Corporation which was a dream of Zhu Rongji– the former PM of China)
- Nepal's open border with India is also viewed by China as a strategic gateway to South Asia
- This will be a big business to China

Rail Road: Gunagzhou- Kyirong Rail

- Guangzhou, the train travels a total distance of 4,980 kilometers to come to Lhasa.
- Lhasa- Shigatse is about 197 Km (only 2 trains now- mostly goods)
- Shigatse to Kyirong on the border between Nepal and Tibet. 540 Km (planned rail link should be completed by 2020)

Kyirong to Kathmandu proposed Rail

- The **proposed railway from Kyirong to Kathmandu** has been planned in response to requests from the Nepalese government under BRI
- Kyirong to Kathmandu is planned to cross the border at Kyirong Pass and the railway will be 72.25 km long
- Kyirong of Tibet to Kathmandu will cost around Rs 257 billion.
- 9 years to complete; and
- Due to odd geographical structure, 99.55 percent of the railway will pass through tunnel or bridge,

China-Nepal Train Route



Guangzhou- Lhasa Rail



Hydro Projects discussed with China

- Development of 410 MW Nalgad Storage, 450 MW Kimathanka Arun, 426 MW Phulkot Karnali and 762 MW Tamor Storage hydropower projects with Chinese funding.
- Building of the 400 kV Koshi Corridor, 400 kV Karnali Corridor, 400 kV Western Mid-Hill, 400 kV Eastern Mid-Hill and 756 kV Butwal-Mahendranagar transmission line projects.
- 400 kV transmission line to be extend from Galchhi in Nepal to Shigatse in China.

Economic Benefits to Nepal: More Investment and Improved Infrastructure

- Strong comparative advantage in tourism but tourists arrival < 1 million
- About additional 3% of GDP is required for infrastructure in Nepal each year (to 600 million US\$)
- Export/GDP ratio declined to 2.7%-- needs to be promoted seriously
- per capita investment: US\$ 4 in Nepal vs. US\$ 33.4 in India and 13.7 in Bangladesh;
- investment needs to increase by 12-15% in real terms per annum to graduate from LDC;
- Major benefit: Availability of Alternative trade route including for oil/energy imports- has strategic importance

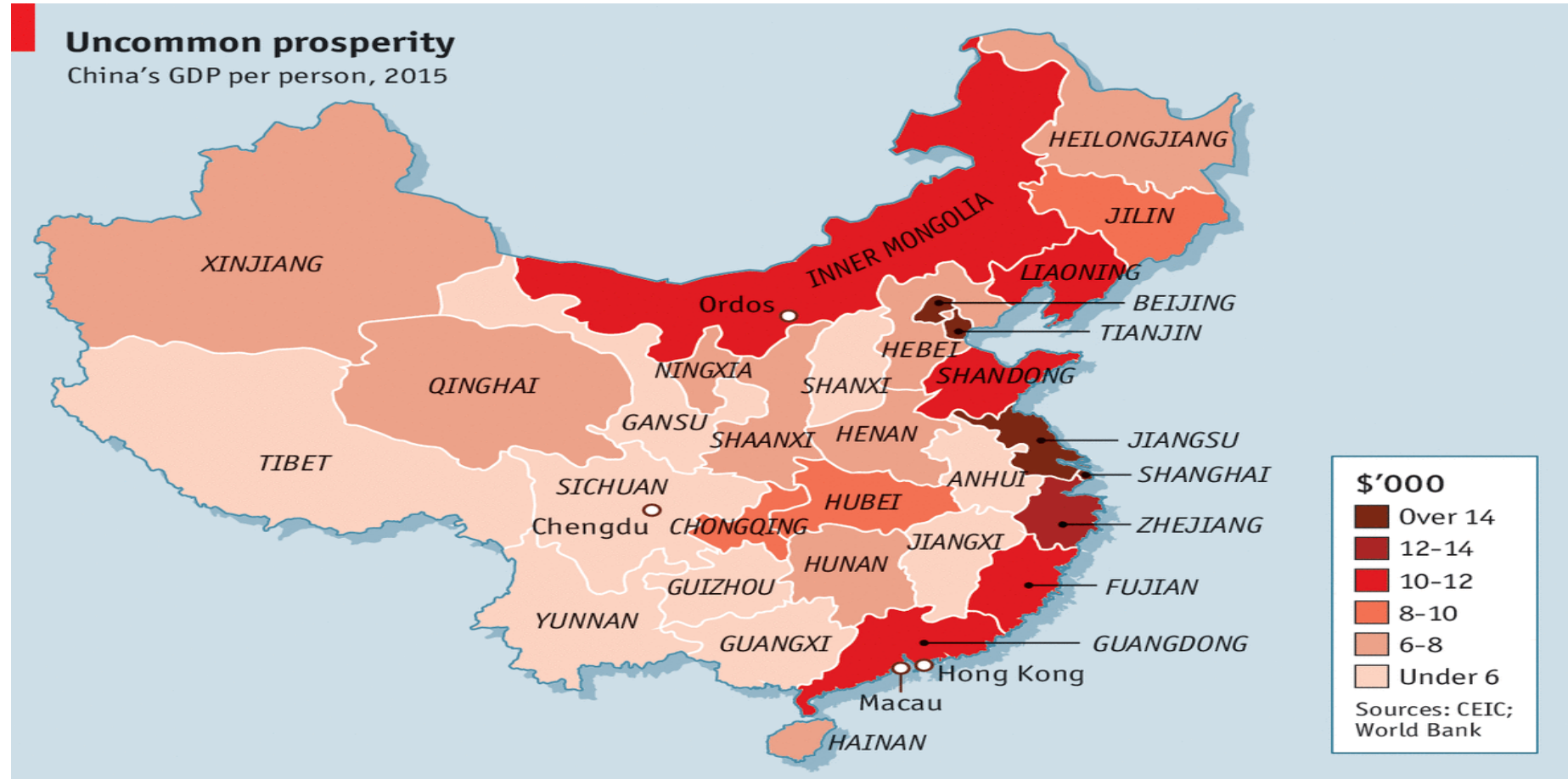
Economic Benefits: But financial return may not be encouraging (needs detail study-1)

- Imports from China (which originates largely from the Coastal region may still be cheaper from sea route e.g. China vs Central Asia)
- Nepal's export/GDP to China is only 0.04%-- Nepal may not be able to take benefit; Export potential is limited
- Tourism benefits could be limited: Most of the Chinese tourist may choose airlines rather than rail (most of the well off people live farther away from Nepal boarder)

Economic Benefits: But financial return may not be encouraging (needs detail study-2)

- Only one or two trains may be operational for a long time (e.g. of Lhasa-Sigatse)
- It is not only the cost of railway is high but also the maintenance (energy, lighting, ventilation, electricity, mechanical and electrical maintenance etc.)
- Hydro could give immediate return (provided regional grid is operational and electricity can be exported)

Provinces by per capita income



Financing of rail road and other projects

- “China has expressed its interest to construct the railway with subsidized loans. However, Nepal has been insisting that China do the project as a grant” according to reports.
- Other projects under discussion
- Nepal is also exploring the possibility of getting soft loans for other projects like east-west railways and so on

Some examples to be taken into consideration

- The financing required for BRI projects may expand debt to unsustainable levels. For instance, the construction of the Lao PDR section of the Kunming -Singapore Railway has an estimated cost of US\$ 6 billion – nearly 40 percent of GDP of Laos in 2016.
- Malaysia recently declined to take the loan (saying that the project is not a priority now)
- The Center for Global Development recently estimated that BRI projects will increase debt to GDP ratios for several BRI countries, putting eight at high risk (Pakistan, Djibouti, Maldives; Lao, PDR, Mongolia, Montenegro; Tajikistan, Kyrgyzstan).

Nepal's debt numbers (2017/18) (1)

- Debt GDP ratio: 28%; Debt/Revenue ratio: 62.3% is in comfortable position, but the viability of the project is also equally important
- Nepal has poor record of using and implementing even WB and ADB resources, which are increasing

Nepal's debt numbers (2017/18) (2)

- Bilateral loans (including China's) are expensive and will have more stringent conditions
- Nepal traditionally didn't use that much of bilateral loans and even if it is taken should go to revenue generating activities.
- So Nepal needs to 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)

Thank you