Conclusion

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Chapter Overview

Across all three sectors, Nepal's relationship with China exhibits the same pattern: genuine complementarity, a formal framework that should enable it, and a persistent gap between what the architecture promises and what is happening on the ground. This conclusion draws the cross-cutting threads together, identifies four priorities that span all sectors, and argues that Nepal has considerably more agency in this relationship than it typically acts as though it has.

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Conclusion

Nepal's relationship with China is one of the most consequential economic relationships it will manage over the next decade, and one of the least well understood. The dominant frame for thinking about it oscillates between two poles: enthusiastic accounts of BRI-era connectivity that treat every diplomatic announcement as a step toward transformation, and cautionary analyses that reduce the relationship to debt risk, geopolitical exposure, and Indian anxiety. Both framings are real. Neither is particularly useful to someone sitting inside the Nepali state and trying to decide what to do.

This study began from a different premise: that the most important questions about Nepal's economic relationship with China are neither geopolitical nor ideological, but institutional. What is actually happening in the sectors that matter most? Why is the gap between stated ambitions and lived realities so persistent and so large? And what, concretely, would it take to close it? The answers that emerge from three years of fieldwork, extensive key informant interviews, field visits to Nepal's northern border crossings, and three focus group discussions conducted under Chatham House Rules are consistent across every sector examined: Nepal's relationship with China is underperforming primarily because Nepal's own institutional architecture is not adequate to the relationship.

This is a more specific, and more tractable, diagnosis than it might initially appear.

Complementarity Without Conversion

Across business and trade, renewable energy, and tourism, the bilateral relationship exhibits the same structural pattern. There is genuine complementarity: Chinese demand or capability that matches something Nepal has or needs. There is a formal architecture that should, in principle, enable this complementarity to be realized, covering preferential trade agreements, BRI frameworks, bilateral tourism arrangements, and a Transit Transport Agreement. And there is a persistent, large, and in some cases widening gap between what the architecture promises and what is actually happening on the ground.

In business and trade, Nepal has had zero-tariff access to over 8,000 Chinese product categories since 2009. Its import-to-export ratio with China stands at approximately 130:1, a deficit that has widened, not narrowed, over the past decade of preferential access commitments. Nepal exports more to Germany than to its immediate northern neighbor. The barriers are not tariff barriers. They are the absence of GACC-registered exporters, the absence of accredited testing laboratories at border crossings, the absence of formal payment channels, and the chronic underinvestment in northern border infrastructure that the July 2025 Rasuwagadhi collapse made dramatically visible. Zero-tariff access cannot be used by exporters who cannot clear the non-tariff barriers that stand behind it.

In renewable energy, Nepal sits at the intersection of two remarkable endowments. It has a theoretical hydropower potential of 83,000 MW and a target of 30,000 MW installed capacity by 2035; at end-FY 2024/25, it had 3,591 MW. China contributed 64% of global renewable capacity additions in 2025 and has accumulated more large-scale hydropower project management experience than any other country. The commercial complementarity is clear, the political intent on both sides has been repeatedly signalled, and Chinese investors have shown sustained interest. Yet Nepal has no formal power trade agreement with China, no legal framework for cross-border electricity pricing, and a pattern of project cancellations driven by Indian pressure that it has responded to passively rather than strategically. The price differential — approximately RMB 1 (NPR 22) per unit for China versus NPR 8 per unit for Indian exports, represents a revenue advantage Nepal is foregoing entirely.

In tourism, the stakes are higher than is commonly appreciated. Research has found that Chinese tourist arrivals explain around 82% of the variation in Nepal's foreign exchange reserves, a finding that places Chinese tourism at the core of Nepal's external sector management rather than at its periphery. Recovery since the pandemic has been slow and the 2025 Visit Nepal Year for China fell well short of its 500,000 target. Even the visitors who do arrive generate limited domestic benefit: a closed ecosystem of Chinese-owned hotels, agencies, and restaurants means that economic value repatriates rather than circulating domestically. Nepal's institutional presence on the Chinese digital platforms that drive travel decisions (RedNote, WeChat, Douyin) remains minimal, despite these being the primary channels through which Chinese tourists at every age cohort plan their trips.

The Institutional Gap

Identifying these failures as primarily institutional, rather than primarily geopolitical, carries a specific implication: the binding constraints are largely on Nepal's side, and largely within Nepal's control to address. This requires some precision, because the geopolitical constraints are real and should not be dismissed.

India's 2018 Cross-Border Electricity Guidelines are a genuine external constraint. The removal of Chinese developers from at least six Nepali hydropower projects under Indian pressure is a documented outcome of a real structural dilemma: Nepal cannot simultaneously maximize cooperation with China and preserve unimpeded access to its primary electricity export market. China's state-linked engagements in Nepal, including its party-to-party diplomacy, its influence in northern border districts, and its soft power investments in Lumbini, are real features of the bilateral relationship that shape the political space available to Nepali policymakers. Nepal's position between two large neighbors with a fraught relationship of their own is genuinely difficult, and no institutional reform will eliminate that difficulty.

But the institutional failures documented in this study are not explained by these pressures. The failure to establish a Power Trade Agreement with China is not India's doing: a legal framework for cross-border electricity trade would not require Nepal to abandon its southern relationship, and discussions have simply stalled for years without resolution. The failure to build accredited testing laboratories at Nepal's northern border crossings is a domestic resource and prioritization problem. The failure to register Nepali exporters for GACC compliance reflects an institutional capacity gap, not a geopolitical veto. The failure to develop a Chinese-language NTB presence on RedNote and Douyin is a marketing and institutional inertia problem. None of these are intractable. All of them have been allowed to persist.

The practical consequence of misdiagnosing the problem as primarily external is a particular kind of policy paralysis: where the India constraint, the China risk, and the geopolitical exposure together serve as a blanket justification for inaction. Nepal waits for diplomatic conditions to improve, for China to offer better terms, for India to relax its electricity guidelines, rather than acting on the very substantial opportunities that are already available and that do not require any of these conditions to change. Some of the most valuable opportunities in trade and tourism are genuinely India-neutral. The political decision required to build a testing laboratory at Rasuwagadhi is not a foreign policy decision.

Priorities Across Sectors

The three sectoral sections of this report each contain detailed policy recommendations. Four priorities cut across all three sectors and are worth identifying here as the interventions most likely to have disproportionate effect.

Northern trade infrastructure as a strategic priority

Nepal's northern border crossings lack the laboratories, warehousing, payment infrastructure, customs capacity, and all-weather connectivity that commercial trade requires. This is a prerequisite for progress in business, energy, and tourism simultaneously — not a sector-specific concern. The July 2025 Rasuwagadhi flood damage was an acute event, but it exposed a chronic condition: Nepal's northern connectivity is treated as a residual infrastructure priority rather than a strategic one. Changing that prioritization, including through a dedicated institutional mechanism for corridor governance, is the single intervention with the broadest cross-sectoral return.

Concluding the legal frameworks that enable cooperation

Nepal has no Power Trade Agreement with China, no Mutual Recognition Agreement on payment systems, and a GACC export registration system that is effectively non-functional. These are not politically contentious instruments — they require neither foreign policy realignment nor concessions on sovereignty. They are the legal and technical infrastructure through which commercial cooperation operates. Their absence is the result of allowing diplomatic engagement to substitute for implementation. Concluding them, and building the domestic regulatory capacity to operate them, should be treated as a separate track from the broader diplomatic relationship — one measured in delivery rather than announcements.

Parallel-track management of the India-China dynamic

The most consequential external constraint on Nepal's China engagement is the need to manage it in ways that do not trigger Indian retaliation, particularly in energy. This requires a more deliberate strategy than Nepal has so far employed. Separating projects with Chinese equity from those without — and advancing both tracks simultaneously — allows Nepal to deepen cooperation with China in domains where Indian interests are not directly implicated, while maintaining the energy export relationship with India that its fiscal position depends on. The alternative, allowing the India constraint to freeze all sectors indiscriminately, is a form of strategic default rather than strategic management.

Managing the distributional consequences of deeper integration

Chinese engagement in Nepal is generating economic activity, but a disproportionate share of the value is flowing to Chinese-owned intermediaries rather than circulating domestically. This pattern is most visible in tourism, where a closed ecosystem of Chinese-owned businesses effectively repatriates the economic benefit of Chinese visitor spending. But analogous dynamics appear in trade, through informal payment channels that operate outside the banking system, and in energy, where project structures rely heavily on Chinese contractors with limited skills transfer. Addressing this requires regulatory frameworks and enforcement capacity that largely do not yet exist: joint venture requirements, local sourcing incentives, regulated payment channels, structured technology transfer provisions. These are not anti-China policies. They are the conditions under which deeper integration becomes economically productive and politically sustainable.

Looking Ahead

The diplomatic architecture of Nepal's relationship with China has never been more developed. PM Oli's December 2024 Beijing visit produced a BRI Cooperation Framework identifying ten priority projects. The designation of 2025 as Visit Nepal Year for China signalled shared intent at the highest political level. Cross-border connectivity discussions have advanced further than at any previous point in the bilateral relationship. Both governments want a deeper economic partnership.

The question this study raises is whether Nepal's institutional architecture is capable of converting that political intent into economic outcomes. The evidence across three sectors suggests it currently is not — not because the task is beyond Nepal's capacity, but because the specific institutional investments required have not been made. The laboratories, the legal frameworks, the regulatory bodies, the digital marketing capacity, the parallel-track energy diplomacy: these are all achievable within Nepal's existing resource and political constraints. What they require is a clearer diagnosis of where the binding constraints actually lie, and a policy agenda organized around addressing them rather than managing perceptions of the relationship.

Nepal has more leverage in this relationship than it typically acts as though it has. Its geography is irreplaceable. Its hydropower complements China's seasonal grid deficits. Its political goodwill is valuable to Beijing in a regional context where that goodwill is not universal. Its tourism offer (spiritual, natural, affordable) is genuinely differentiated in the Chinese market. These are real assets. Whether Nepal captures the value they represent over the next decade will depend less on what China does than on what Nepal builds.