Introduction

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Chapter Overview

Nepal and China share centuries of civilizational and economic ties, yet the contemporary economic relationship is strikingly asymmetric. This introduction sets out the study's central argument: that the gap between Nepal's stated ambitions and its lived economic realities with China is not primarily a product of geopolitical constraint, but of institutional deficits on Nepal's own side. It maps the three sectors examined, situates the study within the existing literature, and describes the research design.

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Introduction

Nepal and China: Old Roots, New Stakes

Nepal and China share more than a border: they share centuries. Salt-for-grain barter routes connected Tibetan plateau communities with Nepal's hill traders long before there were states to regulate them. Buddhist scholars and merchants moved between the Kathmandu Valley and Lhasa. Dynastic marriages linked Nepal's hill kingdoms to Tibetan nobility. Today, Nepal is the world's second-largest market for Chinese electric vehicles by share, imports USD 2.67 billion worth of Chinese goods annually, and exports back USD 17.3 million, a 130:1 ratio that has widened, not narrowed, through a decade of preferential access agreements and diplomatic commitments. This is the central paradox of Nepal's relationship with China: a relationship with deep civilizational roots and, in its contemporary economic form, strikingly asymmetric outcomes. Understanding why that asymmetry persists, and what can be done about it, is what this study is for.

Formal diplomatic relations were established in 1955, and for much of the following decades, Nepal's relationship with China was primarily political and symbolic: boundary demarcation, mutual recognition, and the careful navigation of a small state between two large neighbors with a fraught relationship of their own. The 1961 boundary treaty formalized the border. China's construction of the Araniko Highway in the 1960s gave it visible infrastructure presence. A series of grant-funded projects, including hospitals, schools, and roads, reinforced the diplomatic relationship without fundamentally altering Nepal's economic orientation, which remained anchored to India. As recently as 2002, Nepal's trade with China amounted to roughly USD 56 million, modest by any measure and dwarfed by trade with India and beyond.

What has changed since is not gradual but structural. China's economic weight in South Asia has expanded rapidly, particularly following the launch of the Belt and Road Initiative in 2013. China is now among the largest trading partners of most countries in the region. It has become a significant source of finance across transportation, energy, and digital infrastructure. Its defense and diplomatic engagements have deepened. And it has developed what analysts at the Center for Social and Economic Progress describe as new "instruments of influence": party-to-party engagements, legal and regulatory shaping, and cultural and educational outreach, which operate alongside and sometimes behind the more visible economic relationship (Xavier and Jacob, 2025). Nepal is not an exception to these trends; in several respects, it is a particularly clear illustration of them.

In Nepal specifically, China has invested in governance training workshops with parliamentarians, expanded its engagement with Nepal's ruling communist parties through CPC's International Department, and, as documented in the CSEP report, extended its influence into Nepal's northern districts in ways that go beyond conventional diplomatic practice. The Nepali state's clampdown on Tibetan refugee flows, its alignment with Chinese positions on Taiwan and Tibet in multilateral forums, and the gradual reorientation of Nepal's foreign policy toward a more explicitly equidistant posture between its two neighbors are all, in part, outcomes of this expanding Chinese engagement.

The Nepal-China 101 Study does not examine all of these dimensions. It focuses on the economic relationship, covering trade, investment, energy, and tourism, and does so for a specific reason: because it is in the economic domain that the gap between Nepal's stated ambitions and lived realities is most acute, and where the decisions Nepal makes over the next decade will have the most durable consequences for its development trajectory. The study's central finding, which emerges consistently across all three sectors examined, is that this gap is not primarily the product of Chinese behavior, Indian constraint, or geopolitical exposure, though all three matter. It is primarily the product of institutional deficits on Nepal's own side: the absence of the legal frameworks, regulatory capacity, and enabling infrastructure that would allow Nepal to act on the opportunities already available to it.

A Decade of Ambition, Mixed Results

Two events in the period covered by this study altered the bilateral relationship fundamentally. The first was the 2015 earthquake, which killed nearly 9,000 people, caused an estimated USD 7 billion in damage (World Bank, 2015), and, in a sequence that proved as consequential as the disaster itself, was followed by an unofficial blockade through India that lasted for months and disrupted the supply of fuel, medicine, and essential goods across Nepal. Whatever the precise motivations behind the blockade, its political and psychological impact was clear: Nepal's near-total dependence on India for external connectivity was exposed as a structural vulnerability. China responded quickly, opening emergency supply routes and accelerating discussions on transit. The 2016 Transit Transport Agreement, granting Nepal access to Chinese ports and dry ports, was the formal outcome. Its practical implementation has remained partial, but the political signal was received and acted on.

The second event was Nepal's accession to the Belt and Road Initiative in 2017. The BRI framework brought with it a pipeline of proposed projects, including roads, railways, and cross-border connectivity, of a scale that Nepal had not previously entertained with China. It also embedded the bilateral relationship within China's global infrastructure and political economy, making it simultaneously more ambitious and more geopolitically exposed. The Kerung-Kathmandu Railway, for which a pre-feasibility study was completed in 2018, became the symbol of this new era: a project of transformative potential, perpetually discussed, never commenced. Prime Minister Oli's December 2024 visit to Beijing, his fourth time in office and notably his first foreign visit to China rather than India, produced the BRI Cooperation Framework, identifying ten priority projects under the Trans-Himalayan Multi-Dimensional Connectivity Network. His 2018 visit had produced similar announcements. The pattern is now well established: high-level political commitments generate significant diplomatic energy and domestic political attention; implementation moves far more slowly, constrained by financing disagreements between coalition partners, unresolved questions about project viability, and the real technical and governance challenges of building infrastructure across one of the world's most challenging terrains.

This pattern is not unique to Nepal, nor is it unique to China's partnerships. But it has specific consequences in Nepal's context. The diplomatic cycle of announcements and non-implementation has generated a degree of skepticism among Nepali policymakers, private sector actors, and civil society about the practical deliverability of Chinese commitments, a skepticism that coexists, somewhat uncomfortably, with genuine enthusiasm about what deeper economic integration with China could mean. Managing both the optimism and the skepticism with clear-eyed analysis is one of the purposes of this study.

The Knowledge Gap

Despite the significance of Nepal's relationship with China, serious analytical attention to its economic dimensions has lagged far behind political and geopolitical commentary. Most of what is written about Nepal-China relations falls into one of two camps: enthusiastic accounts of connectivity and development cooperation from Chinese state media and BRI-aligned think tanks, or cautionary analyses from Western and Indian institutions framing the relationship primarily through the lens of debt risk, geopolitical competition, or regional security. Both are produced largely from outside Nepal, and both tend to flatten the specificities of Nepal's situation into a larger narrative about China's global or regional role.

What is missing is analysis that begins from Nepal's vantage point: from the lived experience of traders trying to export to China and encountering GACC registration requirements they cannot navigate; from energy investors trying to make sense of a regulatory environment that shifts beneath them; from tourism operators watching economic value flow through Chinese intermediaries and out of the country. This is not to say that geopolitical context is irrelevant; it clearly shapes what is and is not possible, but the geopolitical frame cannot substitute for the kind of sectoral, institutional, and ground-level analysis that practical policy-making requires. As Xavier and Jacob (2025) observe, studies of China's engagement in South Asia are too often conducted by analysts outside the region who fail to appreciate South Asian voices and the specificities of the regional context.

There is also a data problem. Official statistics systematically undercount Nepal-China economic interaction. Informal trade across Nepal's northern border, in high-value commodities including yarsagumba, cashmere, orthodox tea, handicrafts, and buffalo meat, occurs at a scale that customs records do not capture. China's import rules, which do not require invoicing for transactions below USD 300, compound the gap. Tourism revenue that enters Nepal via Chinese payment platforms and flows back through Chinese intermediaries leaves limited trace in formal financial records. The result is that policymakers designing trade, investment, or tourism interventions are often working from an incomplete picture of the relationship they are trying to manage.

The Nepal-China 101 Study was designed to address this gap, not comprehensively (no single research project can do that), but systematically enough to be useful. It is locally grounded: the research team is based in Nepal, the field visits were conducted at Nepal's northern borders, and the stakeholder engagements were conducted with Nepali actors under conditions (Chatham House Rules) designed to elicit candid assessment rather than diplomatic positioning. It is evidence-based: conclusions are anchored in primary data from fieldwork and interviews, not extrapolated from regional trends. And it is oriented toward use: the findings are organized around actionable policy implications rather than academic contribution.

Three Sectors, One Argument

The study is organized around three sectors: business and trade, renewable energy, and tourism. Each represents a distinct dimension of Nepal-China economic engagement, and each has been selected because it is both significant in scale and poorly served by existing analysis.

Business and Trade is where the asymmetry of the bilateral relationship is most starkly visible. Nepal's import-to-export ratio with China stood at 1:443 in the first four months of FY 2025/26 (Department of Customs, 2025), a deficit that has widened, not narrowed, despite a decade of preferential access commitments. Zero-tariff access to over 8,000 Nepali products has been in place since 2009. The 2016 Transit Transport Agreement created a legal architecture for diversified trade. Yet Nepal's exports to China remain negligible. This is not primarily a market access problem; it is an institutional, infrastructure, and capacity problem on Nepal's side, compounded by barriers that preferential tariffs cannot address: GACC registration requirements, the absence of accredited testing laboratories at border crossings (World Bank, 2015), informal payment mechanisms that operate outside the banking system, and the collapse of border infrastructure at Nepal's most active northern crossing following the July 2025 floods. The scale of Nepal's import dependence is illustrated vividly by the EV market: EVs now account for 73-76% of all new four-wheel passenger vehicle imports, placing Nepal second in the world for EV market share behind only Norway, and the overwhelming majority are Chinese.

Renewable Energy represents Nepal's most consequential long-term development opportunity and its most geopolitically constrained bilateral relationship. Nepal 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 (Nepal Electricity Authority, 2025). China contributed 64% of global renewable capacity additions in 2025 (IRENA, 2026) and has the capital, technology, and project management expertise to help Nepal close this gap faster than any other partner. The constraint is not commercial (Chinese investors have shown sustained interest) but regulatory and geopolitical. India's 2018 Cross-Border Electricity Guidelines, applied with particular force after the 2020 Galwan Valley clash, effectively bar electricity from Chinese-linked projects from Nepal's primary (and, until mid-2025, only) export market. Nepal currently has no formal power trade agreement with China. The price differential is stark: China's electricity cost of approximately RMB 1 (NPR 22) per unit against Nepal's Indian export rate of approximately NPR 8 per unit. Nepal is foregoing this advantage entirely.

Tourism is the sector where the gap between opportunity and outcome is most visible on the ground. The macroeconomic stakes are higher than is commonly appreciated: research has found that Chinese tourist arrivals have a statistically significant relationship with Nepal's foreign exchange reserves, with one regression model explaining around 82% of the variation in reserves (Kharel, Upadhyay, and Kharel, 2021), a finding that positions tourism well beyond the realm of hospitality and into the core of Nepal's external sector management. Chinese visitors ranked second only to Indians as a source market before the pandemic, and recovery is accelerating, with 101,879 arrivals in 2024 growing at 13.1% year-on-year (Nepal Tourism Board, 2025), yet Nepal's economics of Chinese tourism are not working. A closed ecosystem of Chinese-owned hotels, agencies, and restaurants means profits repatriate rather than circulating domestically. Price undercutting by Chinese tour operators compresses Nepali service provider margins and creates a race to the bottom in guide quality and product standards. Nepal's institutional presence on Chinese digital platforms (RedNote, WeChat, Baidu Maps, Douyin) remains minimal, despite these being the primary channels through which Chinese tourists at every age cohort make their travel decisions. The Chinese tourist market is also far more differentiated than Nepal's current product offering acknowledges: it spans pilgrims, package tourists, solo female travelers, luxury clients, retired professionals, and younger travelers seeking retreat from urban pressure, each requiring distinct products, marketing, and infrastructure. Nepal is largely not competing for any of these segments strategically.

The argument that runs across all three sectors is the same: Nepal's relationship with China presents genuine and significant opportunities that are not being captured, because of institutional gaps, regulatory weaknesses, and infrastructure deficits on Nepal's side. This is a more tractable problem than geopolitical constraint, and a more honest diagnosis than either the view that Nepal simply needs more Chinese investment or the view that Chinese engagement is inherently problematic. What Nepal needs, across all three sectors, is a more capable state: one that can negotiate better terms, enforce its own regulations, invest strategically in enabling infrastructure, and manage the distributional consequences of deeper integration.

About This Study

The Nepal-China 101 Study was conducted by the Nepal Economic Forum, a Kathmandu-based research and policy institution. It is among the first systematic, evidence-based studies of Nepal-China economic engagement conducted from within Nepal, by Nepali researchers, for a Nepali and international policy audience.

The research design is multi-method, combining an extensive desk review spanning academic literature, policy documents, trade statistics, bilateral agreements, and gray literature with substantial primary data collection. Key informant interviews were conducted with policymakers, private sector actors, border traders, energy sector experts, and tourism operators. Field visits were made to three Nepal-China border crossings: Nechung-Lizi in the far west (September–October 2024), Kodari-Zhangmu in the Sindhupalchok corridor (February 2025), and Rasuwagadhi-Kerung in Rasuwa (April 2025). Three focus group discussions were convened in Kathmandu in December 2025, covering business and trade, renewable energy, and tourism, all conducted under Chatham House Rules to allow frank participation from officials and private sector representatives.

A note on dissemination: the study's findings were presented at a closed-door policy dialogue on 11 May 2026, attended by senior policymakers, energy sector practitioners, border commerce operators, trade promotion officials, and tourism industry representatives. The discussion broadly validated the study's central findings and cross-cutting recommendations.

Structure of This Report

This report is organized as follows. This Introduction is followed by three sectoral deep dives (Business and Trade, Renewable Energy, and Tourism), each presenting the full analytical findings for its sector, including structural context, key constraints and opportunities, and a prioritized policy agenda. The report concludes with a Conclusion that draws together the cross-cutting arguments and sets out the most important policy priorities across all three sectors.

A note on sources and attribution: all focus group discussions were conducted under Chatham House Rules. Key informant interviews were conducted with informed consent and are not attributed by name. Statistical data is sourced primarily from Nepal's Department of Customs, Nepal Rastra Bank, the Nepal Tourism Board, and the Nepal Electricity Authority, supplemented by IMF DOTS data and World Bank statistics where noted.

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