

NEPAL - CHINA 101



BUSINESS · RENEWABLE ENERGY · TOURISM



NEPAL-CHINA 101: BUSINESS, RENEWABLE ENERGY & TOURISM

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AD	Anno Domini (Gregorian calendar)
BIPPA	Bilateral Investment Promotion and Protection Agreement
BOT	Build-Operate-Transfer
BRI	Belt and Road Initiative
BS	Bikram Sambat (Nepali calendar)
CAMC	China CAMC Engineering Co., Ltd.
CDB	China Development Bank
CEEC	China Energy Engineering Corporation
COP28	Conference of the Parties (28th session)
CPC	Communist Party of China
CSEP	Centre for Social and Economic Progress
DIIS	Danish Institute for International Studies
EIA	Environmental Impact Assessment
EPC	Engineering-Procurement-Construction
ERC	Electricity Regulatory Commission
EV	Electric Vehicle
EXIM	Export-Import Bank
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FY	Fiscal Year
GACC	General Administration of Customs of China
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GW	Gigawatt
IEA	International Energy Agency
IIGF	International Institute of Green Finance
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
KII	Key Informant Interview
LDC	Least Developed Country
MRA	Mutual Recognition Agreement
MSTQ	Metrology, Standards, Testing, and Quality
MW	Megawatt
NDC	Nationally Determined Contribution
NDRC	National Development and Reform Commission
NEA	Nepal Electricity Authority
NEF	Nepal Economic Forum
NPR	Nepalese Rupee
NTB	Nepal Tourism Board
NTIS	Nepal Trade Information System
OSF	Open Society Foundations
PM	Prime Minister
PPA	Power Purchase Agreement
PV	Photovoltaic
QR	Quick Response (code)
RMB	Renminbi (Chinese Yuan)
SAWTEE	South Asia Watch on Trade, Economics and Environment
SPS	Sanitary and Phytosanitary
TCADIC	Tibet Civil Aviation Development and Investment Company
TEPC	Trade and Export Promotion Centre
UAE	United Arab Emirates
USD	United States Dollar
USDA	United States Department of Agriculture

China is a much-discussed country in Nepal, but efforts have been limited to discussions and reports that get stacked on shelves. Photographs of people taking pictures and posting them flood social media, but then I keep asking why Nepal has so little to show for it.

I have been watching this cycle for nearly three decades. I keep wondering about the future of Nepal between two economies that will be the world's two largest. When the two countries dominated global GDP share, Nepal benefited as a bridge, and the question is whether history can repeat itself. But the bridge metaphor has always been more aspiration than reality, and nowhere is the gap between aspiration and reality more visible than in Nepal's economic relationship with its northern neighbor.

The Nepal-China 101 Study is NEF's attempt to move beyond the aspiration and into the evidence. Over two years, our researchers examined Nepal's economic engagement with China across three sectors: business and trade, renewable energy, and tourism. They conducted extensive key informant interviews, visited three Nepal-China border crossings, and reviewed over a hundred and fifty sources. The result is the most systematic cross-sectoral analysis of this relationship produced from within Nepal, by Nepali researchers.

What they found should not be comfortable reading. Nepal has zero-tariff access to over eight thousand product categories in China, yet exports almost nothing. Nepal has 83,000 megawatts of theoretical hydropower potential but no power trade agreement with its largest potential energy partner. Nepal received Chinese Approved Destination Status in 2002, yet is still not effectively competing for Chinese tourists nearly a quarter century later.

The study's central finding is blunt: the binding constraints are not primarily Chinese, Indian, or geopolitical. They are Nepali. The absence of testing laboratories at northern border crossings, the non-functional export registration system, the power trade agreement that has been discussed since 2018 without conclusion: these are failures of implementation, not of access.

Nepal's institutional gaps are not new, but the cost of leaving them unaddressed is rising. The question this study poses is not whether Nepal should engage more with China. It is whether Nepal has built what it needs to benefit from the engagement it already has.

NEF does not publish this report to add to the shelf. We publish it because the diagnosis is clear and the people who can act on it are in Nepal's government, private sector, and policy institutions. I hope this study finds its way into their hands, and into their work plans.

I want to thank the Nepal Economic Forum research team for two years of rigorous work on a subject that deserves far more serious attention than it has historically received.

Sujeev Shakya

Chair, Nepal Economic Forum





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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.

01

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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Business, Trade and Investment

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Chapter Overview

Nepal's bilateral trade relationship with China is defined by a 130:1 import-to-export ratio that has widened despite a decade of preferential access commitments. This section examines why zero-tariff access has failed to generate meaningful export growth, tracing the barriers to GACC registration complexity, the absence of accredited testing laboratories at border crossings, informal payment mechanisms, and chronic underinvestment in northern border infrastructure. It sets out a prioritized policy agenda for closing the gap between Nepal's export potential and its current performance.

02

Business, Trade and Investment

Nepal's trade relationship with China is defined by a paradox. The architecture of bilateral economic engagement looks, on paper, like one of the most favorable in the region: seven decades of formal relations, zero-tariff access to the Chinese market for over 8,000 Nepali products since 2009, a Transit Transport Agreement granting access to Chinese ports and dry ports, and a BRI framework that positions Nepal as a node in China's continental connectivity strategy. Yet the economic outcomes of this relationship have remained deeply asymmetric. Nepal's imports from China have risen from approximately USD 56 million in 2002 to USD 2.67 billion in 2025; its exports stand at USD 17.3 million — a trade deficit where imports exceed exports by roughly 130 times. Nepal exports more in value terms to the United States, Germany, and the United Kingdom than to its immediate northern neighbor.

The problem is not market access. It is the institutional, infrastructure, and supply-side constraints that prevent Nepali producers from using the access they already have. Stakeholders repeatedly emphasized that Nepal continues to approach trade with China using frameworks and assumptions developed primarily for trade with India, despite the Chinese market operating under fundamentally different regulatory, logistical, linguistic, and consumer systems. This requires Nepal to develop differentiated Standard Operating Procedures (SOPs) specifically tailored for trade with China, particularly in areas such as customs processing, certification, logistics, product standards, and payment systems.

At the same time, Nepal's economic engagement with China must be viewed within the broader scale of the Chinese economy itself. China accounts for approximately 13% of total global household consumption. Yet Nepal represents only a negligible share of China's external trade, ranking around 150th in China's imports and 103rd in China's exports according to stakeholder discussions during consultations. This asymmetry highlights that Nepal cannot assume automatic Chinese prioritization of Nepali trade or infrastructure concerns. Rather, Nepal must proactively build the institutional systems, infrastructure, and export competitiveness necessary to participate meaningfully in the Chinese market.

The barriers therefore extend beyond tariffs. GACC registration requirements that demand Chinese-language documentation and facility-level inspections; the absence of accredited testing laboratories at border crossings; informal payment mechanisms that operate outside the banking system; border infrastructure that remains chronically underfunded and seasonally

unreliable; and limited understanding of evolving Chinese consumer preferences all continue to constrain Nepal's export performance. This section examines each of these constraints systematically, and sets out a prioritized policy agenda for closing the gap between the relationship's potential and its current performance.

Foreign Direct Investment: Flows, Patterns, and Realities

Historical Evolution of Chinese FDI in Nepal

Economic cooperation between Nepal and China commenced with the signing of the Economic Aid Agreement in October 1956, establishing the foundation for subsequent development assistance and investment flows (Ministry of Industry Commerce and Supplies, 2078). However, significant Chinese Foreign Direct Investment in Nepal only began to materialize in the early 2000s, considerably later than China's broader "Going Out" strategy that encouraged Chinese firms to invest abroad.

The mid-2010s marked a transitional period as China's economic influence in Nepal began to expand more visibly. A significant milestone occurred in FY 2012/13 when China surpassed India in investment commitments to Nepal for the first time. Chinese investors committed NPR 3.06 billion across 91 projects compared to India's NPR 2.50 billion from 37 projects. While investment commitments do not automatically translate into actual capital flows or project implementation, this shift signaled growing Chinese corporate interest in the Nepali market.

Bilateral Investment Framework

Nepal and China have established several institutional frameworks intended to facilitate and protect bilateral investment. The Bilateral Investment Promotion and Protection Agreement (BIPPA), signed in 2018, provides legal protections for investors from both countries, including provisions on national treatment, most-favored-nation treatment, expropriation protections, and dispute settlement mechanisms. The same year, both countries signed a Memorandum of Understanding on Investment and Cooperation on Production Capacity, aimed at encouraging Chinese investment in Nepal's manufacturing and industrial sectors.

The 2016 Agreement on Transit Transport, while primarily focused on trade logistics, also carries implications for investment by potentially reducing transportation costs and improving market access. More recently, the Agreement on Economic and Technical Cooperation signed in 2024, along with the Framework Agreement on the Belt and Road Initiative finalized in December 2024, signal continued political commitment to deepening economic ties. However, the gap between framework agreements and implementation remains substantial, with many bilateral commitments yet to translate into operational mechanisms or tangible investment flows.

Scale and Sectoral Distribution

Chinese FDI in Nepal exhibits a bimodal distribution characterized by a small number of large-scale industrial

projects alongside numerous micro and small enterprises concentrated in retail, hospitality, and services sectors. The most prominent large-scale investments include the cement sector joint ventures. The Hongshi-Shivam Cement joint venture, established in 2018 in Nawalparasi district, stands as Nepal's largest foreign joint venture investment project. The venture involves 70% ownership by Hongshi Cement (Hong Kong Red Lion Group) and 30% by Nepal's Shivam Cement, with an initial investment of NPR 36 billion. The project was developed in two phases: Phase 1 established a production capacity of 6,000 tons per day, while Phase 2, initiated in 2021 with an additional NPR 20 billion investment, doubled capacity to 12,000 tons daily (New Business Age, 2021). The project was expected to generate over 1,000 direct and indirect jobs and contribute NPR 4.9 billion annually in revenue, income tax, and customs duties.

However, the Hongshi-Shivam collaboration also illustrates the implementation challenges facing foreign investors in Nepal. Despite government assurances of infrastructure support, the company faced significant operational hurdles. Located 26 kilometers from the East-West Highway, the factory had to construct its own dirt road at a cost of NPR 1.2 billion because government-promised road infrastructure did not materialize. Similarly, the Nepal Electricity Authority failed to extend transmission lines from Bardaghat Substation as agreed, forcing the company to generate expensive electricity from diesel-thermal captive plants rather than accessing 40MW from the national grid as planned. These infrastructure deficits constrained the factory to producing only 5,000 tons of cement daily despite having capacity for 12,000 tons, while employing 520 Nepali engineers, managers, and workers (Nepali Times, 2019). This case demonstrates how infrastructure gaps and implementation failures can undermine investor confidence and prevent projects from realizing their full economic potential.

The second major cement investment, Huaxin Cement, operates as a 100 percent Chinese-owned enterprise in Dhading district. Following a Project Investment Agreement signed with the Investment Board of Nepal in June 2018, the project represents a total investment of NPR 14 billion with Phase 1 production capacity of 3,000 tons per day (Subedi, 2019). The project was expected to create over 1,000 direct and indirect jobs, generate NPR 12 million annually in economic benefits including revenue and taxes.

In the aviation sector, Himalaya Airlines, established in 2014 as a Nepal-China joint venture, represents the largest FDI from China in Nepal's aviation industry. The airline was initially structured as a partnership between Nepal's Yeti World Investment Group (51%) and China's Tibet Airlines (49%) when operations launched in May 2016 (The Himalayan Times, 2019). However, the ownership structure underwent significant restructuring in September 2019 when Tibet Airlines' shares were transferred to Tibet Civil Aviation Development and

Investment Company (TCADIC), a state-owned enterprise. Following this restructuring, Chinese ownership increased to 65% while Nepali ownership declined to 35% (The Himalayan Times, 2019).

As of 2025, Himalaya Airlines operates four aircraft and employs over 325 people. The airline serves destinations in South Asia and the Middle East, while maintaining routes to five Chinese cities: Beijing, Qingdao, Shanghai, Chongqing, and Lhasa (Himalaya Airlines, 2025). Despite its strategic positioning connecting Nepal with China's major urban centers, the airline has faced ongoing challenges related to profitability and market competition in Nepal's competitive aviation sector.

Buffalo meat processing has also attracted Chinese investment interest. The Department of Industry approved a FDI proposal worth NPR 20 billion from Chengdu Jian Co. Ltd., a Chinese company, for establishing a modern buffalo meat export facility in Nepal. The investment will fund construction of a state-of-the-art slaughterhouse and buffalo-rearing center, with production targeted at the Chinese market. The proposed industry aims to produce 200,000 metric tons of buffalo meat annually, along with 55,000 metric tons of byproducts such as hides, internal organs, and heads, creating direct employment for 5,156 people (New Business Age, 2025).

However, actual export flows remain constrained by stringent veterinary and quarantine requirements that Nepal's current infrastructure cannot yet meet. Exports initially scheduled for June 2025 were postponed to September 2025 and subsequently delayed further due to land acquisition challenges, disruptions from protests, and most critically, delays in obtaining Environmental Impact Assessment (EIA) clearance. Additionally, stringent Chinese requirements pose ongoing challenges. China's General Administration of Customs has stipulated that buffalo meat exported from Nepal must come from animals born and raised in Nepal and under 30 months of age, a condition that effectively excludes Indian-sourced buffalo meat even if slaughtered and processed in Nepal (Biznessnews, 2025).

Beyond these large-scale industrial investments, Chinese FDI is conspicuous in tourist destinations such as Thamel in Kathmandu and Lakeside in Pokhara, where Chinese nationals operate numerous small retail shops, restaurants, and guesthouses. These micro-enterprises, often operated as mom-and-pop establishments, cater primarily to Chinese tourists and reflect migration-linked business patterns rather than strategic industrial investment.

The accommodation and food services sector illustrate this pattern. According to Nepal Rastra Bank's Field Survey 2023, FDI stock in accommodation and food services from China totaled NPR 943.8 million, representing approximately 2 percent of total Chinese

FDI in Nepal. Chinese hotels and restaurants collectively employ around 10,000 people in Nepal. As of 2022, approximately 150 Chinese restaurants and 24 hotels operated in the Thamel area alone. (Dhungana, 2018)

Debunking the Dominance Narrative

Despite widespread perceptions that China dominates FDI flows into Nepal, empirical data presents a more nuanced picture. While Chinese investment has indeed increased and become more visible, particularly in certain sectors and locations, it does not constitute the overwhelming majority of total FDI stock or annual flows when comprehensively compared with investments from India, other South Asian countries, and third countries such as the United States, United Kingdom, and European nations.

Several factors contribute to the perception-reality gap. First, large-scale Chinese infrastructure and industrial projects receive significant media attention and political visibility, creating an impression of dominance that exceeds actual financial magnitudes. Second, the concentration of Chinese micro-enterprises in highly visible tourist areas amplifies perceptual impact despite representing relatively small capital flows. Third, data limitations and inconsistencies in FDI reporting make precise comparisons challenging, particularly when distinguishing between committed capital, approved investments, and actual disbursed funds.

A more rigorous analysis comparing Nepal with other least developed countries (LDCs) or landlocked developing countries would provide valuable context for assessing whether Chinese FDI in Nepal is exceptional or follows broader regional patterns. Nepal's experience is consistent with China's investment patterns in other small South Asian economies, where investment remains selective, project-based, and concentrated in infrastructure and resource sectors rather than broadly distributed across manufacturing and services.

Trade Dynamics: Deficit, Composition, and Constraints

Historical Context of Nepal-China Trade

Trans-Himalayan trade between Nepal and Tibet has ancient roots, predating modern state formation. Historical exchange centered on Tibetan salt moving southward in exchange for grains, textiles, and other goods from Nepal's Tarai and hill regions. Newari traders from the Kathmandu Valley established commercial presence in Lhasa, developing sophisticated trading networks and cultural connections across the Himalayan frontier (Mulmi, 2021).

This traditional trade regime operated through open-border arrangements that allowed relatively free movement of people and goods. Borderland communities maintained social ties across the mountains, with traditions such as marriages between ruling families of Lo Manthang in Mustang and Tibetan nobility exemplifying the porous nature of the frontier. Seasonal migration for grazing livestock and informal exchange of goods characterized the border economy, with minimal state intervention or formalized customs procedures. Tibet's integration into the People's Republic of China in the 1950s fundamentally altered these dynamics. The imposition of modern border controls, formalization of customs procedures, and regulation of cross-border movement gradually transformed the once-fluid frontier into a regulated international boundary. Trade routes shifted from traditional high-altitude passes to formalized customs points, with Kodari-Tatopani emerging as the principal gateway, later supplemented by Rasuwagadhi-Kerung and other designated border points.

This transition from open frontier to regulated borders has created ongoing tensions between formal and informal trade practices. While official statistics capture trade flowing through designated customs points, substantial volumes of traditional goods including yarsagumba, herbs, cashmere, and handicrafts continue to cross the border through informal channels, creating significant data blind spots that complicate policy analysis.

Contemporary Trade Trends

Nepal-China trade has experienced explosive growth in absolute terms over the past two decades, though overwhelmingly concentrated on the import side. According to IMF Direction of Trade Statistics, imports from China rose from approximately USD 56 million in 2002 to USD 2.67 billion in 2025, making China Nepal's second-largest trading partner after India. Imports have grown more than forty-fold in nominal terms.

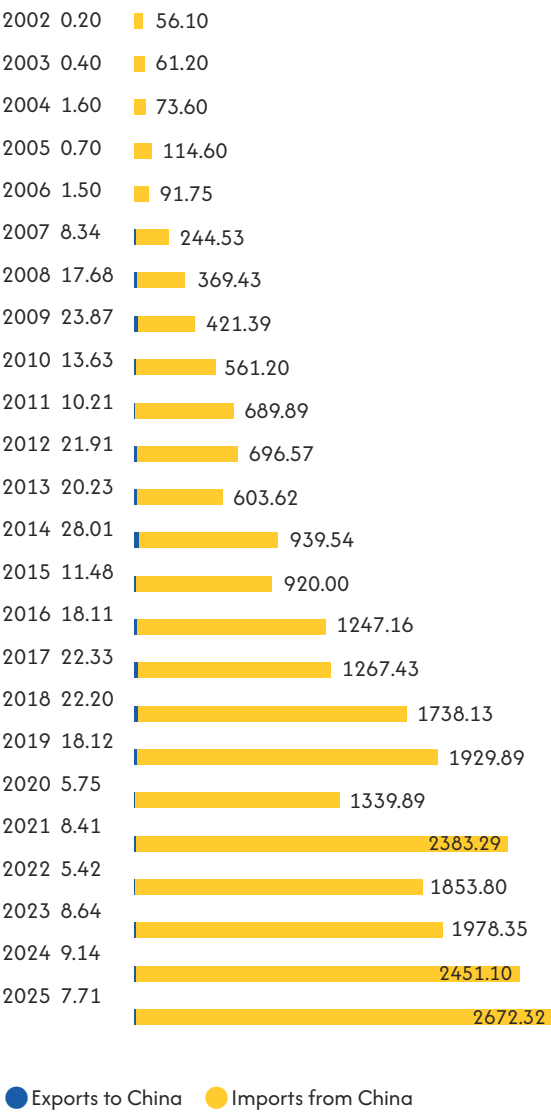


Figure 1. Nepal-China Trade Trends, 2002–2025 (USD millions)

Note: Nepal's imports from China have grown from USD 56 million in 2002 to USD 2,672 million in 2025, while exports remain negligible at USD 7 million.

Source: Calculated from IMF Direction of Trade Statistics (IMF DOTS) data

However, this expansion has been almost entirely one-directional. Exports to China remain marginal and have even declined in certain years. In FY 2081/82 (2024/25), Nepal exported merely USD 17.3 million worth of goods to China against imports of USD 2.2 billion, resulting in a trade deficit exceeding USD 2.2 billion (Department of Customs, 2025). The import-to-export ratio of approximately 130:1 ranks among Nepal's most severe bilateral trade imbalances.

To contextualize this asymmetry, Nepal's trade relationship with India, while also characterized by a significant deficit, maintains a far more balanced ratio of approximately 5:1. In FY 2024/25, Nepal imported USD 7.05 billion from India while exporting USD 1.48 billion, yielding a trade deficit of USD 5.57 billion with an import-to-export ratio of 4.8 (Department of Customs, 2025). Although the absolute deficit with India is larger, the relative imbalance with China is far more extreme. Strikingly, Nepal exports more in value terms to geographically distant markets such as the United States, Germany, and the United Kingdom than to neighboring China. This pattern underscores that Nepal's inability to penetrate the Chinese market reflects structural and institutional constraints rather than mere geographic distance or transportation costs.

China's trade position with Nepal mirrors broader regional patterns. Across South Asia, China maintains substantial trade surpluses with most countries except Indonesia, where trade is more balanced. Using 2024 IMF data, China's export-import ratios with regional partners include: Nepal (58.8:1), Bangladesh (19.6:1), Sri Lanka (12.7:1), Pakistan (7.15:1), India (6.65:1), and Indonesia (1.08:1). Nepal's position as one of the most imbalanced reflects both China's manufacturing dominance and Nepal's specific supply-side weaknesses.

Historical Context of Nepal-China Trade

Nepal's import basket from China is dominated by manufactured and technology-intensive goods. Major categories include electrical machinery and equipment, mechanical appliances, vehicles (particularly electric vehicles), plastics and plastic articles, footwear, garments and apparel, iron and steel products, and consumer electronics including mobile phones and computers.

Electric vehicles have emerged as a defining feature of recent trade trends, reflecting both China's global dominance in EV manufacturing and Nepal's policy environment favoring electric mobility. In FY 2024/25, EVs accounted for approximately 73% of all four-wheeled

Product label	2020-21	2021-22	2022-23	2023-24	2024-25
Telecommunication Equipment and Parts	31,552	36,027	25,110	25,998	30,737
Readymade Garments	17,968	20,337	16,674	23,085	28,084
Other Machinery and Parts	21,187	25,709	19,143	24,459	23,902
Textiles	13,537	15,913	15,689	19,741	21,976
Electrical Goods	16,709	18,353	15,926	18,353	21,347
Computer and Parts	12,039	16,060	9,957	10,884	13,014
Apple	5,824	5,990	5,156	7,575	9,742
Chemical Fertilizers	9,025	7,010	12,586	11,837	9,312
Shoes and Sandals	5,555	7,078	6,132	8,277	8,142
Garlic	1,049	1,044	1,105	2,224	6,700

Table 1. Nepal's top 10 imports (goods) from China in NPR millions

Source: Compiled from Current Macroeconomic and Financial Situation based on annual data, Nepal Rastra Bank

passenger vehicle imports into Nepal, one of the highest shares globally, with Chinese brands dominating the market (Prasain, 2025). In the first four months of the current fiscal year alone, EV imports from China totaled NPR 4.5 billion, illustrating the consumer goods orientation of Nepal's import dependence (Prasain, 2025).

By contrast, Nepal's export basket to China remains narrow, traditional, and low in value. Carpets, particularly hand-knotted woolen carpets, have historically constituted a significant export category, though Nepal has lost competitiveness to Chinese machine-made alternatives. Felt products, handicrafts, musical instruments, raw hides and skins, medicinal plants and herbs, and niche agricultural goods dominate current exports. Although China has granted zero-tariff access to over 8,000 Nepali products since 2009, Nepal has been largely unable to capitalize on this preference due to supply-side and institutional barriers (B360, 2024).

Several products show emerging potential despite remaining at low volumes. Orthodox tea exports to China increased by 88.31% in the first eight months of 2024, reaching NPR 10.53 million (approximately USD 79,000), following Nepal's participation in the World Black Tea Quality Evaluation Competition organized by the China Tea Marketing Association and visits by Chinese tea buyers to Nepal (Prasain, 2024) (New

Business Age, 2023). While this represents a marginal proportion of Nepal's total orthodox tea exports, growing Chinese interest signals a potential market diversification opportunity.

Haylage exports marked another breakthrough. In July 2023, Nepal exported its first shipment of haylage (fermented animal fodder) to Tibet's Shigatse city, with the exporting company planning to scale up to 30,000 tons annually worth approximately USD 30 million (Paudel, 2023). This development demonstrates Chinese demand for Nepali agricultural products when supply-side capabilities and logistics can be aligned.

Product label	2020-21	2021-22	2022-23	2023-24	2024-25
Woolen Carpet	223	235	300	392	717
Handicraft (Metal and Wooden)	142	90	103	265	209
Readymade Garments	50	92	168	160	150
Pashmina	16	24	13	35	53
Other Handicraft Goods	166	88	54	36	31
Agarbatti (Incense Sticks)	3	4	8	20	24
Noodles	0	8	514	150	24
Rudrakshya	38	12	22	27	20
Tea	0	0	1	1	7
Readymade leather Goods	1	0	0	15	2

Table 2. Nepal's top 10 exports (goods) to China in NPR millions

Source: Compiled from Current Macroeconomic and Financial Situation based on annual data, Nepal Rastra Bank

Structural Barriers to Export Growth

Nepal's inability to capitalize on proximity to one of the world's largest consumer markets stems from a complex web of structural constraints spanning quality standards, certification systems, payment mechanisms, product development capacity, and data collection.

Quality Standards and SPS Requirements

Among the most technically complex challenges are sanitary and phytosanitary (SPS) standards and certification requirements. China enforces stringent quarantine measures, administered through a regulatory system led by the General Administration of Customs of China (GACC) and related agencies. These impose detailed requirements on product safety, traceability, processing conditions, and facility-level inspections that many Nepali producers are not equipped to meet (FDI China, 2025).

The absence of accredited testing laboratories and SPS facilities at Nepal's northern border points—including Rasuwagadhi, Tatopani, and Korola creates a critical infrastructure gap. In contrast, stakeholders noted that China maintains laboratories at approximately 300-400 customs points across its territory, enabling immediate quality verification of imported goods. Nepali exporters must send product samples to laboratories in third countries such as India, Hong Kong, or Thailand for certification, significantly increasing transaction costs, delays, and uncertainty.

Stakeholder consultations revealed numerous illustrative failures. High-quality products from Nepal, including premium mineral water and herbal products like yarsagumba, cannot be exported because the certification process is so cumbersome and expensive that it effectively prevents market entry. Even products eligible for duty-free access under Least Developed Country (LDC) provisions, such as alcoholic beverages, have failed to meet China's export requirements. While Sri Lankan coconut-based alcohol has successfully entered the Chinese market, Nepal's beverages could not pass the necessary standards, illustrating that the primary challenge lies in meeting non-tariff technical requirements rather than overcoming tariff barriers. In sectors such as buffalo meat exports, for instance, the absence of internationally recognized veterinary and quarantine infrastructure has slowed efforts to access Chinese markets despite growing Chinese demand (Gyawali, 2023).

One stakeholder revealed that while 170 personnel received training from the Ministry of Agriculture for deployment at Rasuwa and Tatopani border points to manage SPS requirements, these trained individuals showed no interest in staying at the border locations due to inadequate facilities and incentives and were consequently not deployed. This example encapsulates

Nepal's institutional implementation gap and systemic constraints.

GACC Registration and Market Access

Nepal-China trade is also constrained by weak business facilitation mechanisms. A major obstacle is the mandatory registration process with China's General Administration of Customs (GACC), required for most food and agricultural exports entering the Chinese market. The GACC registration system requires the exporting firms to submit extensive documentation on production facilities, food safety management systems, traceability mechanisms, and product standards.

While such requirements are designed to ensure product safety, they have become a significant barrier for Nepali exporters due to limited technical knowledge and institutional support. Government officials note that many Nepali producers are unaware of detailed compliance requirements or lack technical capacity to complete the registration process. Exporters must often navigate Chinese-language documentation, complex digital submission systems, and product-specific regulatory categories.

As a result, even when Chinese demand exists for Nepali goods such as tea or herbal products, firms are unable to formally access the market due to incomplete registration. Unlike Western markets where a single certification (such as USDA Organic) is often recognized across multiple countries and requires only periodic renewal, China demands separate, product-specific registrations involving lengthy processes, especially for organic products.

Payment Systems and Financial Integration

Payment systems present an additional challenge. Due to regulatory constraints and limited financial integration between the two countries, Chinese buyers often face difficulties transferring payments directly to Nepali bank accounts. Stakeholders described instances of traders carrying "sacks of cash" to trade fairs or relying on informal mechanisms such as transfers through WeChat Pay accounts held within China.

While these informal methods allow transactions to occur, they operate outside formal banking systems and increase risks related to transparency, taxation, and financial compliance. The absence of an established Mutual Recognition Agreement (MRA) for payment systems or formalized banking channels for Nepal-China trade forces businesses into gray-area financial practices that limit scale, prevent proper documentation, and expose traders to regulatory and commercial risks. Language barriers compound payment challenges. Negotiations conducted through informal translation, combined with delays in resolving payment issues, can result in perishable goods spoiling before transactions are

completed, particularly problematic for agricultural and food products.

Supply-Side Constraints and Product Development

A recurring theme in stakeholder consultations was Nepal's weak supply-side capacity and the absence of systematic product development support. While demand exists in the Chinese market particularly for Nepali tea blends, organic products, and handicrafts, Nepal lacks the production infrastructure and knowledge systems to meet this demand consistently at scale.

Chinese consumers were described as highly brand-conscious and quality-focused, with packaging often valued as much as the product itself. Nepali businesses, unfamiliar with these preferences and lacking resources to invest in branding and packaging, struggle to position their products competitively. Chinese market participants are also noted to be highly price-sensitive, making it difficult for Nepali products to compete unless they can offer clear differentiation through quality, branding, or niche positioning.

Stakeholders also emphasized that farmers and small producers remain disconnected from information about market requirements, quality specifications, and processing standards necessary for export. Without bridging this knowledge gap through training programs, technical assistance, and accessible testing facilities, Nepal's agricultural and handicraft sectors cannot transition from low-value informal exports to high-value formal trade.

The conversation touched upon missed opportunities for value addition and supply coordination. Participants noted that certain Nepali products, such as orthodox tea and white tea blends, are particularly appealing to Chinese consumers because China already dominates green and black tea production but values Nepali specialty varieties. However, developing these niche markets requires investment in quality consistency, branding, and distribution networks—areas where government support has been minimal.



High Demand, High Friction: Nepali Orthodox Tea in China

China's domestic tea consumption market is estimated at approximately USD 58 billion, making it one of the largest tea markets in the world. Despite being one of the world's largest tea producers itself, China's evolving consumption patterns increasingly favor premium, specialty, and differentiated tea products, particularly among urban middle-class consumers with rising purchasing power. This presents an important opportunity for Nepal's tea industry, particularly in premium and niche market segments.

China offers duty-free access to 98% of Nepali products, including tea, creating strong potential for Nepali tea in the Chinese market.¹ Nepali orthodox teas have gained visibility after winning recognition at the World Black Tea Quality Evaluation Competition organized by the China Tea Marketing Association. The second edition was organized in Fujian province of China in March 2023.² In 2024, Nepali tea also entered China for the first time via the Gyirong land port in Xizang, demonstrating the commercial relevance of northern trade corridors.³

Export momentum is evident as orthodox tea exports to China increased by 88.31% in the first eight months of 2024, reaching NPR 10.53 million.⁴ Stakeholder consultations and focus group discussions further highlighted that Chinese consumers demonstrate a strong preference for blended, white, and gold teas from Nepal, with branding and packaging playing a decisive role. Unlike mass-market green tea segments already dominated by Chinese producers, Nepali orthodox tea possesses comparative advantage through quality differentiation, Himalayan branding, organic cultivation practices, and premium positioning.

However, the sector also illustrates the broader structural barriers affecting Nepal's exports to China. Tea exporters participating in the Business Focus Group Discussion emphasized that the Chinese

market operates under markedly different conditions compared to Western markets such as the United States and Europe. Western export destinations generally provide more transparent pricing systems, streamlined logistics through international carriers such as FedEx and UPS, and certification systems that are mutually recognized and require only periodic renewal. In contrast, access to the Chinese market remains constrained by lengthy China-specific certification procedures, GACC registration requirements, limited domestic testing and certification capacity, language barriers, and restricted payment mechanisms.

Stakeholders noted that exporters continue to face challenges related to understanding Chinese consumer preferences, identifying relevant trade fairs and distribution networks, and developing Chinese-language branding and marketing materials. These information and coordination gaps are relatively low-cost problems that Nepal could realistically begin addressing through targeted, near-term interventions. Recommended measures include:

- Exposure visits and market immersion programs for Nepali exporters
- Dedicated support for GACC registration and certification processes
- Training on branding, packaging, and Chinese consumer preferences
- Information support regarding Chinese fairs, standards, and distribution systems
- Partnerships with successful Nepali exporters already operating in China
- Strengthening domestic laboratory and SPS infrastructure to reduce dependence on third-country certification systems

The tea sector demonstrates a broader lesson for Nepal's economic engagement with China. Success in the Chinese market depends not only on tariff access, but on Nepal's ability to understand evolving Chinese consumption trends, develop premium export positioning, and build the institutional systems necessary to support competitive market entry.

¹"Nepal's Trade Imbalances with China", B360, March 8, 2024, <https://www.b360nepal.com/detail/21984/nepals-trade-imbalances-with-china-2024-Mar-08-328500>

²"Nepali Tea Companies Win Gold Medal in International Competition", New Business Age, March 3, 2023, <https://newbusinessage.com/news/17170/nepali-tea-companies-win-gold-medal-in-international-competition/>

³"Nepalese tea debuts in China's Xizang via land port", Xinhua, 06 March, 2024, <https://english.news.cn/20240306/5f0524327a5c4bc2b-540483cb352f781c.html>

⁴Krishana Prasain, "Chinese eye Nepali orthodox tea", The Kathmandu Post, March 24, 2024, <https://kathmandupost.com/story/2024/03/24/chinese-eye-nepali-orthodox-tea>



Informality and Data Blind Spots

Significant volumes of goods cross the Nepal-China border without being recorded in official statistics, creating data blind spots that undermine evidence-based policy design. Products such as yarsagumba, orthodox tea, handicrafts, cashmere products (changra), buffalo meat, timber, animal fodder, and bamboo products frequently move across borders through unauthorized channels.

Stakeholders noted that China's import rules, which do not require invoicing for transactions below USD 300, further complicate data collection. While this provision may facilitate small-scale trade, it ensures that a significant portion of transactions remain unrecorded. Stakeholders emphasized that the real scale of Nepal-China trade is likely much larger than official figures suggest, but without better data collection mechanisms at border points and systematic surveys of informal trade flows, policymakers lack the information needed to design effective interventions.

The "Missing Exports" Paradox

In 2021, the Nepal Development Update Report by the World Bank introduced the concept of "missing exports" to Nepal's trade discourse, suggesting that Nepal's exports could increase by up to twelve times their current levels, with China offering the most promising market, potentially worth USD 2.2 billion (NPR 291.48 billion) annually (World Bank, 2021). This estimate was based on gravity model analysis comparing Nepal's actual exports with predicted export levels based on economic size, distance, and trade policy variables. The gap between this theoretical potential and current export volumes of under USD 20 million annually illustrates the magnitude of missed opportunity (World Bank, 2021).

On paper, the conditions for export growth appear favorable. China provides zero-tariff treatment for 8,030 products originating from Nepal as part of its LDC preferential access scheme. According to research by the South Asia Watch on Trade, Economics, and Environment (SAWTEE) covering 2020-2022, more than 90% of the value of goods sent from Nepal to China fell under the zero-duty list for LDCs (SAWTEE, 2023).⁵

The paradox lies in the convergence of multiple structural barriers that compound rather than offset each other. First, the preference utilization averaged only around 68% during 2020-2022, indicating that one-third of preferential access remained unused (SAWTEE, 2023). This reflects not a lack of awareness but an inability to comply. To benefit from zero-tariff advantages, Nepali exporters must meet strict rules of origin requirements, demonstrating that products are substantially produced in Nepal rather than merely trans-shipped through Nepal from third countries. Moreover, key Nepali export items such as pashmina products, woolen carpets, and certain

⁵Nepal's scheduled graduation from Least Developed Country (LDC) status introduces an additional consideration. LDC graduation could affect the terms of Nepal's zero-tariff access to Chinese markets, which currently operates under LDC preferential arrangements. Concluding a bilateral preferential trade agreement with China prior to graduation would be one mechanism to preserve favorable access. This risk was raised at the May 2026 policy dialogue.

handicrafts are excluded from the zero-tariff list, limiting benefits for traditional export sectors where Nepal has established production capacity.

Second, even for products qualifying for preferential access, the quality infrastructure gap creates an overwhelming barrier. As the World Bank report emphasized, unlocking export potential hinges on robust quality control infrastructure and compliance with sanitary and phytosanitary standards. Yet as documented in Section 3.4, Nepal lacks accredited testing laboratories at border points. Stakeholders repeatedly emphasized that Nepal still lacks adequate domestic certification and testing systems capable of meeting Chinese regulatory requirements. As a result, exporters frequently rely on laboratories and certification bodies in third countries such as Hong Kong, Thailand, or other international facilities to obtain the documentation required for Chinese market entry. The additional process is reported by stakeholders to be so expensive and time-consuming that it effectively negates any tariff advantage. The GACC registration requirement compounds this challenge, demanding facility-level documentation and technical submissions that most Nepali producers cannot navigate without institutional support that currently does not exist.

Third, payment system constraints and supply-side weaknesses prevent scaling of businesses. The absence of formal banking channels forces reliance on informal mechanisms like WeChat Pay or cash transactions, limiting the size and transparency of deals. Meanwhile, producers remain disconnected from information about Chinese consumer preferences for branding and packaging, and lack coordination mechanisms to aggregate supply for bulk orders. The experience of tea exporters where Chinese demand exists but certification complexity, payment uncertainty, and branding requirements block access exemplifies how multiple barriers interact to prevent market entry.

Another major concern raised during consultations relates to Nepal's graduation from Least Developed Country (LDC) status. While China currently provides preferential zero-tariff access to thousands of Nepali products under LDC arrangements, stakeholders warned that Nepal's graduation could affect the continuity and scope of these preferences if alternative bilateral arrangements are not proactively negotiated.

Participants highlighted that several African LDCs have successfully secured more structured and formalized preferential trade arrangements with China, including long-term market access frameworks and clearer implementation mechanisms. Nepal, by contrast, continues to rely heavily on unilateral tariff concessions without sufficiently institutionalized bilateral trade arrangements.

This suggests the need for Nepal to pursue stronger institutional trade frameworks with China, including sector-specific protocols, SPS agreements, customs cooperation arrangements, and long-term preferential trade mechanisms that can continue beyond LDC graduation. Without such preparation, Nepal risks losing already underutilized market access advantages at a time when export diversification is becoming increasingly important.

The 2016 Transit Transport Agreement illustrates this pattern of unrealized potential. Despite establishing Nepal's transit rights through Chinese ports, only a single shipment (15 tons of turmeric powder from Vietnam via Tianjin Port in September 2023) has utilized the agreement. This underwhelming implementation reflects the broader reality. While framework agreements signal political intent, translating them into operational trade facilitation requires addressing multiple interconnected institutional and infrastructure constraints documented throughout this section. Until these structural barriers are systematically addressed, Nepal's "missing exports" to China will remain unresolved, regardless of preferential market access provisions.

Bordernomics: Infrastructure, Corridors, and Cross-Border Dynamics

Border Points

Nepal shares a 1,414-kilometer border with China as per a treaty signed in 1961, which plays an outsized role in Nepal's geographic and strategic relation (Embassy of Nepal, Beijing, n.d.). Officially, fourteen traditional border points exist between Nepal and China, though in practice eighteen nakas (checkpoints) operate with varying degrees of formality and functionality (Shakya, 2024). Six border points are officially designated for trade: Kodari (Tatopani)-Zhangmu, Rasuwagadhi-Kerung,

Nechung-Lizi, Hilsa-Burang, Olangchung Gola-Riwu, and Kimathanka-Chentang (Embassy of Nepal, Beijing, n.d.). Nepal operates merely nine customs offices at the northern border, compared to twenty-seven at the southern border with India, reflecting the asymmetry in trade volumes and institutional capacity (Rana, 2020). In late 2015, Nepal and China agreed to initiate processes for opening seven additional commercial trading points beyond Tatopani and Rasuwagadhi: Olangchunggola (Taplejung District), Kimathanka (Sankhuwasabha), Lamabagar (Dolakha), Larke (Gorkha), Korala (Mustang), Nagcha (Mugu), and Hilsa (Humla). Establishing proper road connectivity, customs facilities, dry ports, quarantine and immigration offices, and border outposts are prerequisites for operationalizing



these points. Although unofficial trade has been carried out at several of these locations for generations, formal operationalization remains incomplete.

Existing border points face severe operational constraints. Tatopani, the principal overland trade gateway prior to 2015, accounted for approximately 25% of Nepal's total trade with China in FY 2013/14 (Kharel, 2018). However, the April 2015 earthquakes caused significant damage, and the border point has yet to regain full functionality despite periodic reopenings and repair efforts. Stakeholders report inconsistent operations, with goods sometimes permitted and sometimes blocked without clear predictability. Rasuwagadhi-Kerung emerged as an alternative route and experienced growing traffic, but suffered a major disruption when floods and landslides damaged the bridge on July 8, 2025, severing cross-border connectivity and effectively halting exports through this corridor (The Kathmandu Post, 2025).

Korala in Mustang district has emerged as an increasingly important alternative, particularly after its year-round opening in November 2023. Within three months of full operation, Korala recorded trade worth NPR 11.01 billion, though imports accounted for the overwhelming majority. (New Business Age, 2025b) However, infrastructure remains rudimentary. The border point lacks central heating systems, making it barely functional during harsh winter months when extreme cold prevents border personnel from stationing there comfortably. Accommodation, warehousing, and laboratory facilities are similarly inadequate.

Hilsa in Humla district, one of the most remote border crossings, sees limited formal trade due to difficult terrain, lack of road connectivity, and minimal infrastructure. Yet it remains strategically significant as a potential transit point should Nepal-China relations deepen in northwestern Nepal.

A 2014 agreement saw China commit to providing 10 million Yuan (equivalent to USD 1.63 million or NPR 215.76 million) annually from 2014 to 2018 to support development of Nepal's districts adjacent to China (Rana, 2020). However, the sustainability and impact of these funds remain unclear, with limited evidence of transformative infrastructure development at border points.

Border Infrastructure

Stakeholders repeatedly emphasized that predictability at border points is as important as physical infrastructure itself. Frequent closures, inconsistent operating procedures, seasonal disruptions, and limited communication regarding operational changes significantly undermine private sector confidence. Businesses are reluctant to invest in export-oriented production or logistics systems when border operations remain uncertain.

Participants also highlighted the need for “mirror logistics facilities” at key border crossings, similar to the integrated logistics systems operating along the India border. Such facilities would include warehousing, customs clearance, cold storage, quarantine services, testing laboratories, truck terminals, digital customs systems, and coordinated inspection mechanisms on both sides of the border.

Importantly, stakeholders stressed that Nepal cannot expect China to independently finance or prioritize northern border infrastructure development because Nepal-China trade volumes remain relatively insignificant from China's perspective. This implies that Nepal must take greater ownership over financing, planning, and implementing northern corridor infrastructure rather than waiting for external support.

Trade Corridor Dynamics

Nepal-China trade is highly sensitive to corridor infrastructure and route reliability. Despite northern corridors being geographically shorter, they remain less preferred than southern routes via Indian ports for the majority of Nepal's international trade. This preference reflects several factors beyond mere distance.

Reliability and predictability are critical. Northern border points face frequent disruptions due to natural disasters, particularly earthquakes, floods, and landslides that damage roads and bridges. The 2015 earthquakes, subsequent flooding events, and the July 2025 Rasuwagadhi bridge collapse illustrate how vulnerable these routes remain to environmental shocks. In contrast, while India's border points also experience occasional disruptions, the multiplicity of crossings and greater institutional capacity for maintenance provide more consistent access.

Insurance and logistics infrastructure strongly favor southern routes. International insurance companies provide comprehensive coverage for goods transiting through established Indian ports and corridors, whereas coverage for northern routes through China remains limited and expensive when available. Similarly, formalized logistics providers, freight forwarders, and customs brokers have far more experience and infrastructure supporting trade through Indian ports such as Kolkata (Haldia) and Visakhapatnam than through Chinese ports.

Time efficiency comparisons present a nuanced picture. Stakeholders noted that goods take approximately twelve days to reach China via northern border crossings, compared to roughly forty-five days when routed through Visakhapatnam port in India and shipped to Chinese ports. The northern route appears significantly faster. However, these time estimates assume optimal conditions without accounting for seasonal closures, unpredictable border shutdowns, or infrastructure failures that can extend transit times indefinitely.

Cost differentials are surprisingly modest. Stakeholders report that the additional cost of routing goods through Visakhapatnam compared to northern crossings amounts to only about USD 500 per container. Given this small differential, businesses often prefer the perceived reliability and established insurance coverage of southern routes despite longer transit times.

A 2022 study by the Center for Social Innovation and Foreign Policy (CESIF) highlighted an additional constraint specific to the Kodari-Zhangmu border (CESIF, n.d.). Exclusive passage rights granted to border citizens had spawned a transportation syndicate charging exorbitant rates ranging from NPR 350,000 to NPR 400,000 for transporting goods from Khasa to Kathmandu, far exceeding the expected fare of NPR 30,000 to NPR 50,000 (CESIF, n.d.). These inflated charges rendered trading via Kodari-Zhangmu financially impractical for many traders, illustrating how local monopolies and rent-seeking can undermine trade facilitation even when infrastructure exists.

Transit Potential and Strategic Positioning

Several Nepal-China border points hold potential to transform into transit routes facilitating India-China trade, positioning Nepal as an entrepot for commerce between its two giant neighbors. This vision has been articulated in various strategic planning documents and carries significant economic promise if infrastructure and regulatory frameworks can be aligned.

According to CESIF research, China has shown interest in operationalizing Yari (Humla)-Purang and Nechung (Mustang)-Lizi border points specifically for cross-border trade, potentially representing a strategic shift from primary reliance on Tatopani and Rasuwagadhi. (CESIF, n.d.) If developed with appropriate multimodal connectivity, these western border points could link to emerging transit corridors serving broader regional trade.

The Kaligandaki corridor has been designated as a national pride project and is often described as potentially the most dependable and efficient trade route between India and China passing through Nepal. (Nepal News, 2024) This corridor would connect Lumbini in Nepal's Tarai plains with Mukti-nath in the high Himalayas, providing a north-south axis that could facilitate India-China goods movement. The Tamakoshi corridor represents another strategic option, potentially offering the shortest route from Nepal to Tibet if developed with appropriate all-weather roads and border facilities. However, government investment in these alternative corridors has been limited, with resources concentrated primarily on repairing and maintaining existing routes rather than developing new strategic infrastructure.

The example of Laos, which has been utilized by China to access Bangkok and other Southeast Asian markets, serves as both an opportunity and a cautionary

tale. While transit trade can generate revenue and catalyze infrastructure development, it can also create dependence and political vulnerability if not managed strategically through appropriate regulatory frameworks and infrastructure investments that ensure Nepal captures value from facilitation services.

Border Management Challenges

Border management between Nepal and China suffers from fragmented institutional responsibility and weak coordination mechanisms. Unlike some of Nepal's border crossings with India where integrated check posts (ICPs) consolidate customs, immigration, quarantine, and security functions under unified management, northern border points operate with separate, poorly coordinated agencies.

Nepal's customs, immigration, quarantine, and border security offices at northern crossings function independently with limited information sharing or joint operating procedures. This fragmentation creates inefficiencies, increases processing times, and provides opportunities for rent-seeking as traders must navigate multiple agencies with overlapping jurisdictions.

In contrast, China has moved toward unified border management at many of its customs points, consolidating customs, quarantine, and immigration functions under integrated systems. This asymmetry in institutional organization creates friction, as Nepali procedures remain cumbersome and unpredictable while Chinese systems operate with greater efficiency and standardization. The absence of joint operating protocols between Nepal and China exacerbates unpredictability. Stakeholder consultations revealed that border openings, closures, and operational hours can change with minimal advance notice, creating planning difficulties for businesses.

Emergency response capacity at border points is minimal. When natural disasters such as floods, landslides, or earthquakes damage roads or bridges, response times are slow, and coordination between Nepali and Chinese authorities is weak. The July 2025 Rasuwagadhi bridge collapse exemplified these challenges, with hundreds of Nepali truck drivers stranded and limited coordinated response to evacuate personnel or establish temporary alternative arrangements.

Seasonal closures due to weather conditions, particularly affecting high-altitude crossings like Korola, further reduce operational reliability. Without adequate winter infrastructure including heating systems, proper accommodation, and equipment for snow clearance, these border points effectively shut down during harsh weather months, limiting their utility as year-round trade gateways.

Policy Recommendations

Nepal has several policy frameworks intended to promote export growth, including the National Trade Integration Strategy (NTIS 2080). However, implementation has been weak, particularly regarding trade with China. Export promotion remains heavily dependent on participation in trade fairs and expos, which, while useful, do not provide sustained market access, certification support, or business-to-business linkages.

Addressing Nepal's structural constraints in economic engagement with China requires coordinated, institution-led reforms rather than promotional efforts or incremental adjustments. The following recommendations reflect evidence from trade data analysis, stakeholder consultations, and comparative assessment of successful export facilitation models.

1. Establish Nepal-China Trade Corridor Authority

Nepal should establish a Nepal-China Trade Corridor Authority housed under the Ministry of Industry, Commerce and Supplies, with representation from Customs, Transport, Finance, and the private sector. This authority would provide integrated governance over corridor infrastructure development, customs operations, logistics, insurance, payment settlement, and emergency response.

The authority's mandate should include:

- Coordinating infrastructure investments across multiple border points
- Developing and enforcing joint operating protocols with Chinese counterparts
- Managing emergency response during natural disasters or infrastructure failures
- Facilitating insurance coverage and financial settlement mechanisms
- Maintaining real-time information systems on border operations
- Serving as a single point of contact for businesses seeking to utilize northern trade routes

Critically, this authority should establish formalized standard operating procedures with Chinese border management agencies to ensure predictability, transparency, and continuity of operations. The current vulnerability of border operations to unilateral and unpredictable administrative disruptions undermines business confidence; institutionalized protocols would provide greater certainty.

2. Invest Strategically in Border Infrastructure

Border infrastructure must be treated as strategic economic investment rather than peripheral connectivity expenditure. Immediate priorities should include:

Making Existing Priority Crossings Fully Operational

Year-Round: Rasuwagadhi, Tatopani, and Korala should receive investments in all-weather roads, warehousing facilities, heating systems for winter operations, and adequate accommodation for border personnel. Without these basic facilities, declaring border points "operational" remains largely symbolic.

Developing Alternative Corridors for Resilience: Given the vulnerability of northern routes to natural disasters, Nepal should actively develop alternative corridors such as the Tamakoshi corridor to diversify transit options and reduce dependence on single routes. As SAWTEE research emphasizes, evaluating routes solely through short-term cost comparisons overlooks the strategic value of multiple transit options and supply chain resilience. (Kharel, 2018)

Establishing Dry Ports and Logistics Hubs: Integrated logistics facilities with warehousing, cold storage, container handling, and customs processing capacity should be developed at strategic locations near major border crossings. These facilities would enable consolidation of goods, improve inventory management, and facilitate more efficient border clearance processes.

3. Build Quality and Certification Infrastructure

Unlocking Nepal's export potential requires establishing accredited laboratories and SPS facilities at major border points. Specific interventions should include:

Border Laboratory Facilities: Constructing and accrediting testing laboratories at Rasuwagadhi, Tatopani, and Korala capable of conducting food safety testing, phytosanitary inspection, and quality certification would significantly reduce the cost, time, and uncertainty associated with meeting Chinese regulatory requirements. These laboratories should be staffed with trained personnel provided with adequate incentives and working conditions to retain expertise.

National Quality Infrastructure: Beyond border points, Nepal requires strengthened national Metrology, Standards, Testing, and Quality (MSTQ) infrastructure. This includes upgrading existing laboratories, training technical personnel, and achieving international accreditation for key testing facilities to ensure Nepali certifications are recognized in major export markets.

Facility-Level Compliance Support: Targeted technical assistance programs should help production facilities meet international facility standards required for export

certification. This may require government support for capital investments in processing equipment, cold chain infrastructure, and quality management systems.

4. Strengthen Producer and Exporter Capacity

Systematic capacity building is essential to enable Nepali producers and exporters to understand and comply with Chinese market requirements:

Targeted Training Programs: Trade and Export Promotion Center (TEPC) and other trade promotion agencies should implement comprehensive training programs for farmers, manufacturers, and exporters covering Chinese product standards, certification requirements, branding, packaging, labeling, and consumer preferences. These programs should extend beyond Kathmandu to reach producers in agricultural regions such as Ilam (tea), Jumla (herbs), and Chitwan (haylage).

Technical Assistance for Product Development: Government should operationalize existing product development mandates with clear implementation roadmaps, supporting transition from raw commodity exports to higher-value, processed, and branded offerings. This includes assistance with packaging design, quality consistency, and market positioning tailored to Chinese consumer preferences.

Export-Ready Product Certification Programs: Establishing programs that guide producers through the process of developing export-ready products complying with Chinese import regulations and quality standards would bridge the current knowledge gap. These programs should provide hands-on support for GACC registration, documentation preparation, and quality compliance rather than generic informational seminars.

5. Formalize Payment and Financial Systems

The absence of reliable payment mechanisms constitutes a major barrier requiring government-to-government resolution:

Bilateral Payment System Establishment: Nepal and China should establish formalized banking channels and payment settlement mechanisms enabling transparent, documented transactions. This could include correspondent banking relationships between major Nepali and Chinese banks, integration of digital payment platforms, or establishment of trade settlement accounts in mutually agreed currencies.

Addressing WeChat Pay and Digital Payment Integration: Given the prevalence of WeChat Pay in Chinese commercial transactions, Nepal should explore regulatory frameworks allowing legitimate integration of such platforms for business-to-business payments, subject to appropriate oversight for foreign exchange management and taxation.

Trade Finance and Insurance Facilities: Development of specialized trade finance products and insurance coverage for Nepal-China trade would reduce commercial risks and enable businesses to engage in larger-scale transactions with confidence. This may require government backstopping or international development assistance to establish initial facilities until commercial sustainability is demonstrated.

Conclusion

Nepal's economic relationship with China embodies a profound paradox of geographic proximity coupled with institutional distance. Despite sharing a 1,400-kilometer border with the world's second-largest economy, Nepal remains largely excluded from value-generating participation in bilateral commerce. The 130:1 import-export ratio, the minimal utilization of preferential market access, and the persistent inability to translate border proximity into export growth reflect not mere market dynamics but structural exclusion rooted in infrastructure deficits, regulatory asymmetries, institutional weaknesses, and informality.

The evidence presented in this section demonstrates that neither promotional efforts nor incremental reforms will be sufficient to rebalance this relationship. China's export-oriented economic structure, stringent regulatory framework, and sophisticated quality control systems create high entry barriers that require equally sophisticated institutional responses from Nepal. The challenge is not simply to promote exports but to fundamentally build the quality infrastructure, certification systems, producer capacity, payment mechanisms, and corridor governance necessary for competitive participation in the Chinese market.

Importantly, Nepal should resist simplistic narratives about Chinese investment dominance or inevitable trade asymmetry. While Chinese FDI has indeed increased and become more visible, empirical data reveals more modest flows than popular perception suggests. Similarly, trade deficits with China, while severe, reflect broader regional patterns rather than Nepal-specific exploitation. Countries across South Asia face similar challenges in accessing Chinese markets, underscoring that these are structural issues requiring patient, coordinated policy responses rather than quick fixes.

Nepal's northern border need not remain merely a site of import dependence and missed opportunity. With appropriate investments in human capacity, physical infrastructure, and institutional frameworks, it could become a dynamic economic corridor connecting Nepali producers with one of the world's largest and fastest-growing consumer markets. Realizing this potential requires establishing a Trade Corridor Authority, investing strategically in border infrastructure, building quality and certification systems, strengthening producer capacity, formalizing payment mechanisms, and enhancing data collection.



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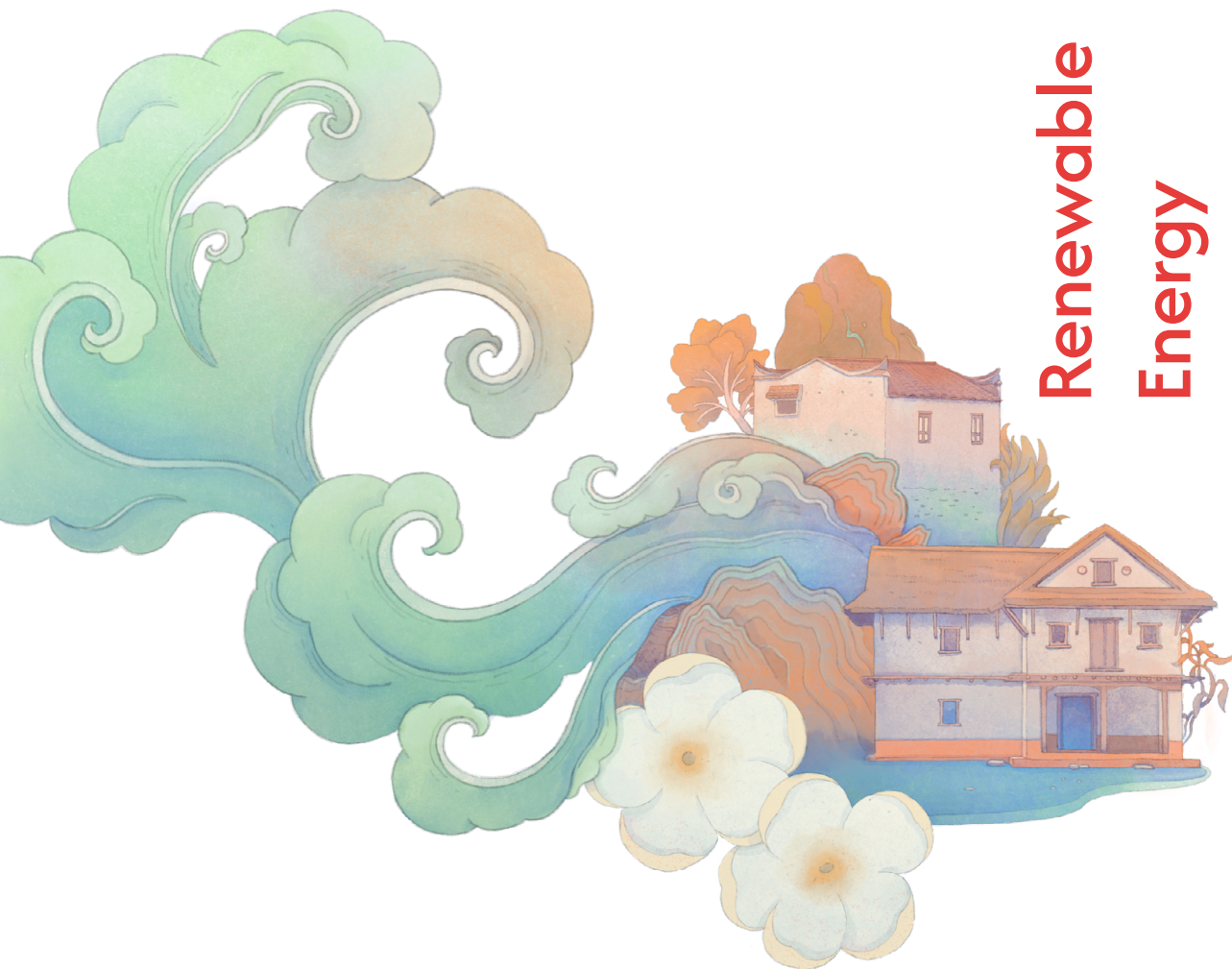
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Chapter Overview

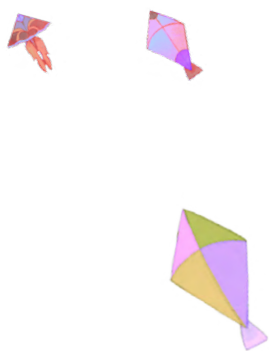
Nepal holds extraordinary hydropower and solar potential; China is the world's dominant renewable energy developer. The commercial complementarity is clear, yet Nepal has no formal power trade agreement with China, has removed Chinese developers from at least six projects under Indian pressure, and is foregoing a price advantage worth approximately 2.5 times its current Indian export rate. This section examines the structural, regulatory, and geopolitical constraints on Nepal-China energy cooperation and sets out a parallel-track strategy for advancing the northern relationship without foreclosing the southern one.

03

Renewable Energy

Nepal's energy transformation over the past decade is one of the more striking development stories in South Asia. A country that endured crippling power cuts of up to 20 hours a day has emerged as a net electricity exporter, driven almost entirely by a fourfold expansion of installed hydropower capacity. Yet this transformation also exposes a deeper fragility: an energy system overwhelmingly dependent on a single source, a single season, and an overwhelmingly concentrated export market. Against a target of 30,000 MW of installed capacity (increased from 28,500 MW in May 2026) and 15,000 MW of electricity exports by 2035, Nepal is running out of time to diversify its energy partnerships.

China is the most consequential energy partner Nepal is not yet fully engaging. China contributed 64% of global renewable energy capacity additions in 2025, holds near-monopoly positions across solar panel manufacturing, wind turbines, and battery storage supply chains, and has accumulated more large-scale hydropower project management experience than any other country. The case for deeper cooperation is not ideological — it is practical. The core constraint is a structural dilemma: India's 2018 Cross-Border Electricity Guidelines effectively bar electricity from projects with Chinese investment or contractors, meaning that deeper cooperation with China directly risks foreclosing Nepal's primary export market. Nepal has no formal power trade agreement with China, and 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.



Global Renewable Energy Landscape: Trends and Strategic Concentration

Over the past few years, the development of renewable energy has accelerated at an unprecedented rate. By the end of 2025, renewables accounted for 49% of global installed power capacity. In that year alone, they contributed 85.6% of global power additions, with a record 692 GW of new capacity added, bringing total installed capacity to approximately 5.1 TW. Solar dominated these additions, continuing a trend of photovoltaic cost reductions making utility-scale deployment commercially viable across developing markets. This growth remained highly uneven: China alone contributed 64% of global additions in 2025, with the United States and European Union accounting for most of the remainder (IRENA, 2026). Thus, amidst accelerated development, developing economies remain largely peripheral to the reshaping of global energy systems.

A major factor behind the accelerated development of the renewable energy sector has been the increasing impact of climate change. To limit global warming to 1.5°C, the International Renewable Energy Agency (IRENA) estimated that global renewable energy capacity must triple to at least 11,000 GW by 2030. This would require countries to double the global average annual rate of energy efficiency improvements from around 2% to over 4% through the end of the decade (COP28 UAE, 2023). In COP28, a significant number of countries pledged to meet this target. However, as of July 2025, nearly two years after the pledge was signed, most countries had yet to align their national targets with this ambition — the global sum of national targets was just 2% higher than at COP28 (Altieri & Jones, 2025). As a result, according to estimations, reaching the COP28 goal requires accelerating annual growth to 16.6% for the remainder of the decade, a target most national plans are not yet aligned with (IRENA, 2025).

The urgency of the transition has been further underscored by geopolitical conflicts affecting global energy supply chains. At the same time, rising electricity demand, driven by data centers, artificial intelligence, and electric vehicles, has increased pressure on energy systems (IEA, 2025). Energy diversification has thus become both an economic strategy and a climate adaptation and energy security imperative.

Nepal's Renewable Energy Sector: Progress, Potential, and Systemic Constraints

Growth and Current Status

Nepal's energy transformation over the past decade has been remarkable. Installed generation capacity grew from approximately 811 MW in 2015 to 3,878 MW by the end of FY 2024/25, with more recent government figures indicating total capacity has now surpassed 4,200 MW, a nearly fivefold increase in a decade (Nepal Electricity Authority, 2025). This growth brought Nepal to a pivotal milestone: a country crippled by power cuts of up to 20 hours a day became a net electricity exporter in FY 2023/24 (Nepal Electricity Authority, 2024). Starting in mid-2025, Nepal also began exporting electricity to Bangladesh through India's grid, following a tripartite agreement signed in October 2024 (Sharma, 2025). Electricity access has also expanded dramatically, with 98% of the population reported to have access to electricity, with 96.7% served by the grid and 13% by off-grid solutions including solar, wind, and micro hydropower, supported by the construction of over 5,742 circuit kilometers of transmission lines (Government of Nepal, 2024).

Several interlocking factors drove this transformation. The 1992 Electricity Act opened the sector to private and foreign investment, laying the legal foundation for Independent Power Producers (IPPs). Revised Power Purchase Agreement (PPA) guidelines in the 2010s, including partial dollar-denomination to improve project bankability, gradually improved the investment climate. The elimination of scheduled load-shedding in 2018 marked a step-change in consumption, improving NEA revenues and enabling further investment. Projects like the 456 MW Upper Tamakoshi Hydropower Station, functioning since 2021, demonstrated that large-scale projects could be delivered.

India's role in Nepal's renewable energy development is essential context. As Nepal's primary export market, India received 2,380 GWh of electricity worth NPR 17.47 billion in FY 2024/25 alone. Bangladesh exports also transit Indian territory. During the dry winter months, Nepal must also import electricity from India. Beyond trade, Indian state-owned enterprises hold construction contracts for some of Nepal's most significant upcoming projects. This dominance has created structural constraints: in 2018, India changed its policies to prevent the purchase of power from projects invested in by countries with which it lacks bilateral power sector cooperation agreements. In practice, multiple Chinese developers were removed from Nepali projects and contracts reallocated to Indian companies.

Hydropower is overwhelmingly dominant in Nepal's generation mix. Of the 3,591 MW of total installed capacity by mid-2024, hydropower accounted for over 90% of supply, with solar contributing the bulk of the remainder alongside minor thermal and co-generation capacity.

Despite this growth, Nepal's energy system is structurally underperforming relative to its potential. The country holds a theoretical hydropower potential of 83,000 MW with 42,000 MW deemed economically feasible, along with growing solar, wind, and biomass potential. A 2024 study supported by Germany's GIZ found that Nepal's solar technical potential stands at 432 GW — ten times its hydroelectric technical potential. Against these figures, the current installed capacity of approximately 3,878 MW represents only 9.2% of economically feasible hydropower potential. On the demand side, there is immense growth potential driven by the rapid rise of electric vehicles: four-wheel EV imports grew at a compounded annual rate exceeding 70% between 2020 and 2025, with EVs accounting for 73–76% of all new four-wheel passenger vehicle imports in FY 2024/25, placing Nepal second in the world for EV market share behind only Norway (Nepal Rastra Bank, 2025).

Institutional and Policy Framework

Nepal's energy sector is governed by the Nepal Electricity Authority (NEA) as the integrated utility, the Electricity Regulatory Commission (ERC) for tariff and licensing oversight, and the Ministry of Energy, Water Resources and Irrigation (MoEWRI) for policy direction and international energy diplomacy. The key planning instrument is the Energy Development Roadmap 2081, targeting 28,500 MW of installed capacity and 15,000 MW of electricity exports by 2035 in line with Nepal's NDC under the Paris Agreement. This target has been raised to 30,000 MW under the new government in May 2026.

Challenges

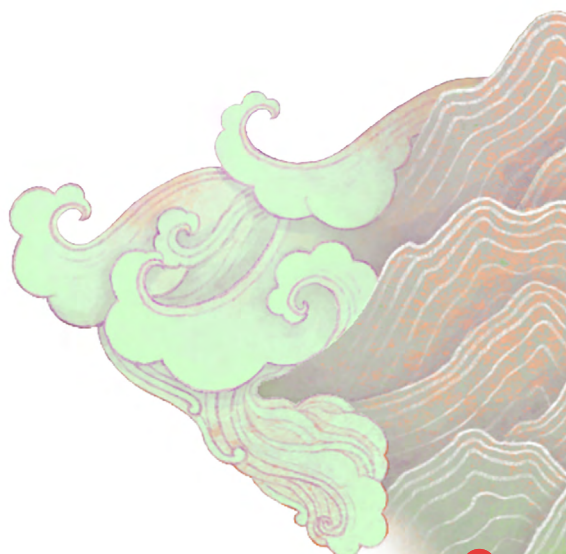
Four structural challenges constrain Nepal's energy sector. First is seasonal imbalance and hydropower dependence. Run-of-river hydropower, the dominant generation model, produces surplus in the monsoon season but requires dry-season imports from India, costing foreign exchange and exposing Nepal's energy security to the reliability of a single bilateral relationship. Without reservoir-based storage to smooth this imbalance, Nepal cannot fully monetize its hydropower assets or achieve genuine energy independence.

Second is climate vulnerability. The accelerating pace of glacial melt, changing rainfall patterns, and increased frequency of extreme weather events represent a

growing systemic risk to infrastructure built primarily for a stable hydrological regime. The 2025 Bhotekoshi flood damage is illustrative of a risk that will intensify over time.

Third is export market concentration. Despite the tripartite agreement enabling exports to Bangladesh, India remains the sole purchaser of Nepal's electricity in any significant volume and all Bangladesh exports transit Indian territory. India's 2018 cross-border electricity guidelines, which effectively bar the import of electricity from projects with Chinese investment or contractors, mean that deepening energy cooperation with China directly constrains Nepal's ability to monetize that cooperation through exports.

Fourth is underutilized solar and storage potential. Solar power, which offers lower capital costs, faster deployment, and a natural complementarity to hydropower's seasonal profile, remains marginal in Nepal's energy mix despite the country's extraordinary resource endowment. The absence of grid-scale storage further compounds the seasonal imbalance. Both gaps represent addressable constraints where international cooperation, including with China, could be transformative.



China's Renewable Energy Ecosystem: Capacity, Strategy, and Global Role

China's dominance of the global renewable energy sector directly shapes what is possible — and what is constrained — in Nepal-China cooperation.

Domestic Development

China's renewable energy development is unprecedented. China surpassed its goal of 1.2 TW of renewable energy capacity five years ahead of schedule. Its total installed renewable energy capacity grew from approximately 470 GW in 2015 to 2,267 GW by 2025, nearly a fivefold increase in a decade. In 2025 alone, China added approximately 440 GW of new renewable capacity, contributing 64% to global additions (IRENA, 2026). The country has also constructed the world's most extensive ultra-high voltage transmission network: in 2024, it transmitted 924.7 TWh across regions and 2,000 TWh across provinces, representing increases of 50% and 30% respectively since 2020 (State Council Information Office, 2025). By end-2024, China had installed 73.76 GW/168 GWh of new-type energy storage, representing more than 40% of global total installed capacity and 20 times the level of 2020 (National Energy Administration of China, 2025).

Domestically, this expansion has been driven by state strategy. In 2010, new energy was designated one of seven 'strategic emerging industries' (Danish Institute for International Studies, 2025). Renewable energy gained a decisive additional push in 2020 when President Xi Jinping pledged that China would peak CO₂ emissions before 2030 and reach carbon neutrality by 2060 (State Council Information Office, 2025). China's total energy investment in 2025 exceeded USD 800 billion which was roughly equivalent to the combined investment made by United States and European Union (BloombergNEF, 2026). Chinese companies now manufacture approximately 80% of the world's solar panels, hold major shares in wind turbine and battery production, and have accumulated unrivalled engineering experience in large-scale hydropower (Silverstein, 2026). This has created a near-monopoly in the supply chains underpinning the global clean energy transition.

Despite this scale, China's energy system retains significant integration challenges. Coal remains a baseload power source, retaining a 53.2% share of primary energy consumption (State Council Information Office, 2025). Concentration of new renewable capacity in northern and western provinces creates long-distance transmission bottlenecks, and seasonal deficits are particularly pronounced in winter, when hydropower output falls sharply across China's river systems (State Council Information Office, 2025). This seasonal deficit is commercially significant for Nepal, whose river flow remains relatively stable even in winter months.

Global Engagement

China's global engagement in the renewable energy sector is organized primarily through the Belt and Road Initiative (BRI), which cumulatively from 2013 to 2025 has included engagement worth USD 1.399 trillion across 150 partner countries (Nedopil, 2026). Energy-related engagement dominates this portfolio. Green energy engagement reached new heights in 2025, totaling USD 21.4 billion through wind, solar, waste-to-energy, and hydropower projects — including USD 5.9 billion in investments and USD 13.7 billion in construction projects (Nedopil, 2026). This shift toward clean energy was accelerated by President Xi's 2021 commitment to end Chinese public financing of new coal-fired power plants abroad (Xi, 2021). However, oil and gas engagement surged to USD 71.5 billion in 2025 — more than triple the prior year — meaning the BRI as a whole remains a vehicle for fossil fuel infrastructure at a scale that overshadows its green components in absolute terms (Nedopil, 2026).

Within Chinese overseas renewable energy engagement, solar PV dominates the technology mix; Asian markets followed by Africa account for most of the project count and capacity; and EPC and construction contracts comprise 75% of the portfolio (IIGF China, 2026). State-owned enterprises such as China Energy Engineering Corporation (CEEC) and PowerChina dominate projects, while private firms such as Goldwind and Chint have expanded their footprint (Liu et al., 2026). Importantly, grants represent a small fraction of total BRI energy activity: deepening energy cooperation with China almost always involves a financing obligation on the receiving country's side.

Concrete examples of successful Chinese energy engagement include Pakistan's 720 MW Karot hydropower facility on the Jhelum River, which came online in 2022 and now supplies clean power to millions of households (POWERCHINA, 2024). Chinese involvement in Ethiopia's renewable energy, particularly in wind power expansion, has been instrumental in accelerating timelines (Further Africa, 2026). These cases demonstrate that Chinese-executed infrastructure can deliver real development outcomes, particularly in countries that lack either the domestic capital or the project management capacity to build complex energy assets independently.

However, the record is not entirely positive. Academic assessment of Chinese overseas energy investment finds that while host countries have seen macroeconomic benefits from capital inflows, aggregate improvements in renewable energy generation have been modest relative to the scale of Chinese engagement (Bega & Lin, 2023). Project delays, cost overruns, concerns about transparency, and debt sustainability questions have emerged in multiple BRI partner countries. Environmental

and social standards have been applied inconsistently, particularly in large hydropower projects.

China's manufacturing dominance has also driven solar panel prices down by around 60–90% since 2010 (Bradsher, 2025) — a decline that has made utility-scale solar commercially viable in dozens of countries that would not otherwise have been able to afford it, including Nepal. The concentration of global clean energy manufacturing in one country also creates dependencies, however, that are difficult to diversify in the short term.



Nepal-China Renewable Energy Cooperation: Evolution and Current Landscape

Situated within the global context of a push towards renewable energy, and Nepal and China's respective developments in the sector, cooperation between the two countries has been significant over the past years. This section covers the historical evolution of this cooperation, the different modalities of collaboration, and the strategic interests of both countries.

Historical Evolution

Nepal–China energy cooperation has developed in distinct phases since Nepal's 1992 Electricity Act liberalized the sector for private and foreign investment. Chinese interest became commercially significant around 2010, coinciding with a period of Chinese outward investment expansion and Nepal's growing recognition that it needed external capital to realize its hydropower potential. The period from approximately 2017 onwards saw the deepest intensification of cooperation, with multiple MoUs signed and several major projects contracted to Chinese firms. The formalization of this engagement was achieved through a series of bilateral instruments: Nepal's accession to the BRI framework agreement in 2017 (Government of Nepal, 2024b), the MoU on Energy Cooperation in 2018 (Ministry of Foreign Affairs Nepal, 2018), and most recently a Framework Agreement on Investment Cooperation in 2024 (Ministry of Foreign Affairs Nepal, 2024). A critical caveat is that the BRI framework has not yet produced a single implemented project in Nepal since its signing in 2017 (Shekhawat, 2024). By contrast, India's energy engagement with Nepal has been more transactional and commercially effective, if also more controlling. The India–Nepal Power Trade Agreement provides a clear legal framework for electricity export that no equivalent China–Nepal instrument yet matches.

Modalities of Cooperation

In terms of hydropower and Nepal's national transmission infrastructure, the countries have had multiple modalities of collaboration, as demonstrated in Table 1.

Modality	Description	Examples
Engineering-Procurement-Construction (EPC)	Chinese firms construct projects on a fixed-price, fixed-schedule basis	Tamakoshi V Hydroelectric Project
Financial (loans/concessional credit)	Export-Import Bank (EXIM) or CDB finance project development	Upper Trishuli 3A
Equity investment and joint ventures	Chinese and Nepali entities hold shared ownership stakes	Butwal Power Company's joint ventures
Equipment supply and technical systems	Chinese manufacturers supply turbines, panels, transformers, and control systems	Upper Marsyangdi A
Technical assistance and capacity building	Training programs, research partnerships, academic exchange	Hydropower Research Center for Himalayan Region – Kathmandu University and Wuhan University
Cross-border transmission	Physical grid interconnection enabling power trade	Rasuwagadhi-Kerung cross-border line (under development)
Build-Operate-Transfer (BOT)	Chinese developer builds, operates, and eventually transfers the asset	Upper Marsyangdi A

Table 1. Multiple modalities of Chinese engagement in Nepali hydropower

Constraints on Nepal-China Energy Cooperation

The Geopolitical Constraint: India's Effective Veto

The most significant structural barrier to Nepal-China energy cooperation is India's 2018 Cross-Border Electricity Guidelines, which effectively bar the import of electricity from projects involving Chinese investment or contractors. Applied with particular force after the 2020 Galwan Valley clash, these guidelines create a direct conflict: Chinese expertise and capital are among the best available options for scaling Nepal's energy sector rapidly, but deploying them risks foreclosing Nepal's primary electricity export market. Nepal has responded by removing Chinese developers from multiple projects and awarding contracts to Indian companies. This has resolved the immediate regulatory conflict but at the cost of competitive pressure, alternative expertise, and financing options that Chinese participation would have provided.

Nepal currently has no formal power trade agreement with China — unlike the legal framework governing electricity exports to India. Without clear provisions on pricing, transmission access, metering, dispute resolution, and the rights of investors, structuring commercially viable cross-border electricity trade with China is technically and legally fraught. While discussions on a power trade framework have been ongoing, with diplomatic engagement in 2018 and more recently in the margins of the 2024 Beijing summit, no agreement has been finalized. A power trade agreement text was drafted by Nepal's technical team, and six rounds of joint technical group meetings between Nepali and Chinese counterparts have been completed. However, successive prime ministers declined to advance the instrument, with participants at the May 2026 policy dialogue noting that Indian concerns were an explicit factor in this reluctance. A regulator consulted during the research for this study noted that only once legal instruments, policy frameworks, and implementation mechanisms are in place can Nepal develop a credible model for investment, cost recovery, and dispute resolution. On the transmission infrastructure side, there has been meaningful recent progress. According to participants consulted for the study, the grant agreement for the Rasuwagadhi–Kerung 220 kV cross-border line, which will connect to Nepal's Chilime substation at the same voltage as the Chinese Gyirong (Gyerung) side, received approval from the relevant Nepali ministries and, as of May 2026, was ready for submission to relevant parties. Critically, China has agreed to provide this financing as a grant for the Nepal portion of the line, resolving a long-standing impasse: previous governments had insisted on grant-only terms while China initially sought soft loan classification under BRI, but the Chinese side has now accepted the grant framing.

More broadly, Nepal's energy sector suffers from policy inconsistency that makes it a difficult environment for long-term investment commitments. The absence of a single-window mechanism for energy trade and foreign direct investment (FDI) compounds administrative complexity. Investors, including Chinese developers, have consistently cited uncertainty about offtake arrangements as a primary deterrent.

Investment and Financial Risks

Delays in concluding Power Purchase Agreements (PPAs) have been a recurring source of frustration for developers across the sector. When PPAs are delayed, developers are forced into local-currency financing arrangements that increase foreign exchange exposure and reduce project bankability. Currency risk, given Nepal's managed exchange rate and limited hedging instruments, is a genuine concern for Chinese investors accustomed to USD-denominated project finance. The absence of grandfathering provisions — meaning projects approved under one regulatory regime can be affected by subsequent policy shifts — further depresses investor confidence.

A more specific constraint, raised by private sector participants at the May 2026 policy dialogue, is the non-implementation of Nepal's foreign currency hedging regulation for power purchase agreements. Foreign developers, including Chinese investors, were initially promised partial USD-denomination of PPAs to improve project bankability. In practice, this was not delivered: one prominent project received a locked NPR-denominated PPA after extended negotiation. A hedging regulation was subsequently drafted and passed but has not been operationalized despite sustained lobbying from project developers. Participants at the dialogue identified this as the single most critical bottleneck for foreign direct investment in Nepal's energy sector — affecting not only Chinese investors and not only energy, but the full range of infrastructure FDI. Addressing it sits within the mandate of the Ministry of Finance and does not require foreign policy coordination.

Administrative and Infrastructure Bottlenecks

For Chinese companies working in Nepal, administrative challenges have slowed project development. Land acquisition challenges have led to project delays and redesigns. Hydropower construction requires explosives for tunnelling — a category whose import and storage is governed by Nepal's security regulations in ways that have caused repeated delays for Chinese contractors operating under fixed project timelines. Poor road connectivity and closed borders have compounded an already difficult investment environment.

Capacity and Technology Gaps

While Nepal has developed a competent hydropower workforce over several decades, professionals lack exposure to the large-scale, technically complex projects — such as pumped storage, high-capacity transmission systems, smart grid integration, and solar-wind-hydro hybrid systems — that define the frontier of global energy development. This limits Nepal's capacity to meaningfully absorb technology transfer from China and means that many Chinese-contracted projects have been implemented largely by Chinese engineering and labor rather than building genuine domestic expertise.

Environmental and Social Considerations

Large hydropower development carries well-documented ecological costs including riverine ecosystem disruption, altered sediment regimes, displacement of communities, and land use changes in ecologically sensitive Himalayan areas. Nepal's BRI-linked and Chinese-financed hydropower proposals are concentrated in northern watersheds that are both geologically challenging and ecologically significant. Community-level opposition, particularly over inadequate consultation and compensation processes, has delayed projects and contributed to reputational risks for Chinese developers. Effective environmental and social impact management is therefore not only an ethical imperative but a practical precondition for project implementation.



Emerging Opportunities

Diversifying Energy Trade and Export Markets

The most strategically significant near-term opportunity is the development of a functional electricity export relationship with China. The Rasuwagadhi–Kerung cross-border transmission corridor, for which feasibility study commitments were reaffirmed in the December 2024 Nepal–China joint statement, provides the physical infrastructure foundation for such trade. The price differential is compelling: Nepal could receive approximately 2.5 times more per unit of electricity sold to China than it currently earns from Indian exports.⁶

The Tibetan market deserves particular attention as a near-term export destination. Tibet is geographically the closest part of China to Nepal's northern watersheds, and it remains chronically energy-deficient in winter — precisely the dry season when Nepal's own run-of-river generation falls but still exceeds local Tibetan supply. This seasonal complementarity is commercially significant. Developing Tibet as a first export destination, rather than attempting to integrate directly into China's eastern grid, is a more tractable near-term step — one that sidesteps the full complexity of cross-regional Chinese transmission while still building the legal and infrastructure foundations for a broader northern electricity relationship. Furthermore, although China has invested in massive hydropower and solar plants in Tibet, establishing the Nepal–China connection can act as a method of grid-balancing similar to what happens in Europe; access to cheaper electricity for China; and a move towards fulfilling renewable energy targets for both countries.

The feasibility of northern electricity exports depends on resolving four linked conditions: completing the cross-border transmission infrastructure (the 220 kV Jilong/Kerung–Rasuwagadhi–Chilime line being the priority project); concluding a formal power trade agreement with China; identifying Chinese grid operators willing to offtake Nepali electricity at commercially viable volumes; and managing the India relationship so that northern exports do not trigger retaliatory restrictions on southern ones. Each condition is individually achievable, but their simultaneous resolution requires coordinated policy action across diplomatic, regulatory, and infrastructure domains.

Capacity and System Development

Beyond electricity trade, Nepal has significant headroom to develop the physical and human infrastructure of its energy system with China as a partner. Expanding Nepal's solar energy capacity with Chinese partnership represents an opportunity with lower political risk than large hydropower projects, given that solar installations

can be structured without Chinese equity involvement while still utilizing Chinese equipment and technical expertise.

Pumped hydropower storage — which uses excess renewable generation to pump water uphill for later release through turbines — is particularly well-suited to Nepal's topography and aligns with China's advanced capabilities in this technology. Public-private partnership structures for pumped storage development, drawing on Chinese engineering expertise and potentially Chinese concessional financing, represent a concrete avenue for cooperation that addresses Nepal's seasonal imbalance without the export market risks associated with large run-of-river projects.

Nepal's relationship with China's supply chain dominance can also be managed more strategically than at present. Rather than simply purchasing Chinese solar panels at market prices, Nepal could pursue structured procurement relationships involving preferential pricing, early access to next-generation equipment, technology licensing, and modest-scale joint manufacturing. These arrangements have been extended to partners in Southeast Asia and Africa where commercial interest and diplomatic alignment converge. Engaging private Chinese renewable energy firms — such as Jinko Solar and Chint — rather than exclusively state-owned enterprises offers additional flexibility, as private firms tend to be more commercially flexible on technology transfer and joint venture terms.

Economic Transformation Opportunities

The most ambitious reframing of Nepal–China energy cooperation shifts the question from how much electricity Nepal can export to how much value Nepal can extract from its cheap renewable energy domestically. Nepal's Energy Development Roadmap 2081 already points in this direction with its NDC targets for electric vehicles and industrial electrification.

The most discussed value-added application is renewable-powered data centers. Nepal has natural cooling advantages in certain regions, alongside hydropower-generated electricity that could be among the cheapest in the region. China's rapidly growing data processing requirements — particularly for AI computing infrastructure — create a potential demand signal. A national data center strategy, supported by cybersecurity and data sovereignty frameworks, regulatory clarity, and investment incentives, could position Nepal as a regional digital infrastructure hub rather than merely an electricity commodity exporter.

⁶As of May 2026, the Rasuwagadhi–Kerung transmission line document had been submitted to the Government of Nepal cabinet for consideration, indicating meaningful progress on this corridor.

Broader industrial electrification — in sectors such as cement, fertilizers, and light manufacturing — could similarly create domestic value from cheap renewable energy rather than exporting raw power. This strategy reduces vulnerability to fluctuations in cross-border electricity markets while expanding the domestic tax base and employment.

Learning from China and Global Experiences

Nepal need not design its energy transition from first principles. China's own development — from near-total dependence on coal four decades ago to the world's largest renewable energy installer — offers policy lessons about the sequencing of market liberalization, the role of state financing in de-risking early-stage investment, and the importance of grid modernization as a precondition for renewable integration at scale. Beyond China, countries such as Bhutan and Ethiopia offer comparative lessons. The common thread across successful small-state energy diplomacy is institutional clarity, legal frameworks that attract investment while protecting national interests, and a clear understanding of what each partnership is meant to deliver.



Policy Recommendations

The following recommendations are grounded in the evidence reviewed in this section and in insights from the Nepal Economic Forum's focus group discussion on Nepal–China energy cooperation, held under Chatham House Rules with participants from government and the private sector.

1. Establish a Clear Regulatory Architecture of Cooperation

Nepal must urgently conclude a Power Trade Agreement with China to provide a formal legal basis for cross-border electricity exports. Clear provisions on pricing, trading modalities, dispute resolution, and risk-sharing would reduce uncertainty and improve investor confidence. Alongside this, Nepal should develop dedicated cross-border electricity trade regulations and introduce a one-window mechanism for energy trade to streamline approvals, grid access, and documentation.

2. Reform Investment and Risk Allocation Mechanisms

Policy instability, PPA delays, and currency-related uncertainties have discouraged long-term Chinese investment. Nepal should guarantee policy consistency, ensure non-discriminatory treatment of foreign investors, and introduce grandfathering provisions for existing projects. A transparent market risk allocation framework — clarifying whether risks lie with the state, utilities, or private developers — is essential. Blended finance models and concessional financing mechanisms should be explored to improve project bankability.

3. Accelerate Transmission Infrastructure Development

Without cross-border transmission lines, electricity diplomacy cannot materialize. Priority should be given to completing the Rasuwagadhi–Kerung corridor and strengthening domestic grid infrastructure to handle export volumes. Land acquisition bottlenecks, delays in forest clearances, and difficulties in importing construction materials must be addressed through fast-track procedures and improved border facilitation.

4. Institutionalize Electricity Diplomacy

Nepal should adopt a structured electricity diplomacy approach that advances national interest while managing regional sensitivities. Concretely, Nepal should develop a parallel-track approach: continuing to deepen cooperation with India on projects without Chinese equity involvement, while simultaneously advancing China-facing projects under distinct ownership and financing structures. This separation allows Nepal to expand the China channel without directly triggering

Indian concerns about Chinese-linked electricity in the Indian grid. Private sector participants at the May 2026 dialogue were direct on this point: unless and until Nepal opens a credible northern export channel, India has no commercial incentive to become more flexible on its cross-border electricity guidelines. The parallel-track approach is therefore not merely a risk mitigation strategy — it is the mechanism through which Nepal's leverage with both neighbors simultaneously increases. The price differential makes this urgent — China's electricity cost of approximately RMB 1 (NPR 22) per unit versus NPR 8 per unit for Indian exports represents a substantial revenue advantage Nepal is currently foregoing entirely.

5. Deepen Technology Transfer and Capacity Building

Structured technology transfer agreements should be embedded in major Chinese-invested projects, with explicit provisions for local skill development, technology licensing, and engineering co-participation. Formal partnerships between Nepal's engineering institutions and Chinese research universities — building on the precedent of the Kathmandu University–Wuhan University Hydropower Research Center — should be expanded to cover solar systems, smart grids, pumped storage, and EV infrastructure. Training programs for NEA professionals on complex large-scale project management should be institutionalized rather than ad hoc. Nepal should also actively cultivate relationships with private Chinese renewable energy firms, including Jinko Solar, Chint, and Goldwind, which tend to be more commercially flexible on technology transfer terms than state-owned enterprises.

6. Promote Value-Added Energy Applications

Nepal should develop a national strategy for renewable energy-powered data centers and digital infrastructure, including a cybersecurity framework, data sovereignty protections, investment incentives, and engagement with potential Chinese and international investors. Broader industrial electrification — using cheap hydropower to displace diesel in cement, fertilizer, and manufacturing — should be incorporated into industrial policy, with clear linkages to the energy investment climate.

7. Improve Domestic Governance and Administrative Efficiency

Many barriers to cooperation stem from internal administrative weaknesses. Reforming land acquisition procedures, digitizing approval processes, and establishing statutory timelines for project clearances would significantly improve the investment climate. Streamlined procedures for importing construction materials subject to security regulations are equally critical to reducing project delays and cost overruns.

8. Implement Environmental and Social Standards

All large hydropower and renewable energy projects, regardless of financing source, should be subject to consistent, rigorous environmental and social impact assessment standards, with genuine community consultation mechanisms and transparent benefit-sharing frameworks. Nepal should use its role as project host to insist on these standards in contracts with Chinese developers — framing them not as an obstacle to investment but as a precondition for the social license that allows projects to be built and operated without disruption.



Conclusion

Renewable energy is not one sector among many in the Nepal–China relationship. It is the domain where the bilateral relationship's most consequential opportunities and most structural constraints converge. Nepal's hydropower and solar endowments, combined with China's technological and financial leadership in clean energy, create a genuinely complementary partnership. The price differential favoring northern electricity exports, the potential for technology transfer and human capital development, and the longer-horizon opportunity of value-added energy applications together constitute a case for deeper cooperation that transcends the project-by-project logic that has characterized engagement to date.

This section has also documented how this opportunity is constrained: by India's effective veto over electricity exports, by the absence of a legal framework for cross-border power trade with China, by Nepal's administrative bottlenecks, by a BRI framework that has yet to deliver a single implemented project, and by a domestic institutional structure that is not yet adequate to the complexity of what deeper energy cooperation requires. These are not insurmountable obstacles, but they require sustained, deliberate policy work rather than episodic diplomatic engagement.

A parallel-track electricity diplomacy strategy, advancing both relationships simultaneously through carefully differentiated project structures, is the most credible path to strategic autonomy. Nepal's leverage with India increases to the extent that India perceives a credible northern export alternative; Nepal's leverage with China increases to the extent that it can offer commercial and political conditions that make investment here preferable to elsewhere. Realizing that potential requires Nepal to build the institutional foundations, legal, regulatory, administrative, and diplomatic, that make it a credible, predictable, and strategically autonomous partner. That is the work of the next decade.



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Chapter Overview

Chinese tourist arrivals have a documented statistical relationship with Nepal's foreign exchange reserves, yet recovery since the pandemic has been slow, the 2025 Visit Nepal Year for China fell well short of its targets, and value leakage through Chinese-owned intermediaries means that even the visitors who arrive generate limited domestic benefit. This section examines the institutional gaps — in digital marketing, service quality, and value chain regulation — that prevent Nepal from competing strategically for any segment of a highly differentiated Chinese outbound market.

04

Tourism

Overview

Tourism is an essential pillar of Nepal's domestic economy. In particular, regional tourists represent an important and reliable stream of visitors to Nepal, underpinning both the stability and seasonal resilience of the country's tourism sector (Shrestha and Kharel, 2025). Within this broader landscape, Chinese tourism has emerged as a particularly consequential component of the tourism economy in Nepal. The scale of the opportunity for Nepal is large with China being the world's largest outbound tourism market. Despite this, Chinese arrivals to Nepal remain a fraction of what geography, connectivity, and bilateral ties would suggest. The barriers suppressing that potential such as lack of strategic marketing, infrastructure challenges, and inadequate Chinese-language services are not structural inevitabilities but rather tractable policy problems. At the same time, the costs of continued inaction are mounting, as competing destinations accelerate investment in Chinese market development and Nepal risks ceding ground it may struggle to recover.

For policymakers and the tourism industry, this translates into a strategic question: how to leverage Chinese tourism in ways that maximize foreign exchange earnings, decent work, and community benefits. The design of visa regimes, investment incentives, destination branding, and regulatory standards are all arenas for enacting these economic objectives. This section examines Chinese tourism to Nepal from a tourism industry and government perspective, with focus on the trajectory of Chinese tourism, diplomatic relations, foreign direct investment, and the diverse profile of Chinese tourist segments. It argues that closing the gap between Nepal's Chinese tourism potential and its current performance is one of the highest-return policy interventions available to Nepal's tourism sector, and examines what a credible strategy to do so would require.

Tourism Sector in Nepal

A 2023 World Travel & Tourism Council report estimates that travel and tourism account for around 6.6% of Nepal's GDP and support roughly 15.2% of jobs nationwide, underscoring its importance for growth, employment creation, and fiscal stability (World Travel and Tourism Council, 2023). Tourism has long been framed in national development plans as a tool for poverty alleviation, particularly in rural and mountainous areas where alternative livelihood options are limited. The extensive backward linkages of the tourism sector, to agriculture, transport, crafts, hospitality, and informal services, mean that increases in tourist arrivals can quickly diffuse benefits across a wide range of households and enterprises.

Kharel, Upadhyay, and Kharel (2021) demonstrate that Chinese tourist arrivals have a strong and statistically significant relationship with foreign exchange reserves in Nepal, with their regression model explaining around 82% of the variation in reserves. This finding highlights how Nepal-China tourism ties extend beyond simple visitor numbers and hotel stays to shape macroeconomic indicators central to external sector stability. At the micro level, tourism generates both formal and informal employment, from hotel and trekking staff to guides, porters, transport operators, and small vendors, amplifying the distributive impacts of Chinese arrivals across local economies.

At the same time, tourism is more than an economic activity: it functions as a key instrument of public diplomacy and people-to-people relations, cultivating familiarity, mutual trust, and cultural exchange between Nepal and its neighbors (Karna and Khanal, 2022; Bhandari, 2025; Yang, 2025). Viewed from this angle, the entanglement of geopolitics, soft power, and political-economic interests helps explain how Chinese outbound tourism reshapes relations across national borders (Lang et al., 2024).

Tourism Flows from China to Nepal

Nepal Tourism Board (NTB) data shows that after Indian tourists, Chinese tourists rank among the most frequent visitors to Nepal (Shrestha and Kharel, 2025). These dynamics are shaped by broader shifts within China itself as well as bilateral relations between Nepal and China. As the Chinese economy has expanded, the number of outbound Chinese tourists has risen steadily, driven by growing middle-class incomes, expanding leisure time, and an escalating demand for diverse travel and cultural experiences (Chan, 2016). According to the 2024 China Outbound Tourism Development Annual Report, outbound travel from China remains predominantly regional, with 72.8% of trips directed toward surrounding Asian countries (China Tourism Academy, 2025). The bulk of these journeys are to Hong Kong, Macao, and Taiwan regions, followed by destinations across Southeast and Northeast Asia, positioning South and East Asia as the primary arena in which Chinese outbound tourism, and by extension, Nepal-China tourism relations, continue to evolve (China Tourism Academy, 2025).

Before 2001, Chinese citizens were not permitted to travel to Nepal for tourism (Bhandari, 2019). In 2002, Nepal became the first country in South Asia to receive China's Approved Destination Status, thereby facilitating Nepal-China flights, Chinese investment in the hospitality and tourism sector, and ushering an inflow of Chinese visitors (Bhandari, 2019; Bhandari, 2025). Stakeholder consultations with industry experts and data from NTB reveal that tourism from China peaked in 2013/2014, before reducing massively in 2015 due to the earthquakes and subsequent oil blockade. In fact,

reports show that the number of Chinese visitors fell by nearly 50% from 123,805 in 2014 to just 64,675 in 2015 (Prasain, 2025). The Government of Nepal's subsequent decision in 2016 to waive tourist visa fees helped recover Chinese tourism to Nepal (Bhandari, 2025). By 2019, Nepal had some 169,543 Chinese tourists, coinciding also with a state visit from Xi Jinping in October 2019 (Prasain, 2025).

However, with the onset of the 2020 COVID-19 pandemic, outbound tourism from China was sharply reduced and effectively stopped, with state approvals for travel to Nepal only re-opening in early February 2023 (Prasain, 2023). Despite the reopening of tourism to Nepal and the easing of the effects of the pandemic, tourist inflows from China have only slowly and incrementally recovered since, as displayed in Figure 1. This same trend is observed in other Asian tourist destinations such as Cambodia, Malaysia, and Singapore (Long et al., 2024). Since the pandemic, there have been efforts to increase the visitor amount in Nepal, particularly from Chinese visitors. On July 2024 at the 16th round of the Nepal-China diplomatic consultation mechanism meeting, Chinese officials announced 2025 to be "Visit Nepal Year in China" citing a goal of reaching 500,000 Chinese tourists to Nepal (Prasain, 2026). However, the goal was not reached with only 95,480 Chinese visitors recorded in Nepal in 2025 (Prasain, 2026). The decline in tourist inflows from China remains a cause of concern for the tourism industry in Nepal as found during stakeholder consultations. Tourism thereby remains a matter of priority for the diplomatic relations between the countries.

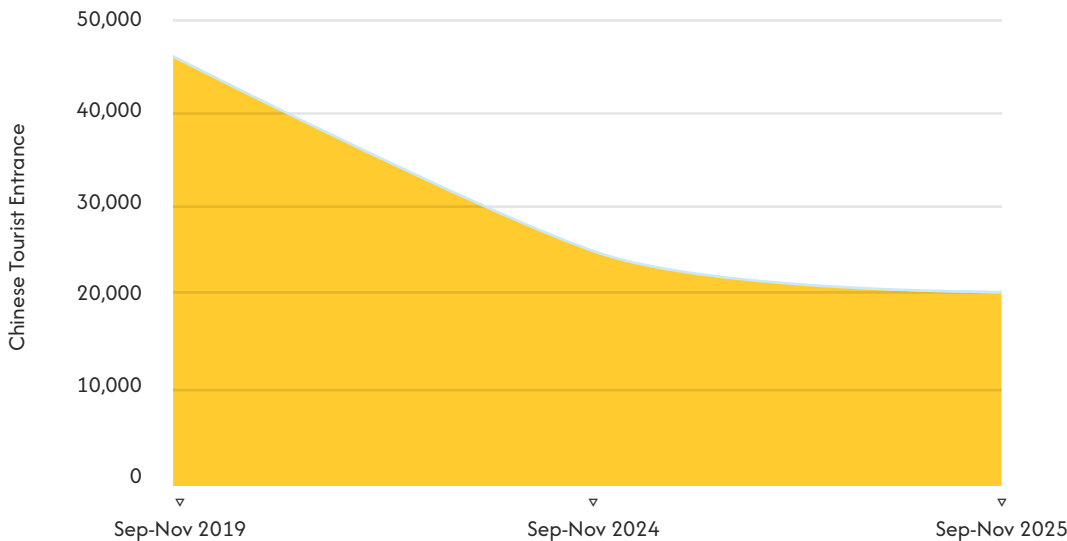


Figure 1. Chinese Tourist Inflows Decline (Peak Season), Sep-Nov 2019 to Sep-Nov 2025

Note. Tourist arrivals from China have decreased significantly (44%) in the same period from 2019 to 2025.
Source: National Tourism Board, September, October, November 2025

Nepal–China Diplomatic Collaboration on Tourism

Tourism has become a visible pillar of Nepal–China relations, with Chinese tourism to Nepal encouraging both governments to frame tourism as a strategic area of cooperation alongside trade, energy and infrastructure. Importantly, tourism as a cornerstone of bilateral relations between Nepal and China remains embedded in wider efforts to regionally integrate Nepal and China with the BRI and Silk Road Economic Belt strategy (Karna and Khanal, 2021). As part of the Silk Road Economic Belt strategy, the National Development and Reform Commission of China recommended promoting “border trade and tourism and culture cooperation between Tibet Autonomous Region and neighboring countries such as Nepal,” (NDRC, 2015). Nepal’s decision to join the Belt and Road Initiative (BRI) in 2017 created additional space for Chinese investment to tourism-relevant infrastructure, including airports, roads, and hospitality investments that shape how Chinese visitors access and experience Nepal. The Nepal-China corridor, also referred to as the Trans-Himalayan Multi-Dimensional Connectivity Network, includes investments and infrastructure projects, particularly in transport, energy, and urban development (NDRC, 2015).

Beyond diplomatic declarations, Nepal and China have developed more specialized bilateral coordination mechanisms that touch directly on tourism. The January 2026 meeting of the China–Nepal Coordination Mechanism on Border Trade and Cooperation signaled renewed political attention to tourism within a wider trade agenda. The discussions advanced plans for a sister-city link at the Rasuwa–Jilong border, which, if operationalized, could institutionalize regular exchanges between local governments, chambers, and tourism stakeholders, and create a platform for joint promotion of cross-border circuits. The committee is tasked with designing an action plan for a proposed Jilong–Rasuwa Transborder Tourism Zone, which aims to leverage cross-border pilgrimage, trekking, and cultural tourism in the Himalayan region (Government of Nepal, Ministry of Foreign Affairs, 2024). At the same Nepal–China joint meeting, officials announced plans to reopen the Kathmandu–Lhasa bus route after nearly two decades of closure (myRepublica, 2026). The route’s resumption, expected in the near future, is anticipated to further boost cross-border trade and tourism, including cross-border pilgrimage (Karna and Khanal, 2022). As of March 2026, the final details have yet to be announced. In practice, the effectiveness of these agreements will depend on follow-through, clear timelines for implementing agreed measures, coordination between central and provincial authorities, and integration of tourism considerations into border management, customs, and security protocols. Consultations with senior officials at the Nepal Tourism Board and researchers familiar with Nepal-China

cooperation in the field of heritage detail the institutional support of Nepal’s tourism sector by Chinese counterparts (Bhandari, 2025). The NTB and the Chinese embassy collaborate to bring tourism delegations from provincial, regional, and municipal bodies in China to Nepal which has been reported to increase the institutional capacity of the NTB (Bhandari, 2025).



Cultural Events and Heritage Conservation

Bhandari (2025) describes tourism as a tool for public diplomacy, through which tourism has become a channel for direct contact with the Nepali public outside of formal channels. Beyond diplomatic collaboration, the Chinese embassy hosts tourism and cultural promotion events in Nepal such as the Nepal-China Dragon Boat Race Festival in Pokhara, Lantern Show, Mountain Cross Country Marathon, Friendly Football Match, and Chinese New Year festivities (Bhandari, 2025). As noted above, the Visit Nepal Year in China also represented an important aspect of joint-tourism promotion and tourism cooperation between the two countries, though in the end the initiative failed to reach its target to attract half a million Chinese tourists in a year. Furthermore, an important component of tourism cooperation between Nepal and China has been heritage conservation and aid of important political and religious sites. Important sites include post-earthquake reconstruction of the Basantapur area, a UNESCO world heritage site, as well as reconstructions of temples in Nuwakot (Bhandari, 2025). These initiatives highlight how tourism, particularly through heritage conservation and cultural events, functions as a significant instrument for fostering mutual understanding and strengthening people-to-people ties, reinforcing broader diplomatic relations through shared cultural engagement and visibility.

Foreign Direct Investment and Tourism Infrastructure

Tourism development in Nepal is closely tied to broader patterns of business and infrastructure investment, where China has emerged as a prominent actor in Nepal. Official data indicate that between 1991 and 2018, China was associated with nearly 500 approved Foreign Direct Investment (FDI) projects in Nepal, with a particularly strong concentration in services and tourism (Rai, 2024). A 2022 CESIF study also found tourism to be a key sector for Chinese foreign direct investment, particularly for tourism outlets and joint ventures (Karna and Khanal, 2022). Chinese investment pledges peaked in fiscal years 2015–2016 and 2016–2017, when they accounted for more than 70% of Nepal's total FDI commitments. By July 2021, the tourism industry had attracted the single largest share of Chinese FDI commitments, reaching about USD 125 million (AIDIA, 2023). These investments have been framed domestically in Nepal as upgrades of critical transport and hospitality infrastructure, while for China they also serve commercial and strategic objectives linked to connectivity and regional influence (Karna and Khanal, 2022; AIDIA, 2024).

Air connectivity in particular represents an important aspect of tourist infrastructure. Nepal Airlines, Himalaya Airlines, China Southern Airlines, China Eastern Airlines, Air China, Sichuan Airlines, and Tibet Airlines are the airline carriers connecting the two countries, with reports in 2019 citing around 100 flights per week in 2019. Starting in late 2025, Nepal Airlines started operating Kathmandu to Guangzhou flights (Republica, 2025). Furthermore, China was invested significantly in Nepal's airport infrastructure. Pokhara International Airport, conceived as a gateway for international tourists to western Nepal, was built under an engineering, procurement, and construction contract with China CAMC Engineering, backed by a concessional loan of around USD 215 million from China Exim Bank. Similarly, the expansion of Tribhuvan International Airport's runway and associated works were contracted to China National Agro Technology International Engineering Corporation for approximately NPR 3.75 billion, with the aim of accommodating larger aircraft and improving safety margins on Nepal's main international gateway (Karna and Khanal, 2022). At Gautam Buddha International Airport in Lumbini, another key node for religious tourism, financing has been blended: the Asian Development Bank provided USD 42.75 million in loans and 15.75 million USD in grants, complemented by a USD 15 million loan from the OPEC Fund for International Development, while China's Northwest Civil Aviation Airport Construction Group undertook major construction contracts worth around NPR 6.22 billion (Karna and Khanal, 2022). Together, these projects are intended to support growth in tourist arrivals, including from China, by diversifying entry points and enhancing regional access



to major destinations. However, questions about debt sustainability, project viability, and oversight, especially in high-profile cases like Pokhara International Airport, have sparked domestic debates on the long-term economic returns and governance of such projects.

Beyond large-scale airports, Chinese investors and entrepreneurs have also entered hotels, restaurants, and tourism services, particularly in hubs such as Kathmandu, Pokhara, Lumbini, and Thamel, often tailoring products to Chinese language, food, and payment preferences (Nepal Economic Forum, 2025). This micro-level investment complements state-to-state infrastructure cooperation and strengthens the ecosystem that supports Chinese package tours and independent travelers alike.

Nepal Tourism Board

The Nepal Tourism Board (NTB) is legally mandated to develop and market Nepal as an international tourist destination, with responsibilities spanning brand promotion, market research, product development support, and coordination with public and private stakeholders. In principle, this mandate positions NTB as the central institution to lead strategic engagement with priority source markets such as China, including segmenting the Chinese market, tailoring digital campaigns, and aligning route development with tourism promotion. Bilateral diplomatic agreements between Chinese counterparts and NTB have and are expected to improve the enabling environment for tourism by upgrading connectivity, reducing travel time, and expanding the hospitality base. State-to-state tourism cooperation is channeled primarily through the NTB, which engages Chinese counterparts in activities such as sister-city collaborations, capacity-building workshops on the Chinese market, and hosting delegations of Chinese tourism councils in Nepal.

However, stakeholders participating in the focus group discussion for this study described NTB's engagement with the Chinese market as fragmented, reactive, and often overshadowed by domestic promotion activities. National-level campaigns are largely generic and English-language, with limited systematic efforts to communicate in Chinese or to adapt content to specific platforms such as WeChat, Baidu Maps, RedNote, Weibo, or Douyin, even though these shape travel decision-making for different age cohorts of Chinese tourists (Rajbhandari, 2025). This gap is particularly striking given that NTB has allocated NPR 1.12 billion, around 70 percent of its total NPR 1.59 billion budget in FY 2082/83 (2025/26) to international marketing and has officially branded 2025 as "Nepal Tourism Year for China," (NTB, 2025).



Visa Reciprocity and Mobility Arrangements

Visa policy has been one of the most tangible levers used by both governments to encourage tourism flows. In 2016, Nepal waived tourist visa fees for Chinese nationals, a move widely credited with facilitating a rapid expansion of Chinese arrivals in the years before the COVID-19 pandemic. This unilateral concession signaled Nepal's strategic interest in positioning itself as an accessible, welcoming destination for Chinese tourists and helped lower the upfront cost barrier to travel. Based on consultations with tourism stakeholders, though the 2016 visa waiver for Chinese tourists helped post-earthquake tourism recovery, it has not automatically translated into sustained post-pandemic recovery for Nepal's tourism industry, underlining that visa facilitation must be complemented by robust marketing, improved connectivity, and higher service standards to fully unlock tourism potential.

China's decision to waive visa fees for Nepali travelers from 1 May 2024 introduced a reciprocal dimension to these mobility arrangements, with symbolic and practical implications (Shrestha and Kharel, 2025). Reciprocity reinforces the narrative of a balanced partnership and may encourage more outbound travel by Nepalis for education, business, and tourism, deepening people-to-people ties.

Digital Payment Infrastructure

Digital payment infrastructure has become another important interface between Chinese tourism and Nepal's financial system. While Nepal initially banned the use of Chinese mobile wallets such as WeChat Pay and Alipay in 2019 due to concerns over unregistered transactions and tax leakage, subsequent regulatory reforms allowed licensed Nepali banks to partner with these platforms (Sharma, 2019). Chinese-side payment modalities outside formal channels prevented spending from entering Nepal's taxable fiscal space, limiting recorded foreign exchange inflows and government revenue (Rai, 2024). Consultations with a researcher familiar with Nepal-China tourist relations indicate that Nepali entrepreneurs serving Chinese clientele sometimes rely on informal networks of intermediaries to access Chinese digital payment solutions, effectively settling transactions in China rather than in Nepal. This reliance on opaque payment chains raises concerns around regulatory oversight, tax compliance, and the broader integrity of Nepal's tourism-linked financial flows.

Since 2023, agreements such as the NMB Bank-WeChat Pay cross-border payment arrangement have enabled Chinese visitors to pay for goods and services in Nepal by scanning QR codes in yuan, with settlements routed through the formal banking system and counted as foreign exchange earnings (Prasain, 2023). This integration of WeChat Pay and Alipay into Nepal's tourism economy reduces friction for Chinese tourists accustomed to cashless transactions, while also highlighting the need for clear regulation to ensure that digital payments support, rather than circumvent, Nepal's fiscal and monetary objectives.



Tourism Segments and Market Analysis

Nepal is an important destination for spiritual and cultural tourism from China, especially Lumbini, the birthplace of the Buddha (Bhandari, 2019). There has been a growth of China-focused travel and tour operator agencies in Nepal. Increased Nepali and Chinese-run businesses such as restaurants, hotels, tour operators, and guesthouses have emerged in Nepal, particularly in the tourist district of Thamel, to cater to the growing number of Chinese tourists in Nepal (Linder, 2019). Importantly, the growth of social media and digital platforms have also facilitated information shared between prospective travelers in China about Nepal as a travel destination (Rajbhandari, 2025; Yang, 2022).

Chinese tourists in Nepal are generally seeking a mix of natural, cultural, and spiritual experiences, often within a relatively short travel window. Cultural immersion is another key segment, centered on heritage sites, Buddhist and Hindu temples, and especially Lumbini, where visitors combine religious devotion, pilgrimage, and sightseeing. Increasingly, younger and middle-class Chinese travelers also look for experiential products such as local food tours, immersive English language or skill training courses, short outdoor activities, and opportunities to share social media friendly content, which amplifies Nepal's visibility on Chinese social media platforms.

Stakeholder consultations also highlight several recurring priorities for the overall tourism market for Chinese travelers: the quality of infrastructure and connectivity, the availability of Chinese-language services, and overall affordability of the tourism experience. Affordability is particularly salient; a 2025 study of Chinese tourists in Pokhara found it to be the most important factor contributing to their perceived quality of life while visiting the city (Sharma and Poudel, 2025). Stakeholder consultations also point to an emerging segment of wellness and luxury tourism, which tourism industry experts increasingly view as a priority area for product diversification and higher-value visitor spending.

Spiritual Tourism

Nepal's religious tourism sector is anchored in its status as the birthplace of the Buddha, with Lumbini and associated Buddhist circuits positioned as key pilgrimage destinations for regional and international visitors (Kharel, 2024). Spiritual and religious tourism constitute a particularly important segment of the Chinese market, as many travelers seek merit-making, temple visits, and encounters with Buddhist heritage alongside conventional sightseeing. Chinese interest in this segment reflects centuries-old Buddhist linkages as well as contemporary initiatives that deliberately mobilize religion and heritage as tools of diplomacy and soft power. Monastery-led exchanges, official delegations, and joint cultural programs have become regular features of

Nepal–China engagement, while Nepali and Chinese institutions have launched targeted campaigns to promote Lumbini and other Buddhist sites within Chinese media and online platforms (Kharel, 2024; Lumbini Development Trust, 2024).

According to expert consultations, Lumbini functions as a flagship, state-driven project to consolidate Buddhist diplomatic relations, whereas other sites such as Boudhanath (Boudha) in Kathmandu attract a more diffuse flow of Chinese tourists interested in everyday devotional practices, monastery life, and urban cultural experiences. In both locations, Chinese businesspeople have increasingly opened restaurants, hotels, guesthouses, and souvenir shops, embedding commercial ties within these religious landscapes and catering specifically to Chinese language, food, and service preferences. At the same time, the growth of spiritual tourism is constrained by practical bottlenecks in infrastructure and connectivity, including limited direct air links to Lumbini, uneven quality of accommodation, and gaps in visitor facilities at heritage sites (Kharel, 2024; Shrestha and Kharel, 2025).

Chinese engagement with Nepal's tourism sector also extends into the preservation and redevelopment of key heritage sites, most notably in Lumbini. Recent visits by high-level Chinese officials and Buddhist delegations to Lumbini, and discussions on expanding air connectivity and structured tourism cooperation, suggest that religious tourism is increasingly framed as both a cultural bridge and a strategic economic opportunity for Nepal (Lumbini Development Trust 2024; Rising Nepal 2024). Municipal and provincial actors around Lumbini have sought to leverage these ties through sister-city relationships, cultural festivals, and investment promotion for hotels, museums, and meditation centers. These initiatives operate not only as cultural or development projects, but also as instruments of Chinese state soft power, reinforcing Beijing's influence over Buddhist narratives and institutions beyond its borders. Investments in Lumbini, including support to Lumbini Buddhist University and affiliated educational institutes, can therefore be read as part of a broader strategy to shape the future institutional landscape of Buddhism (Bhandari, 2025; Karna and Khanal, 2022).

However, evidence from media reports and stakeholder interviews indicates that expectations around Chinese spiritual tourism sometimes outpace realized arrivals and investment, reflecting broader volatility in Chinese outbound travel and changing domestic regulations on overseas pilgrimages. Local stakeholders in Lumbini and other Buddhist sites have also raised concerns about uneven benefit-sharing, with some communities experiencing congestion and cultural commodification without commensurate economic gains, underscoring the need for more deliberate planning and safeguards in this segment (Tourism & Society TT, 2024).

Solo Travel

In recent years, the pattern of Chinese tourism to Nepal has shifted notably from large, organized group tours toward a growing segment of younger, more independent travelers. Many of these visitors rely heavily on digital platforms for trip planning, using apps such as WeChat, Douyin, Weibo, and RedNote to book flights and accommodation, crowd-source itineraries, and share real-time reviews and short videos (Shrestha and Kharel, 2025). This has helped popularize “word-of-mouth” destinations beyond the classic Kathmandu–Pokhara–Chitwan circuit and has enabled small Nepali operators to reach Chinese clients directly through social media marketing.

Stakeholder consultations also highlight solo female travelers as a visible and expanding niche within Nepal’s international visitor base, especially in trekking, backpacking, and culture-focused tourism. Nepal is frequently described as relatively safe for women traveling alone compared to many regional destinations, with well-established infrastructures on routes such as Annapurna and Everest and a growing ecosystem of female guides, women-focused tour products, and female-only accommodation. This combination of perceived safety, dense trekking networks, and tailored services positions solo female travelers as a potentially high-value source market, particularly for longer-stay and higher-spend segments interested in trekking, wellness, and deeper cultural immersion.

Emerging reporting on “burnout” among Chinese youth further illuminates why Nepal is attractive to this demographic (Zhen, 2025). Young Chinese visitors are increasingly drawn to Nepal not only for short holidays but also for longer stays that blend retreat, language learning, and informal study, including enrollment in English-language and other training centers at comparatively low cost (Yiwen, 2025). These individuals occupy a gray zone between tourist, student, and digital nomad, what some observers describe as “soft residents with a schedule”, seeking respite from the pressures of urban life in China, greater personal freedom, and the flexibility afforded by relatively accessible visas and affordable living costs (Yiwen, 2025). According to stakeholder consultations, social media content on platforms such as RedNote plays a crucial role in shaping these imaginaries, circulating images of Nepal as a friendly, low-cost, and spiritually rich destination that is further legitimized by the close diplomatic ties between the two countries.

High-Value Luxury Tourism

For Nepal, high-value luxury tourism from China is seen as a promising but still underdeveloped segment, with many new high-end hotels and resorts explicitly hoping to attract higher-spending Chinese visitors alongside other regional markets (Shrestha and Kharel, 2025).

Stakeholders in the tourism industry describe Chinese tourists as concentrated in semi-luxury and deluxe categories, with strong interest in shopping, curated cultural experiences, and nature-based stays that can be packaged into premium products (Shrestha and Kharel, 2025). Stakeholders also point to retired and older Chinese travelers as a particularly important potential source market, noting that this group is more likely to have disposable income and time for longer, higher-spend trips that combine religious sites, wildlife areas, and scenic destinations in Nepal (Shrestha and Kharel, 2025).

Vulnerability and the Risks of Overreliance

Despite the clear economic opportunities, several critiques and vulnerabilities accompany Nepal's growing dependence on Chinese tourism. Observers caution that heavy reliance on a single source market leaves exposed to abrupt shifts driven by changes in China's domestic policies, outbound travel regulations, or diplomatic priorities, which could rapidly alter tourist inflows and associated revenues (Bhandari, 2025; Long, 2024). Furthermore, on the ground, language barriers and cultural differences between Chinese visitors and Nepali tourism workers can create service gaps, cultural misunderstandings, and missed opportunities for higher-value engagement, as highlighted by tourism stakeholders and empirical studies on Chinese tourists in Nepal (Sharma and Poudel, 2025; Rajbhandari, 2025).

There are also geopolitical sensitivities with respect to Chinese investments in infrastructure and tourism, particularly with respect to Nepal's securitization and oversight of any anti-Chinese activity in Nepal (Karna and Khanal, 2022). Nepal's formal adherence to the One-China policy has translated into a tightening of surveillance of Tibetan communities and restrictions on their public gatherings, cultural events, and political expression (Ghosal and Kang, 2025). This securitized environment shapes the practices of law enforcement in key urban and touristic spaces and often places local authorities at the intersection of tourism promotion, border management, and transnational security cooperation with China (Ghosal and Kang, 2025). As a result, Nepal–China tourism relations cannot be analyzed in isolation and disentangled from such broader political sensitivities.

Institutional Gaps in Leveraging the Chinese Tourism Market

Institutional Capacity

Although interest in Nepal as a destination exists among Chinese travelers, Nepal's institutional and strategic engagement with the Chinese tourism market remains fragmented and reactive. That is, despite high-level diplomatic discussions on tourism, practical engagement with China relies heavily on private sector initiatives with limited policy coordination from the Government of Nepal.

Marketing and Digital Visibility

Institutionally, the NTB was established to lead international tourism promotion. However, many private tour operators in Nepal lack the capacity and know-how to use Chinese digital platforms effectively, underscoring the need for NTB to provide structured guidance, training, and co-created campaigns rather than one-off promotional events. These gaps have limited Nepal's ability to shape its image, influence traveler decision-making, and attract higher-spending tourist segments. NTB is engaged in ongoing internal discussions and with the Chinese embassy on rethinking social media promotion toward the Chinese market.

Key Challenge: Lack of Social Media Presence of Nepal Tourism Board in China

NTB has allocated NPR 1.12 billion, which is 70% of their total NPR 1.59 billion budget, to international marketing in the current fiscal year 2082/83 (FY 2025/26) (NTB, 2025). Though 2025 was branded by the NTB as “Nepal Tourism Year for China,” NTB's presence on core Chinese platforms is minimal according to consultations with tourism industry experts and entrepreneurs. There is an urgent need for age-segmented, platform-specific marketing strategies on platforms such as RedNote (小红书) for younger people, Weibo (微博), Dǒu yīn (抖音) and Wechat (微信) for older generations. A focus group discussion with tourism stakeholders in December 2025 highlighted that several Kathmandu-based Nepali travel agencies face capacity constraints and limited familiarity with Chinese social media ecosystems, hindering their ability to effectively market to Chinese tourists. Consultations with tourism industry experts further reinforced that the lack of strategic social media marketing by NTB towards prospective Chinese tourists is a key gap and important frontier moving forward. Consultations with members of the Nepal Tourism Board reveal that increased social media presence has become a priority action area for the agency.

Affordability, Infrastructure, Safety, and Service Quality

Stakeholder consultations reveal that Chinese tourists are deterred by negative perceptions about Nepal regarding affordability of flights, safety, political stability, and service quality — concerns that intensified following the September 2025 Gen Z protests. The absence of NTB's presence in the Chinese social media ecosystem compounds this, creating information gaps and misconceptions that go unaddressed. Furthermore, airline policies, including airfare pricing and flight frequencies, are not consistently aligned with tourism promotion objectives, as mentioned by Nepali tourism stakeholders during consultations. Nepali tourism stakeholders also raised concerns about a lack of Chinese-language staff at critical tourist locations, particularly the Tribhuvan International Airport, as well as a lack of clean, modern tourist facilities in tourist destinations. There is a greater need for guide and hospitality staff training in Mandarin. Stakeholder consultations with tourism leaders further confirmed these insights. Together, these issues prevent Nepal from transitioning from low-cost, standardized tourism toward a more sustainable, high-value model.

Economic Leakages and Value Chain Issues

Stakeholder consultations reveal that economic benefits of Chinese tourism are not fully accruing to Nepal due to the dominance of Chinese-owned or Chinese-linked intermediaries across the tourism value chain, including hotels, restaurants, tour agencies, and travel services. Industry concerns emphasize that this creates a closed ecosystem in which Chinese tourists are served primarily by Chinese businesses, resulting in profit repatriation rather than local value retention. There is no Nepal-specific data that can accurately capture this trend. However, the monopolization of some parts of the tourism value chain by Chinese businesses is a trend seen in other Asian destinations as well, such as in the Sri Lankan hospitality sector (Oxford Business Group, 2019). With the rising trend of solo and independent travelers from China who do not book tours through group tour agencies, these trends of Chinese businesses capturing the tourism market in Nepal may well also naturally shift moving forward.

Tourism industry experts also point to a negative effect of the oversaturation of Chinese tour operators in Nepal to be price undercutting, which compresses margins for Nepali service providers and discourages investment in quality improvements. As a result, stakeholder consultations revealed that Nepali tour operators and guides face a race-to-the-bottom environment, characterized by low wages, potentially lower service quality, and limited incentives for professional development. Over time, these conditions may erode Nepal's tourism reputation and constrains its ability to attract travelers from China.

Policy Recommendations

While Chinese tourism continues to drive Nepal's visitor growth, the challenge lies in translating this momentum into sustainable, high-value gains for the domestic economy. China recorded around 146 million outbound trips in 2024, with projections suggesting 165–175 million outbound trips by 2026 (China Tourism Academy, 2025; Jennings, 2026). Nepal is currently capturing only a very small share of China's outbound tourism market. Nepal can focus on expanding its share in the market of Chinese tourism in the context of the growing post-pandemic outbound tourism recovery from China. Nepal must leverage its comparative advantages relative to other popular Asian destinations for Chinese travelers.

By targeting higher-value niches, strengthening the NTB, upgrading local enterprises, modernizing digital and infrastructure systems, and investing in effective and creative social media based marketing strategies at the private sector level and within NTB, Nepal can build a more competitive, high-value, and sustainable tourism economy. The following policy measures aim to reduce structural vulnerabilities, enhance local value capture, and reposition Nepal's tourism sector toward more diversified and resilient growth.

1. Develop high-value tourism products (NTB, private sector/tourism industry)

a. NTB, in partnership with private-sector associations, should commission market research on high-value segments such as wealthy retirees, wellness and spiritual tourists, solo female travelers, and special-interest visitors from China and global markets (e.g., photographers, wildlife enthusiasts).

b. Based on this research, NTB can facilitate co-design of differentiated products, luxury wellness retreats, meditation and yoga programs, agri-tourism, and cultural immersion packages, by offering technical support, marketing, and co-financing product-development pilots to the private sector, and curating these products in its international campaigns.

c. Supporting Nepali SMEs to move into higher-margin activities through concessional finance and technical support.

2. Uplift tourism entrepreneurs and tackle value-chain leakages (Inter-ministerial coordination, private sector/tourism industry)

a. Capping the share of fully Chinese-controlled operations in key zones unless they partner with Nepali firms; Incentivizing joint ventures and local sourcing

3. Shift marketing and digital strategy toward Chinese platforms (NTB, private sector/tourism industry)

a. NTB should establish a dedicated China desk responsible for professional Chinese-language content, partnerships with major Chinese social media/travel platforms, and coordination with Nepali tour operators for joint campaigns. This can be done by hiring dedicated social media staff with Chinese language and culture exposure, such as young people who have recently returned from studying in China.

4. Invest in tourism-relevant infrastructure and services (NTB, Ministry of Physical Infrastructure and Transport, private sector/tourism industry, educational institutes)

a. In the near term, NTB and private-sector associations can expand investment for co-fund Chinese-language training for guides and frontline workers, while line agencies responsible for civil aviation, culture, and urban development upgrade airport and heritage-site facilities, internet connectivity, and digital payment acceptance.

b. Addressing hygiene, sanitation, and road quality requires coordinated medium- to long-term investment and regulatory enforcement by relevant ministries and local governments, with NTB playing a supporting role in identifying priority tourism corridors and channeling donor or public-private investment.

Conclusion

Over the past two decades, Nepal–China tourism relations have evolved from a marginal connection into a structurally significant axis of the political economy of Nepal’s tourism sector. Chinese visitors now influence foreign exchange reserves, sectoral employment and entrepreneurial opportunities, while Chinese capital and state-linked initiatives shape key tourism-relevant infrastructures such as international airports, religious sites, and digital payment ecosystems. On the demand side, the Chinese market is increasingly differentiated, encompassing families, pilgrims, “burnout” youth seeking retreat and language training, wellness and luxury clients, and solo travelers, mediated through Chinese digital platforms that co-produce representations of Nepal as affordable, spiritually rich, and geopolitically “friendly.” This heterogeneity creates scope for Nepal to move beyond low-cost, volume-driven models towards more diversified, higher-value, and longer-stay segments that can support regionally distributed development and deepen people-to-people ties.

At the same time, the deepening of tourism linkages foregrounds a set of structural vulnerabilities and governance challenges that demand analytical and policy attention. Nepal’s growing dependence on a single external market, the political conditionalities associated with the One-China policy, the soft-power logics underpinning investments in Lumbini and heritage circuits, and the emergence of partially enclosed Chinese business and payment ecologies together raise questions about sovereignty, accountability, and distributive justice. These dynamics highlight a tension between short-term gains from expanded arrivals and infrastructure financing, and longer-term risks of policy capture, economic leakages, and constrained space for domestic deliberation over development priorities. Harnessing the full potential of Chinese tourism will depend on strengthening Nepal’s institutional capacity, clarifying the NTB’s strategic role, improving regulation of investment and digital payments, and embedding tourism planning within a broader vision of economic diversification, social safeguards, and foreign-policy autonomy.

Chinese tourism offers Nepal a significant opportunity to enhance foreign exchange earnings, generate employment in the tourism sector, and facilitate cross-cultural exposure. However, without strategic intervention, Nepal risks remaining locked into a low-value, intermediary-dominated tourism model. Insights from the private sector underscore that the key constraints are systemic, spanning market access, institutional capacity, infrastructure, and business models. By focusing on differentiated high-value tourism products, strengthening visibility within China’s digital ecosystem, investing in language and service quality, and pursuing coordinated government-to-government engagement, Nepal can reposition itself as a premium destination for Chinese travelers. Such a shift would not only increase tourism revenues but also ensure that the benefits of tourism are more equitably distributed within Nepal’s economy, supporting long-term and sustainable sectoral growth.



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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.

05

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.





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