

# Economic Prospect of Belt and Road Initiatives in Nepal

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## Abstract

This paper attempts to explore global economic prospect of Belt and Road Initiative with special focus on Nepal. The paper begins with the overall account of BRI and examines how connectivity with China would help in prosperity for Nepal. Furthermore, the paper discusses about funding modality as Kerung-Kathmandu railway under BRI and various other dimensions of the construction. The paper concludes with some recommendations regarding immediate requirements for Nepal that should be addressed via BRI.

**Keywords:** *BRI, China, Nepal, Diplomacy, Economics, Railway, Prosperity*

## Introduction to BRI

In around 114 BCE, China's imperial envoy Zhang Qian assisted the initiation of Silk Road, a network of trade routes that connected China with Central Asia and the Arab world (Zhang, 2013). The name gets derived from China's most important exports—silk and same route foster the progress of the entire region for centuries. Again in 2013, China's current president, Xi Jinping, envisioned re-establishing a modern version of Silk Road that would mitigate the borders between China and Central Asia, West Asia, and parts of South Asia.

So what exactly is Belt and Road initiative? Is it a labyrinth of railway tracks, roads, and pipelines that links Asia with Europe? Or as claimed by many western Media, Is it Beijing's disguised strategy to tempt countries with investments and ensure the paradigm shift to the multipolar world? In fact, Belt and Road initiative plan includes physical connection, strategies, global economic prospects, and open new avenue for exercising soft power. The old Silk Road was a chain of trader who used to exchange goods along a corridor of trade as many of the high-value trade goods were transported over vast distances – by pack animals and river craft. Those merchants never travelled long on this “silk road” but functioned as a connecting node in the vast supply chain of ancient Silk Road. Today instead of merchants and caravan we have upgraded business firms and eager partner groups to make modern supply chain connecting cross-

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continental borders. It will speed up the development of an integrated Eurasian market with its progressive influence on Africa and other neighbouring region.

Belt and Road initiative aims to construct a massive global platform for economic collaboration, including policy coordination, free trade, commercial and financial cooperation, along with socio-cultural partnership within the region (Simelane & Managa). With six main economic corridors spreading over Eurasia, this initiative would redesign the region's substructure network, increase connectivity across the continent, and mend some of the underdeveloped grounds along the way.

### **Economic Prospect of BRI**

During the keynote speech at the opening ceremony of the BOAO Forum for Asia annual conference, Chinese President Xi Jinping remarked that Belt and Road Initiative (BRI) may be China's initiation, but the whole world will share its opportunities and outcomes (Reuters, 2018). As a win-win initiation, BRI not only increases China's economic and political leverage but also benefits the entire globe. More than 60 nations, with a combined GDP (Gross Domestic Product) of \$21 trillion are standing on edge to the BRI action plan (Callahan, 2016). Though initiated by China, it's a global plan—actually inclusive—comprising about one-third of the world's GDP, 63 percent of the world's population, three-quarters of energy resources, and trades almost half of the goods that move around the world (HSBS, 2017). Xi further said, “We can make the BRI the broadest platform for international cooperation in keeping with the trend of economic globalization and to the greater benefit of all our peoples” (Xinhua, 2018).

While talking in the present context, China's greatest achievement is not the BRI project itself, but the way it names and interprets the project. History books have a collection of similar projects initiated by the US and Japan but none has framed it as appealing as China did by reviving its Silk Road narrative. Now, many nations within 'historical silk road' mentally find themselves as already a part of this grand initiative, and the number of countries also gets the inclination to join the wagon of new silk road because many others have been part of it. Just the name, in part, minimizes huge expenses that would have cost on the negotiation and diplomatic approach to bring some countries under this plan.

The enactment of the 'Belt and Road' initiative will result in a win-win situation for both China and the global economy orbit. The action plan envisages the promotion of organized

and free-flowing economic exchanges, proficient allocation of resources, and the deep amalgamation of markets. For China, the project remains crucial as Beijing reforms its economy, develops new growth engines, and cultivates new prospects of regional growth (Cai, 2017). For the world, it will have extensive impacts on countries within ‘Belt and Road, project, narrow development gaps and accelerates the process of regional integration. Cumulative investment in infrastructure will open up new prospects for development in ‘Belt and Road’ regions. It can also encourage production and consumption, which of course upsurge jobs and market demand around the globe. To fulfil BRI infrastructural objectives, Beijing has established many new financial organizations, among which three are active investors: the Asian Infrastructure Investment Banks (AIIB), the New Development Banks, and the Silk Road Fund. Estimates indicate that BRI infrastructure in Asia alone will cost US\$1.7 trillion a year through 2030(Abida, 2018).

### **Development achieved**

After a couple of years of headway, the BRI project has progressed several win-win developments between China and other countries. Evidently, the projects in Sri Lanka, Pakistan, and the rail route from China to Iran have already proven its global worth. The Mombasa-Nairobi Standard Gauge Railway built by a Chinese company in Kenya has contributed 1.5 percent of GDP growth in Kenya and created 46,000 jobs locally by reducing the transport cost and travel time from Mombasa to Nairobi by half. With the subcontract participation of around 300 local companies, this project has improved the local economy(Cao, 2017). Similarly, the construction of Nehru Tim Jielu Mu Hydropower Station was done by the joint engineering team of China Gezhouba Group (CGGC) and China Machinery Engineering Corporation (CMEC) with an investment of around \$4.3 billion. BRI plan has also connected Kazakhstan and the north-western Chinese Xinjiang Uygur Independent Region. The overall trade between Xinjiang and Kazakhstan is more than \$11 billion annually, the digit that comprises 40 percent of China-Kazakhstan trade in total. Since the U.S.’ Marshall Plan to rebuild post-WWII Europe it’s considered the largest overseas spending project by any single country (Hu Liu& Yan, 2017).

### **In the case of Nepal**

Today Nepal seeks to raise from the level of a least developed country to being a middle-income country before 2030. The economic partnership under the BRI will reduce Nepal’s geographical and economic dependency with its southern neighbour,

ultimately minimizing its future vulnerability. The revival of the Silk Route will boost up connectivity, increase trade and investments increase the mobility of the people and most significantly open up new economic opportunities mainly integrating trade and investment in Eurasia. Nepal used to thrive as one of the important root-link historic silk road and its revival is expected to benefit the contemporary economy of Nepal.

The essence of connectivity remains inevitable in case of Nepal as the country fragmented within itself because of poor infrastructure. According to the World Bank study, Nepal needs infrastructure investment equivalent to 12 percent of GDP, which amounts to nearly US\$13–18 billion over a decade, to maintain the current pace of economic growth (Dixit, 2017). It needs to spend 2.3 to 3.5 percent of annual GDP to improve its connectivity, including strategic and local roads. The transportation sector alone needs anywhere between US\$3.7–5.5 billion in investment for new projects. Amid such context, the Belt and Road Initiative project which exclusively centres on mitigating the infrastructural gap can help achieve both the physical and financial objectives of Nepal. It will have a revolutionary impact on the overall development of the Himalayan economy and to take bilateral relations in a new height.

After ascending up to the position of the second-largest economy in 2012, China has amplified the amount of foreign investment in Nepal. According to economic studies, by the end of 2016, China had spent 160 billion US dollars as foreign investment. It is much higher compared to past investments. Such investment indicates their broader objective to extend this ambitious project all over the globe. In such case it is common for Nepal to expect multiple benefits. The Chinese win-win initiative not only increases Nepal's opportunity to benefit from the economic development taking place in China but also accumulates the future overflow of China's prosperity. Crucially, Belt and road plan offers a vast network of interconnectedness, which will be a strong foundation for developing countries to move ahead. Besides, the connectivity in every possible ways - physical, cultural, people to people and technological- will be sufficient to reap benefit from the economic giant. Similarly, Chinese government is constantly encouraging their domestic firms and interested groups to invest in Silk Route countries. Trading firm and investment boards are mushrooming in many BRI countries to ease interested parties for investment. And those investors are exploring prospects in various areas like hydropower, tourism, agro-economics, and another sector. (Sharma, T)

However, BRI itself neither leads to automatic development nor improves the economic condition of Nepal, it just provides the opportunity and rests depend on how the nation and its policy response to this prospect. According to Dr. Rajiv Kumar Jha, professor at Xi'an Medical University and the director of the institute "the door of the prosperity of Nepal has opened as it has become a member of OBOR. He says – there are many benefits that Nepal can acquire from its northern neighbour and world's second-largest economy, China, but a proper homework is required from the Nepalese side to determine the extent of benefits that Nepal can draw. With connected roots, the dragon train will inroad Nepali border with the flood of cheap products enough to wipe domestic companies but what will Nepal send back in those trains? Thus Nepal needs to seek a sustainable solution for this upcoming challenge.

### **Kerung-Kathmandu Railway and BRI**

Till some years ago the development dream of the trans-Himalayan railway linking Kerung-Kathmandu was like magic realism to Nepal. Now after the project is listed as one under China's BRI during the second Belt and Road Forum in Beijing in April, there seems some glimpse of hope. Preliminary estimates put the cost of just the 170km Kerung to Kathmandu section of the railway at 38 billion Yuan (\$5.5 billion). Even though only 30 percent of the length from Menbu to Kathmandu is in Nepal, it will account for almost half the cost of the project because of the required tunnelling.

The government is hopeful that China will provide the necessary support for making possible this ambitious project. However, the two countries are yet to finalize who will fund the cost of the project. In this confusing phase, we can try different funding modality like the Railway construction under the BRI project can be done with help from the AIIB, Silk Road Fund and other international financial institutions. Likewise, Nepal and China can also go for a cooperative project financing model as adopted by Japan-India while constructing Ahmedabad-Mumbai high-speed railway. Of the total estimated budget, China can provide 85 percent of the cost at 1 percent interest rate with repayment period of 25 years. Till then the flow of trade and people's movement through train would give enough earning for Nepal to payback the debt. Or else China has a history of providing grants to Nepal in different projects including the construction of Kodari highway during 1960s when China was comparatively poorer than now and was under the doom of great famine. Owing to this fact and analysing Nepal's relation with China, there remain many grounds for the expectation that

today's largest economy mounting at 6.6 percent growth rate a year would complete this railway project in grants.

Apart from issues of funding, there is also ongoing national debate whether this mega project is day-dream or future reality. Of course, the railway construction from Kathmandu to Kerung is very challenging but not impossible if both governments work in consensus with full determination. Owing to complex geographical structure, as evident in a primary report submitted by China Railway First Survey and Design institute, 98.55 percent of the railway should pass through either tunnel or bridge.

Tunnel ways are usually considered to be one of the most challenging construction projects in the world. Requiring bespoke high tech machinery and a large quantity of the skilled human resource to penetrate virgin hills, tunnelling projects often demand an abundance of investment as well as time. Engineers usually encounter plenty of geotechnical challenges that call for innovative solutions entailed with practical executions. According to a confidential feasibility study by a Chinese firm, complex geographical topography and laborious engineering workload will become major obstacles in building a cross-border railway. The railway track which has to inroad through rocky Mountains would demand excellent construction plan and high tech engineering. With an objective to join the tracks to the Kathmandu section, the engineers would construct ramps along the northern and southern slopes leading to Lake Paiku, near Kerung. Those ramps are expected to mitigate the huge difference in elevation between the northern and southern hoof of the mountains.

Engineering projects by their very nature bring unique challenges to overcome, but designed to accommodate utilities, including policy coordination during the planning process, and minimizing construction impacts are challenges that have to be managed on almost every project. In this critical phase of initiating such a big railway project, Nepal should consider learning from similar projects done by other countries. Gotthard base tunnel opened in June 2016 can be the best sample case for Nepal. For more than decade hundreds of workers faced tropical temperatures underground and the risk of water in the rock to build one of the longest rail tunnel stretching at 57 km across the Swiss Alps. The tunnel which cost \$12-billion (U.S.) and 17 years of continuous work to complete in estimated time. With the involvement of more than 2,600 people in a construction project, 80% excavation work done by boring machines and 20% by blasting, the project remains as the best example of engineering success despite

geographical obstacles. Now Gotthard Base tunnel allow trains to travel up to a top speed of 250 km/h and also license heavy loaded trains to pass through the transalpine route. With a maximum depth of 2,450 m, the tunnel is also the deepest of its kind in the whole world. In regard to the completion of the Gotthard tunnel, Nepal can also hope to witness the Chinese train inroading Kathmandu via well-engineered tunnel.

Similarly Nepalese public should stop discouraging government by questioning its past failures and change our attitude of Get 'er done mentality. Because the journey of thousands miles begins with a single step. So instead of posing very irrational question immediately after some month of project declaration like; where is the train, where is the ship? We must give a chance to this stable government. We should understand that nine years is not very long period to complete such large scale connectivity project. Instead of counting the days, we should start counting those opportunities that the whistling train will bring after nine years.

After ascending up to the position of the second largest economy in 2012, China has amplified the amount of foreign investment in Nepal. According to economic studies, by the end of 2016, China had spent 161 billion US dollars as foreign investment. It is much higher compared to past investments. In such case it's not a big deal for China to invest in Nepal's railway which is also part of its Grand BRI project. Yet the possibility of investment highly relies on how diplomatically our leaders can negotiate with the Chinese government.

### **Further requirements for Nepal**

In March 2016 the Transport Transit Agreement was signed during a meeting in Beijing between Nepalese Prime Minister K. P. Sharma Oli and his Chinese counterpart Li Keqiang. The protocol, which is key to actualization of the treaty, will allow Nepal to conduct trade with third countries through China. Nepal presently conducts trade with third countries only through India. So in order to improve Nepal's connectivity and expand Himalayan trade through China, the construction of the following highways must be completed as soon as possible.

- Kathmandu-Kodari highway
- Biratnagar-Khandbari-Kimathanka road
- Beni-Jomsom-Korala root to connects Myagdi district with the Tibet

- Mailung-Syabrubesi-Rasuwigadi road and
- Hilsa-Simikot Road

Furthermore, these broad highways need compartmentalisation in form of four-lane fast track roads for easy access. Nepal should seek finances for these highway projects through the Asian Infrastructure Investment Bank as well as required support from the Chinese government. Officials at the Commerce Ministry said three sea ports—Tianjin, Shanghai and Guangzhou—and two land ports have been identified for Nepal’s third-country trade via China. Nepal will be able to reap trade benefit if it sought agreement on other three ports: Chongqing (river port near Chengdu), land port of Khorgas (China-Kazakhstan border) to trade with European parts, and land port of Kashgar (near China-Pakistan border) for establishing trade relation with Iran, Pakistan and other Gulf countries (Chan, 2018).

### **Debated issues**

The outline of Belt and Road Initiative exceeds beyond infrastructure and economic development. It also provides ground for the expansion of soft power where even a country with not good economic capability can thrive by exercising soft utilities like art, culture and political diplomacy. However, there exist some prophesied digital narratives in western air regarding Belt and road initiative. Like; China will produce an abundance of demand abroad encouraging surplus in cement plants, steel mills and construction firms, which ultimately expand business at home. This spider plan will connect every neighbouring state with China’s economic centre, so enhancing the opportunity to deploy both hard and soft power around the region. The dragon may initiate her strategic blueprint to upgrade Yuan as an international substitute to the US dollar. And to institutionalise it, they will establish more multi-lateral infrastructure bank and economic firms which will destabilise the impact of the existing Washington-based organizations. In short, the outcome will be systematic regional hegemony by Asia’s leading economic and political power.

### **Conclusion**

In my view, the economic notion of connectivity on a trans-continental level by China is very rational step, particularly at a time when globalization had remained vulnerable amid the rising trend of protectionism and economic nationalism in the West. The West versus rest paradox no longer dominates modern world order, as we already live in a Global village where each land is connected by digital highways. This mega project



seeks to make the world more interconnected by contributing to the foundation of the massive human community with a shared future. One Belt One Road abridges the distance between nations as well upholds the global economy, and will hopefully result in progress and generate fruits for the entire world.

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