

China's Economic Ties with South Asia With Reference to Nepal

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1. Introduction

China and India are faster-growing economies of Asia. After this, Bangladesh, Bhutan, Maldives, and Sri Lanka are also other growing economies of South Asia. China's economic growth remained at 2.3 percent in 2020 due to the COVID-19 effect, with the recovery its GDP growth is expected to grow at 8.0 percent in 2021. Major South Asian economies experienced a low profile of economic growth in 2020, which ranged between 1.0 percent to 3.0 percent in 2020; however, they will experience satisfactory growth in 2021. The world's two most populous countries, China and India, accounting for roughly 40 percent of the 6.5 billion-plus population on earth, are not only the two fastest-growing major economies of the world at present; they are among the few countries that have continued to expand at times when the economies of most countries of the world shrunk.

In the twenty-first century, China's national priority is economic development and therefore Beijing has no interest in a state of heightened tension or conflict in South Asia. Moreover, China's foreign economic goals have become more ambitious under the leadership of President Xi Jin Ping and the region is an integral part of these plans. Moreover, China's Belt and Road Initiatives entail multiple overland routes through South Asia, and Southeast Asia lanes through the Indian Ocean. This vision builds, existing Chinese efforts to develop roads, railways, and pipelines across mountain ranges and through jungles and to build ports and facilities around the rim of the Indian Ocean (Scobell & Lin, 2018).

Due to two reasons, South Asia is important for China. First, China wants stability within its state along with peace in border areas. Secondly, China's interaction with neighboring states is necessary in order to enhance trade (Bukhari, A., & Bakht, 2013). China realizes that the market and resources that India can provide to its economy are incomparable to the rest of the region. It also acknowledges and aspires to learn from India's leadership position in creating software so as to synergize it with its existing strengths in computer hardware to catapult China into a world-class economy (Bhagwati, 2017).

2. China's Trade and Investment Relation with South Asia

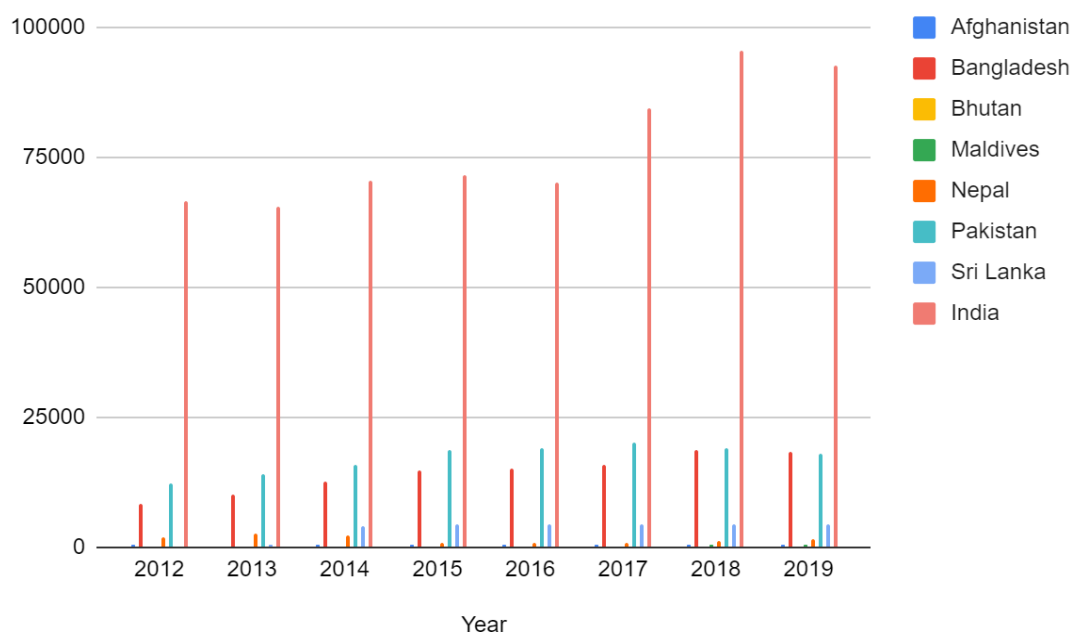
In recent decades, growth in China and India have far exceeded that in other emerging economies and, of course, advanced countries. The two Asian economies have come to account for 25 percent of Global

GDP, measured in terms of purchasing power parity (PPP), while they have attended growing influence in global trade (Vidal, 2018).

India stood at 7th position in terms of imports from China in 2020. India's position in import secured was 3.0 percent by that time. The USA followed by Hong Kong, Japan, South Korea, Vietnam, etc., are the other major importing countries from China in 2020 (**Refer to Annex Table No. 1**). Among China's trading partner countries that generate the greatest positive trade balances, the Chinese surplus with India (up to 6 percent), the United States (up to 10.5 percent), and Mexico (up to 9.9 percent) grew at the fastest rate from 2016 to 2020.

China's exports to South Asia are mainly manufactured goods; South Asian exports to China mainly are primary products and semi-finished products. The volume of trade between China and South Asia, in general, is also growing. China's trade with South Asian countries is at the increasing trend. China has more volume of trade with India, Bangladesh, and Pakistan. The other countries of South Asia as Sri Lanka, Maldives, Nepal, and Bhutan are the other trading allies of China in South Asia (**Refer to Annex Table No. 2**).

India is the premier country that has succeeded to attract more FDI amount in its economy in South Asia. The other countries of South Asia, Bangladesh, Pakistan, and Sri Lanka have also succeeded to attract more FDI. For example, India had hosted US\$ 46400 million FDI in 2016–17. This figure for Bangladesh, Pakistan, and Sri Lanka was US\$ 2003 million, US\$ 2761 million, and US\$ 636 million respectively for 2016–17 (Sharma, 2017). The South Asian countries such as Nepal, Bhutan, and Afghanistan have failed to host more FDI in comparison to even Bangladesh or Sri Lanka.



China's outward FDI to Asia was the US\$ 946.7 billion in 2013; this increased up to the US\$ 116.8 billion in 2019. In South Asia, India, Afghanistan, and Pakistan succeeded to host more of China's FDI.

In 2019, China's FDI to India, Bangladesh, and Pakistan stood at the US\$ 2.6 billion, US\$ 7 million, and the US\$ 3 million respectively (**Refer to Annex Table No. 3**). China quietly has created a significant place for itself in India in the last few years in the technology domain.

China's investments in Sri Lanka, Pakistan, India, and other South Asian countries have reached US\$ 12.29 billion (Hameed, 2016), While India is making inroads through the aid route in South Asian countries; China, in turn, is adopting a more capitalist approach and has made significant investments in the region. For example, China's investments and contracts in Pakistan, Sri Lanka, Bangladesh, Afghanistan, Nepal, and the Maldives were US\$ 12.9 billion, US\$ 3.11 billion, US\$ 13.87 billion, US\$ 210 million, US\$ 1.34 billion, and US\$ 970 million respectively. Likewise, India's aid to Bhutan, Nepal, Afghanistan, Bangladesh, and the Maldives remained at US\$ 156 million, US\$ 23.15 million, US\$ 46.31 million, US\$ 8.6 million, and US\$ 16.54 million respectively in 2017/18 (TOI, 2018). It seems that China's Foreign Direct Investment in Asia and South Asia is pouring because of its geographical advantages. Besides, the rising tendency of production costs in China has also led China relocation its production activities in the South Asian region.

3. Nepal's Economic Relation with China

Nepal-China's present bilateral trade status further depicts that Nepal's export to China was NRs. 108.2 million in 2005-06, this figure increased to NRs 2580.0 million in 2018-19. Likewise, Nepal's imports from China rose from NRs. 6635.5 million in 2005-06 to NRs. 214800.0 million in 2018–19. With the robust increase in imports from China, Nepal's facing trade imbalances. This figure for 2018–19 stood at NRs. 212220.0 million (**Refer to Annex Table No. 4**). Presently, the major exportable items to China are: incense sticks, copper/brass utensils, handicrafts, herbs, silver and jewelry, tea, vegetables, wheat, flour, woolen carpet, etc. Likewise, major import items by Nepal from China are: aluminum products, bags, cameras, chemicals, fertilizer, electrical goods, garlic, ginger, glassware, medical equipment, medicine, machinery and parts, stationeries, pipe, plywood, raw silk, raw wool, readymade garments, noodles, shoe, smart cards, mobile, solar panel, steel and rods, battery, toys, transport equipment, video/television, and parts, etc.

The growing trend of trade deficit with China is itself a problem for a developing country like Nepal. Despite several decades of trading practices with Mainland China or with Tibet; Nepal has never seriously explored the export potentials of selected agro-commodities, semi-manufactured goods, which could be exported to the Chinese market. Nepal's population living in northern bordering regions is poor and unemployed. Thus, easy access for such a population to the Chinese markets along the border would facilitate further on the barter trade and tourism businesses; this supports Nepal on a socio-economic upgrade of the poor segment of people living along with the border areas.

Despite that government of China provides zero-duty treatment; the preferences largely remain under-utilized due to supply-side constraints, high production costs, low competitiveness, and the prevalence of a host of non-traffic barriers. Besides, limited banking services, export concentration in Tibetan markets, and limited promotional measures are the causes behind the poor performances of Nepalese export to China (Adhikari S., 2015).

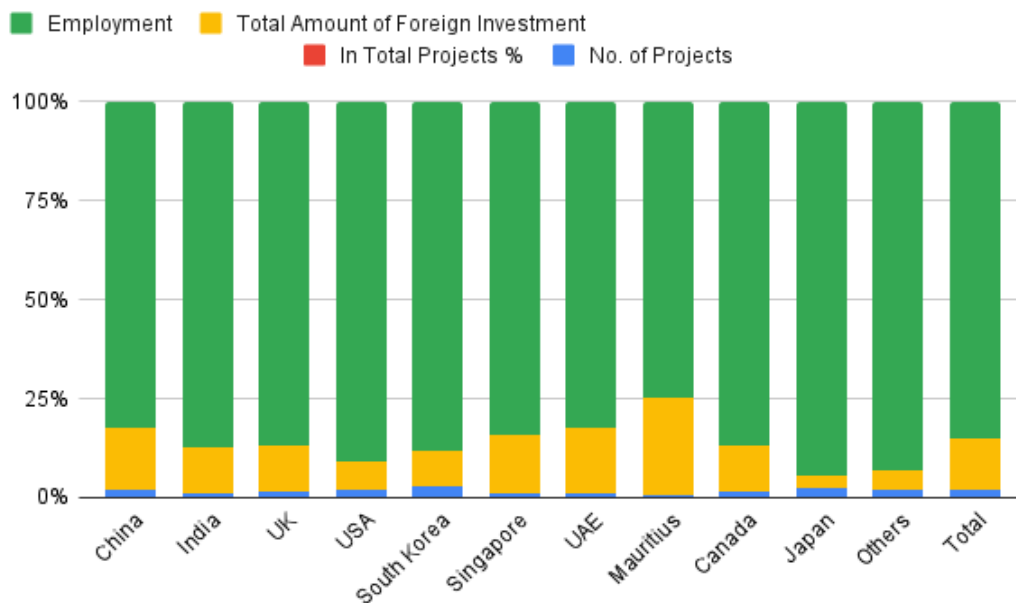
3.1. Nepal-China Trade Issues and Prospects

Nepal has failed to attract China meaningfully in its developmental activities and thereby fails to assure China, especially on infrastructure development (North-South road network) along the Nepal-China border region. Growth in trade volume between Nepal and China still depends on the probable trade route yet to be opened (on land) along the Northern border. Nepal has comparatively more advantage of exporting to Tibet, Chengdu, and neighboring areas, the commodities such as cereals, vegetable ghee, fish, fruits, spices, herbs, tea, coffee, etc., which has ever-growing demand in these regions. People of Nepal's northern region are under the poverty line and unemployed. Thus, easy access of such Nepalese people to the Chinese markets along the border would facilitate further barter trade and tourism business.

As there are fewer parking areas and warehouse on either side of the border, the traders have to keep their containers in the queue without protection from heat, rainfall, or snow. This, in turn, damages the quality and quantity of import/export consignments. The Nepalese traders suggest having at least minimum facilities, such as the provision of depot, sheds, canteen, etc. on the Nepalese side of the border for having more and more trading transactions between Nepal and China.

4. Nepal's Investment Relation with China

China, India, the UK, the USA, South Korea, Singapore, Switzerland, etc., are the major investor countries in Nepal. The data of March 2020 available from the Department of Industry, Government of Nepal shows the number of FDI enterprises of China in Nepal has stood at 1839; this figure for India remained at 802 FDI enterprises. The total amount of China's FDI in Nepal remained at the highest, i.e., Rs. 16758 million followed by India Rs. 9817million. It is expected that the running and proposed FDI enterprises of India and China could employ 73464 and 85694 workers. **(Refer to Annex Table No. 5).** Nepal had received a total of 5181 projects under FDI amounting to Rs.35781 million up to March 2020 from the beginning.



It is expected that the above-mentioned Chinese projects would yield 85694 people employment in different enterprises jointly run by Chinese and Nepalese investors in Nepal. There is more and more concentration of Chinese joint venture enterprises in Nepal in sectors such as tourism, services, manufacturing, agro -forestry, etc.

4.1. Conclusion and Prospects on Nepal-China Investment Relation

A very lucrative sector of Nepal-China joint venture investment is the hydropower sector. Nepal could get immense benefits from harnessing hydropower through such a joint venture program. It will be beneficial for both Nepal and China. Nepal could generate up to 83,000 MW, of hydropower from her ever-flowing rivers. Presently, Nepal has succeeded to tap one percent plus the hydropower of the total capacity. Of the total generated power, if circumstances were favorable, Nepal would have sold it to India and even to Bangladesh. The sectors such as agriculture, forestry, tourism, human resources, etc. have also high prospects for ever-flowing investment in Nepal, especially by Chinese entrepreneurs. Additionally, the establishment of various food processing, animal husbandry, and poultry industry with joint ventures would yield win-win benefits for Chinese and Nepalese entrepreneurs in the years to come. Similarly, meaningful investment from Chinese investors in Nepal in the sectors like herb processing, horticulture, pasturing, tea/coffee plantation and processing, travel and tourism sector, the establishment of IT parks, etc. will be more viable and beneficial.

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Annexes

Table No. 1
China's Top Trading Partners, 2020

Countries	Volume of Export Trade (in billions)	(Percent)
USA	US\$ 452.6	17.5
Hong Kong	US\$ 272.7	10.5
Japan	US\$ 142.6	5.5
South Korea	US\$ 113.8	4.4
Vietnam	US\$ 71.6	3.2
Germany	US\$ 86.8	3.4
India	US\$ 66.7	2.6
Netherlands	US\$ 79.0	3.0
United Kingdom	US\$ 72.6	2.8
Taiwan	US\$ 60.1	2.3

Source: Workman, Daniel; (2021), China's Top Trading Partners, USA, www.worldsexports.com.

Table No. 2
India's Trade with China
(US\$ million)

Years	Export to China	India's Import from China	Balance of Trade with China
2009/10	11617.88	30824.02	-19206.14
2010/11	15482.70	43479.76	-27997.06
2011/12	18076.55	55313.58	-37237.03
2012/13	13534.83	52248.33	-38713.45
2013/14	14829.31	51049.01	-36219.70
2014/15	11934.25	60413.17	-48478.92
2015/16	9028.37	61702.36	-52673.99
2016/17	10171.89	61283.03	-51111.03
2017/18	13333.53	76380.70	-63047.17

Source: GOI, (2018), Directorate General of Commercial, Calcutta, Intelligence and Statistics (DGCI&S).

Table No. 3

China's Trade Volume with South Asian Countries (In Total) (US \$ Million)

Year	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	India
2012	469.24	8449.84	15.62	76.67	1997.68	12413.65	316.30	66473.33
2013	337.85	10307.45	17.41	97.83	2554.14	14216.44	361.91	65402.66
2014	410.93	12543.38	11.22	104.37	2330.65	15998.35	4041.07	70576.11
2015	373.59	14711.55	8.47	172.83	864.1	18916.65	4562.56	71696.58
2016	435.83	15171.63	4.85	321.18	888.68	19147.06	4561.77	70179.47
2017	544.63	16044.17	6.42	296.25	984.81	20084.01	4390.03	84387.69
2018	691.67	18737.48	12.84	397.21	1077.37	19105.40	4576.79	95509.00
2019	629.08	18359.82	10.96	381.70	1516.02	17973.05	4487.61	92811.18

Source: Compiled From NBSC, China Statistical Year Book (2013 to 2019), Beijing, National Bureau of Statistics of China, 2021, state.gov.cn

- Indicate not Available
- The figures are Actual Investment

Table No. 4

Present Nepal-China Bilateral Trade Status

Fiscal Years	Value of Export (in Thousands)	Value of Imports (in Thousands)	Balance of Trade (in Thousands)
2005/06	108168	6635507	-6527339

2006/07	54507	12514258	-12459751
2007/08	736405	22255845	-21519440
2008/09	1847934	32852910	-31004976
2009/10	1008696	39218203	-38209507
2010/11	120555	47434677	-47314122
2011/12	985693	52924945	-51939252
2012/13	2176749	68304882	-66128133
2013/14	2979907	78568176	-75588269
2014/15	2357281	100850570	-98493289
2015/16	2156758	117209982	-115053224
2016/17	1809834	130241441	-128431607
2017/18	2437744	159987082	-157549338
2018/19	2580000	214800000	-212220000

Source: Trade and Export Promotion Centre, Kathmandu, 2021
Exchange Rate US\$ 1=Nepalese Rupees (NRs) 118.

Table No. 5
Major Foreign Investor Countries in Nepal (Up to March 2020/21)

Countries	No. of Projects	In Total Projects %	Total Amount of Foreign Investment (In 10 million Rs.)	Employment
China	1839	35.49%	16758	85694
India	802	15.48%	9817	73464
UK	205	3.96%	1864	13455
USA	422	8.145%	1487	18848
South Korea	360	6.95%	1273	11954
Singapore	53	1.022%	622	3553
UAE	23	0.443%	376	1877
Mauritius	11	0.212%	342	1055
Canada	47	0.907%	334	2478
Japan	275	5.307%	323	10419
Others	1144	22.080%	2585	49994
Total	5181	100%	35781	229455

Source: Government of Nepal, Department of Industry, Kathmandu, 2021

