



## Nathu La Bridging the Himalayas

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A significant decision of the 2006 Sino-Indian Friendship Year was to reopen the Nathu La (pass) for trade. Nathu La was closed following the 1962 Sino-Indian war and its reopening had both symbolic and economic significance for India and China. Interestingly, the "Agreement between the Government of the Republic of India and the Government of the People's Republic of China on Trade and Intercourse between Tibet Region of China and India." in 1954 specifically recognized the need to establish additional trading points and facilitate an open border where pilgrims and local inhabitants could move across the border without legal hassles. Popularly known as the Panchsheel Agreement, it forms the foundation of Sino-Indian Confidence and Security Building Measures (CSBMs).

### I BILATERAL RELATIONS SIGNIFICANCE OF TRADE

Before analyzing the impact of the reopening of the 14,140 feet Nathu La on Sino-Indian bilateral relations, it would be pertinent to seek some sort of answer to a seemingly simple question – does increased trade between nations dampen or exacerbate conflict? This question has generated a variegated response cutting across a broad spectrum of theoretical literature. Realism argues that state capabilities, measured primarily in terms of military power, determine state behaviour. Cooperation in the international system is not possible as relative rather than absolute gains that states derive from such cooperation affects the balance of power.

By contrast, the liberal tradition gives importance to state preferences, rather than state capabilities. Free trade ushers in economic

prosperity and interdependence and the result is a rise in the costs of war which rational states avoid. Taking off from these debates, Dale Copeland argued that expectations of future trade and resultant gains would encourage dependent states to assign a high value to continuation of peaceful trade, making war a less appealing option.

Suffice it to say, indexed in Purchasing Power Parity terms, China and India are projected to be the top two economies of the world by 2050. Sino-Indian bilateral trade has become increasingly complementary increasing from a paltry US\$339 million in 1992 to US\$25,734 in 2007-08. As per the report of India-China Joint Study Group on Comprehensive Trade and Economic Cooperation, the average annual growth rate of trade at 26.4 per cent during 1995-2003, had been higher than the average growth rate of trade for either China or India during the same period.

China overtook the US as India's largest trading partner in 2007-08. When compared to 2005-06, bilateral trade grew by 46 per cent in 2006-07. Given the buoyancy in Sino-Indian trade, the target of US\$40 billion trade by 2010 was revised upwards to US\$60 billion during the visit of Indian Prime Minister Manmohan Singh to Beijing in January 2008. Opening of the Nathu La and other land routes for cross-border trade in future would help achieve this goal.

### II NATHU LA BREAKING THE BARRIER

Nathu La formed a part of the ancient silk route and formal trade linkages between British India and Tibet through the mountainous passes date back to the late 18th century. Early in the 19th century, the

British annexed large tracts of the territories of Sikkim, Bhutan and Nepal and trade through the various passes increased further. Trade in this region accounted for 80 per cent of total border trade volume between India and China in the early 1900s. Nathu La played an important strategic role during the 1903-04 British expedition to Tibet, supposedly meant to prevent the Russians from extending their influence in Tibet. This mission, led by Francis Younghusband, also signed a Convention with the Tibetan government in 1904 with provisions for the frontier between Sikkim and Tibet to be respected for free trade. Article I of the 1906 "Convention between Great Britain and China Respecting Tibet" affirmed this provision of the 1904 convention. In the years that followed, trade permits were issued to monitor trade of high value items like petrol and liquor.

The Nathu La trade study group set up by the Government of Sikkim observed that trade was initially through the barter system and it was during the British rule in India that the Indian currency came into use. After India's independence, the Chinese silver coin 'dyang' gained wider acceptance in cross-border trade. Till the pass was closed in 1962, electronic and textiles items were exported from Sikkim and raw wool, silk, medicinal plants, precious stones were imported

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into India. Nathu La also facilitated cross-border movement of people and the then Indian Prime Minister Jawaharlal Nehru used this pass to travel to Bhutan in 1958. After a long hiatus, India and China signed the Memorandum on Expanding Border Trade in 2003. Article 2 of the Memorandum stipulated opening of Nathu La, the modalities for which had already been

laid down in the Memorandum on the Resumption of Border Trade signed in 1991 and the Protocol on Entry and Exit Procedures for Border Trade signed in 1992. Although border trade has nowhere been explicitly defined in the WTO agreements, it implies that cartographic lines that demarcate inter-state boundaries should not act as stumbling blocks to economic interaction. Further, border trade is construed as being limited to people of the border area and involves trade in a limited basket of essential commodities of the region only. Nathu La is the third Sino-Indian land border trade route to be opened after Shipki La in Himachal Pradesh and Gunji in Uttaranchal. While trade through both Shipki La and Gunji is negligible, it is envisaged that in future Nathu La can be upgraded as a trading route of massive commercial importance.

Under the terms of Article I of the 2003 Memorandum, India designated Changgu in Sikkim and China designated Renqinggang in the Tibet Autonomous Region (TAR) as places for border trade markets. The 29 items exportable from India include agricultural implements, clothes, barley, tea, rice, spices, oils, cycles, copper products and tobacco. China's export basket consists of 15 items such as goat and sheep skin, raw silk, yak tail, china clay, borax, domestic animals and salt. A trader can trade goods worth up to Rs.100,000/ per day. These conditions have been imposed by India whereas China has not imposed any such restrictions. The border trade mart is open from May to November in 2008 and trade is allowed five days a week.

The Nathu La study group estimated that proper trade facilitation measures could result in bilateral trade worth Rs.122 billion by 2015 through Nathu La alone. The prognosis of the group was that conservatively trade through the pass would be close to Rs.5 billion by 2015. In fifty one days of trading in 2006, India exported goods worth Rs.885, 000 while it imported goods worth Rs.1.082 million. While Indian exports climbed up to Rs.2.876 million in six months of trade in 2007, Chinese exports dipped to Rs.686, 000 for the same year. The limited basket of commodities coupled with inclement weather resulted in dampening of trade volumes. Unfortunately, the ceremony on the Indian side this year to mark the opening of the trading season lacked the level of enthusiasm seen in 2006 and the India-China Traders Association for Sikkim has predicted a further dip in the trade volumes in 2008. Hence, without concerted efforts across both sides of the border to expand the basket of tradable items as also improve connectivity and logistics, trade across

Nathu La will have symbolic significance and fall far short of even the conservative targets projected by the study group.

### III PASS AS BRIDGE FROM KOLKATA TO BEIJING

To augment border trade there should be a road map to develop a trading highway providing seamless connectivity between Lhasa in Tibet and Kolkata and Haldia ports in West Bengal and even the Chittagong port in Bangladesh. On the Indian side, this would benefit the northeastern states. A proposal to transform Siliguri as a transit and transshipment point for trade with Tibet has already been initiated through measures like improved connectivity between Kolkata and Siliguri along national highway 34.

The Border Roads Organisation has been assigned the task of widening the 52km Gangtok-Nathu La road by 2010. India also plans to build 27 new roads covering the Sino-Indian border. These initiatives may primarily be intended to ensure movement of military forces, but would, in the long run, definitely help facilitate border trade by reducing transaction costs. Realizing the promise of border trade with its neighbours, India has already decided to establish a Land Ports Authority of India and provide integrated check-posts at select places as exists between Johar Baru on the Malaysian side and Singapore.

Tibet also expects to benefit from resumption of trade through Nathu La. At present, Indo-Tibetan imports and exports are mostly channeled through Tianjin, a port city near Beijing that involves a detour of thousands of kilometers. Landlocked Tibet, one of the poorest regions of China, with a foreign trade of just US\$200 million, would also benefit from easy access to the Kolkata port. Goods from China's eastern and southern regions will reach Tibet through this route rather than the mountainous Beijing-Lhasa stretch which entails higher transaction costs. Improvement in infrastructure and an array of financial and logistics services across the border would lead to integrated economic development of the region.

Both countries appreciate the urgency of mitigating inter-regional disparities within their borders, since economic imbalances have fuelled ethnic conflicts, fissiparous tendencies and sectarian activities. Increased connectivity

between nations bridges their differences, leads to economic spin-offs and reins in conflicts stemming from deprivation and poverty. India has special economic schemes for its northeastern regions. Arunachal Pradesh has expressed hopes that upgradation of its infrastructure and establishment of trade marts at places like Kenzamane and Bumla in Tawang district and Gelling (Kepangla pass) in Upper Siang district along the Sino-Indian border would invigorate its economy. Ubbet sentiments were also expressed from across the border by Hao Peng, Vice Chairman of TAR who stated that "the reopening of Nathu La will help end economic isolation of this area and also boost the transportation, construction and service industries, paving the way for a major trade route that connects China and South Asia."

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At a regional level, the opening of Nathu La coupled with other initiatives like the Mekong-Ganga Cooperation, the Kunming Initiative and proposed development of the Stilwell Road would link northeastern India, Southeast Asian countries like Thailand and Myanmar, South Asian countries like Bangladesh and Nepal and southwestern

Chinese provinces like Yunnan. Nepal is also banking on Tibet's development and deepened trade and transport links to develop its own mountainous northern districts. Bangladesh has also expressed optimism over the opening of Nathu La, as it foresees Chinese goods crossing Nathu La to reach Southeast Asia via the Chittagong port.

On the political front, the opening of Nathu La marked a new high in Sino-Indian camaraderie. China, for long, had claimed Sikkim to be its own territory. Sikkim enjoyed the status of a protectorate state of India until 1975 when it became part of the Union of India. However, China refused to recognize this and Sikkim witnessed repeated incursions by the People's Liberation Army in the 1960s. The PLA's attack on the Indian army in September 1967 and our strong reply is well-documented. For India, the opening of Nathu La marked a firm recognition by China that Sikkim is an integral part of its territory. On its part, China is satisfied that India has recognized TAR as its integral part.

In the early 1990s, the Indian army had voiced concerns about security hazards related to the opening of the Nathu La for trade. A series of CSBMs since the 1990s and efforts to replace deterrence with reassurance have resulted in a positive milieu for conducting bilateral relations. Increased security through greater trade and cross-border movement of people and not through greater deployment of troops not only might result in economic prosperity but also redirect part of the defence spending towards developmental expenditure.

#### IV CONCLUSIONS

Improved cross-border trade could inhibit the unresolved border issue from flaring up and have a salubrious effect on border talks. As per Article IX of the 2005 Agreement on the Political Parameters and Guiding Principles for the Settlement of the India-China Boundary Question, both countries shall maintain peace and status quo along the border pending final settlement of the boundary issue.

During the visit of Hu Jiantao to India in 2006, a 10-point joint declaration was signed which provided that "both sides shall promote greater trans-

border cooperation at mutually agreed sites with the objective of transforming their border from being a dividing line into a bridge that unites them in cooperative pursuits." The same declaration also affirmed that "the two sides shall strengthen border trade through the existing locations, while continuing to explore the possibility of opening additional trading routes." Thus, Chinese intrusions into the Indian territory as seen recently in Sikkim and Ladakh negate both the letter of the 2005 Agreement and the spirit of the 2006 declaration. As a great power on the rise, it is strategically necessary that New Delhi maintains peace and tranquility along its borders.

Better connectivity and infrastructural facilities in the region would result in greater tourist movements. On the occasion of the opening of Nathu La pass for trade the Sikkim Chief Minister, Pawan Kumar Chamling, said, "this is not just a trade route, but a cultural highway." The Chinese Ambassador to India, Sun Yuxi, hoped that a bus service between Gangtok and Lhasa would be a reality in the future. Visit of Tibetans to places like Rumtek Monastery and Indians to Kailash Mansaravor would be facilitated through the Nathu La. Increased people-to-people contacts promotes inter-state understanding and appreciation of each other's history and culture helps alleviate conflict situations.

As long as China's presence in South Asia is benign, India and China can foster deeper cooperative relationships through regional trade and economic integration. Bilateral confidence displayed by opening border trade could deepen regionalism and have a positive effect on other politico-strategic issues like institutionalized defence cooperation, which the two countries have already established.

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*The views expressed in this essay are personal.*



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