



## Nathu La & the Sino-Indian Trade Why the Lull?

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Nathu La was reopened following numerous bilateral trade agreements in 2006 which coincided with the “year of friendship” between the two Asian Giants. Prior to the opening of the pass, trade was carried through the port of Tianjin. According to the agreement, to foster trade the two countries would have set up posts in Sherathang in Sikkim and Rinqingang in Tibet for the purpose of customs and checking. Under the bilateral agreement between India and China, traders from Sikkim could export 29 items to and import 15 items from Tibet Autonomous Region (TAR). Every year the border trade was supposed to begin from 1-2 May until 30 November after which the pass would be closed for the winter season.

Where does this trade stand today, almost five years after opening it? Why there is a lull in this trade, despite the potential and enthusiasm? Two questions in particular needs to be addressed: Why has the trade volume been so scanty despite the vast potential between the two countries? Why was the import value zero despite the exports in 2010?

### I SILK ROAD & NATHU LA A BACKGROUND

The Silk Road was one of the most significant and prosperous trade routes during ancient times. It played a crucial role in fostering Sino-Indian ties through trade and Buddhism. The Nathu La (pass) is a part of the ancient Silk Road and is one of the three border trading posts between India and

China; the other two being Shipkila (Himachal Pradesh) and Lipulekh or Lipulech (Uttarakhand).

During the British time the route witnessed a spur of activities including trade and numerous British expeditions to Tibet as part of its policy of containing Imperial Russia. Trade continued along the Nathu la even after India's independence in 1947 and Chinese liberation in 1949. The pass was used for cross border movement as well as exporting electronics and textiles and importing raw wool, silk and precious stones from China. However, after the 1962 Sino-Indian war it was closed for all civilian activities.

### REOPENING THE NATHU LA

After the normalization of Sino-Indian relations, efforts were made to increase trade between both the countries. Both the countries agreed that trade routes like the Nathu La have immense potential in this regard. Nathu La connects the state of Sikkim with China's Tibet Autonomous Region. In 2003 a Memorandum on Expanding Border Trade was signed between both the countries and under Article 2 of this memorandum, the opening of Nathu la was agreed upon. Article 1 identified the sites and items for trade.

After the signing of this memorandum, a representative committee was formed to analyze and make preparations for the opening of the Nathu la. The memorandum caused waves of happiness all over Sikkim and economists predicted that it would be road to prosperity for not only the state but also for the entire North east region. In fact a Sikkim government study group, led by Mahendra P.Lamba consisting of

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economists and trade experts, predicted Rs 206 crore worth trade via this route in 2007 which would reach to around 2,266 crore by 2010.

Border trade markets were scheduled to be open from Monday to Thursday every week (four days in a week) from 7:30 am to 3:30 pm IST which is 10 am to 6 pm CST for the border trade. A permit fee of Rs. 50 each would be levied for every vehicle entering Sikkim side from China. Similarly, a fee of 5 Yuan (RS 25 approximately) would be levied for every vehicle crossing over to the Chinese side up to the trade mart point at Renqinggang.

The list of items that be eported from India to TAR are Agriculture Implements, Blankets, Copper products, Clothes, Cycles, Coffee, Tea, Barley, Rice, Flour, Dry Fruits, Dry and Fresh Vegetables, Vegetable oil, Gur and Misri, Tobacco, Snuff, Spices, Shoes, Kerosene oil, Stationary, Utensils, Wheat, Liquor, Milk Processed Product, Canned Food, Cigarettes, Local Herb, Palm oil and Hardware. The items that can be exported from TAR to Sikkim are Goat Skin, Sheep Skin, Wool, Raw Silk, Yak tail, Butter, China clay, Borax, Seabelyipe, Goat Kashmiri, Common salt, Yak hair, Horse, Goat and Sheep.

## II TRADE THROUGH NATHU LA WHY THE LULL?

The opening of the pass was aimed at bolstering the regional economy. However, the trade was limited both in number of tradable items and the volume of trade. The bilateral trade has been dismal and has increased from INR 2 million in 2006 to a meager INR 9.85 million with zero imports in 2010.

The question that naturally follows is: why has the trade volume been so scanty despite the

vast potential between the two countries? Another important question is why was the import value zero despite the exports in 2010? The official figures then suggest that the Chinese who crossed the border for trade in fact only bought Indian goods and did not sell anything. This leads to ample suspicions as to the nature of Chinese sales in India. Infrastructural bottlenecks along with the outdated tradable items list have been responsible for the opening of Nathu La to not be a successful experiment.

### INPUTS FROM SIKKIM: WHAT DO THEY WANT?

The Sikkim government has repeatedly approached the Union Government for a revision of the list of tradable items. Traders from both sides have also been demanding the revision of tradable items, saying that the present list in the schedule is obsolete and does not have commercial value. The traders from both sides have voiced their concerns stating that it is not a lucrative trade anymore; it is inconvenient and therefore illogical that Indian traders have to go all the way to Tibet to buy yak's tail and the Tibetans coming all the way to buy jaggery.

Many traders point out that a yak tail bought for INR 2500 from Tibet is sold for INR 3500, thus giving the traders a narrow profit margin. Thus, Indian traders say that they are doing business with 'zero profit' and for some traders, the ongoing border trade could turn out to be a loss incurring venture due to high transportation costs and other expenses. They also demanded that the Indian Government's ban on the export of non-basmati rice should be waived in the case of the Sino-India border trade as the cereal was high on the demand list of the traders from TAR in China.

The traders want products like handicrafts, cash crops, Chinese vases, Indian biscuits, cooking fats, incense sticks and so on to be included in the trading list. The traders have approached the state government of Sikkim with their problems. The Sikkim government efforts to take up the matter with the Centre for a revision of the list of tradable items has been met with no success; it is only the Union Government of India and the Chinese state that can revise the list.

Even officials on the Chinese side acknowledge that the trading list is outdated. "The approved list was made in the 1960s, which cannot meet the increasing demand of the Chinese and Indian people near the border due to fast economic development," Kelsang Dekyi, deputy head of Yadong county, told China Daily. More than 66 percent of the traders here have left since the

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reopening of the market because business is not easy with too many restrictions on the goods that can be traded. Many a times they have gone on strike but up till now the neither the Union Government of India nor the Chinese government has responded positively to the demand for the revision of the list.

A look at the trading list reveals that hardly anything from Sikkim is exported into China. In fact, the number of non-tradable items is more than the legally specified tradable items. Illegal trade is rampant on the border. Many items which are not on the list like Chinese flasks, blankets, carpets and beers are increasingly finding their way into Gangtok and other adjoining areas. Although traders from both sides are legally supposed to trade only in US dollars, they have been illegally engaged in trade using local currency. This issue came to light when the officials from State Bank of India stationed at a satellite office complained traders would hardly exchange currency for border trade.

Along with this, permit restrictions are also placed on traders, with permits only given to those from Sikkim before the kingdom merged with India in 1975. A limit of Rupees One lakh has been put on the trade for each trader per day. The permits for vehicles have to be renewed on a weekly basis. The traders have to go through strict security checks and many times are barred from crossing the border. This replicates on both sides of the border.

The lack of infrastructural facilities especially proper roads is a major problem. Despite the May-November period provided for trade the entire period is not used for trading activity. Transportation suffers a major hindrance during the monsoons, which play havoc between late April and mid-September. The 54-km road from Gangtok to Nathu La is damaged and landslides further cause road blocks and hamper any kind of commutation. This is major setback to traders. Although the state administered SPWD and the BRO-GREF have collaborated to keep the stretch worthy of transport, temporary ad hoc fix measures cannot sustain the traffic flow as both trade and tourism peak during this time.

The double-laning of Jawaharlal Nehru Marg from Gangtok to Nathu La was started in 2007 by the Border Roads Organization (BRO) but has not been completed yet, leading to more chaos during the tourist season. The traders in and around Gangtok also face undue hardships because a vast majority of taxi-jeeeps cater to

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tourists especially those going to Tsangu Lake, the same route that leads to Nathu La. The diversion of vehicles means that locals are sometimes left stranded, and at other times, are expected to pay more when commuting to and from Gangtok. There is also lack of proper rest houses, lighting and other infrastructure and logistics for the Chinese traders who travel to Sikkim.

### III

#### HOW TO REJUVENATE BORDER TRADE?

The main cause of delay in opening the Nathu La was the security issue. The Indian Army as well as many experts were sceptical about the reopening of this pass as the memory of the 1962 war still remains with them and the opening of the pass has not dissipated this suspicion.. Though the government has sanctioned many projects for improving the infrastructure many a times there is a delay in the passage of order. Again the reason lies in the suspicion that the Indian Army holds about a Chinese intrusion from this route. The massive build up of infrastructure especially roads and railways on the other side of the border is seen by many as a threat.

The best option would be to conduct joint meetings with representatives from the Army, business community, government of the Sikkim and Union Government of India. The local trading communities will also come to know about the investment opportunities and might be able to help in the strengthening infrastructure. Open discussions and joint solutions would help to address the problem.

It is imperative that road infrastructure be developed fully to tap the opportunities provided by border trade. Accommodation for Chinese traders at the Sherathang trade mart should be built since lack of rest houses add to the problems

of the traders. The vehicle permits should be given for a month instead of a week to facilitate the time for undertaking business and traders.

It is important that the trading list is revised at the earliest. This will help in formalising the illegal trading activities. There is a strong feeling among the locals that the Union Government of India is not taking action on this seriously. According to some opening of the Nathu la pass was only important to the Government as it was an acceptance of Sikkim being a part of India by the Chinese government. The Union Government of India however, stated in 2009 that they have forwarded the list for revision to the Chinese government and the delay is from the Chinese side. Nevertheless traders are carrying out trade with the items not listed even after strict control so formalising it will in fact help in increasing the volume of trade. It should be officially allowed to trade using local currencies instead of US dollars so that traders who find such exchange as most convenient are able to give an account of their business; current trade carried out in Rupees and Yuan goes unaccounted.

When the memorandum was signed it was stipulated that the pass will be developed into an international trading post in a span of five years. However, local trading has not matured and the conversion of the post into international hub is unthinkable as of now. However, with the revision of trading lists, building of a sturdy infrastructure and establishment of healthy communication between different sectors, there can be a spur of trading activity. This can then be used to develop the route for international trade. Further, this would help to bolster the development of not only Sikkim but Northeastern region.

Although bilateral trade has increased steadily with the opening of this border post, it has not been able to generate as much trade as was expected. The recent trends show the vast potential of trade between the two countries should be further promoted by increasing the tradable items in the lists, building roads and communication infrastructure, and increasing the involvement of custom officials on the Indian side of the trading point. The trading through this route should include the local trading community of Sikkim but involving business communities other than the locals can in fact help to strengthen it further. Thus only through inclusion of all stake

holders, the bilateral trade between the two giants can be successful in bringing long-term benefits to people from both sides of the border. Only then can both the sides think of converting the route into an international trading point. In addition, it will increase the commercial viability of the route as well as rejuvenate Sino-Indian relations.

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