

# INDIA'S BORDER TRADE WITH CHINA : CURRENT STATUS AND POTENTIAL OF TRADE ROUTE THROUGH NATHU LA

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## ABSTRACT

*The reforms adopted during the post globalization and liberalization period coupled with the emerging 'Look East Policy' of the Government of India, has attracted the attention of the governments, planners, development agencies and the academics in India towards the issues of border trade across the North Eastern States of India. Considering the huge potentialities, the existing value and volume of bilateral trade between the neighbouring countries like Bhutan, China, Myanmar and Bangladesh vis- a- vis India appear to be too small. With the initiation of liberalization policy, border trade is now viewed as one of the important instrument for the development of the bordering regions.*

*Recent development measures initiated by the present government have widened the scope of India's trade with countries bordering North East India. The steps like academic initiatives, a regional cooperation among these countries; proposed development in transport and communication, economic mineral resources, tourism products, plantation sector including tea, coffee, rubber, bio-diesel products etc. are among the few initiatives the government is concentrating on. These measures will not only help to enhance the present status of the Border trade but also allow better bilateral and multilateral trade exchanges through which the trade potentials can increase exponentially. In the light of the this scenario this paper tends to find out the current status and potential of the Trade route through Nathu La in context to India's Border Trade with China. The paper analyses the Export-Import trends in cross-border trade through Nathu la pass, Sikkim and the growth of trade in the last decade from July 2006 to July 2014.*

**Key Words :** Border Trade, Nathu La, India-China Trade

## INTRODUCTION: CONCEPT OF BORDER TRADE

Border trade is officially defined as over-land trade by way of exchange of commodities from a bi-laterally agreed list by people living along both sides of the international border. In other words it is a trade in local products of limited value by the people residing along the border areas. The rationale for border trade arises from two main factors. The first factor is the remoteness of the border areas, which does not allow access for the local people to commercial centres to sell their products and buy items of

daily necessity within the national borders. The second is the traditional socio-cultural ties and economic complementarities that these people share across the border, provides them with a natural milieu for greater economic interactions.

Keeping these factors in mind, border trade is allowed so that the residents can trade their surplus produce in exchange of essential commodities from across the international borders. Such type of trade is barter in nature as it is based on mutual trust developed over a period of time through sustained interactions

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between traders residing on both sides of the border. Border trade forms a part of border area development plan as it provides an alternate means of livelihood to the border residents in the economically depressed areas. Successful conduct of border trade also curbs smuggling in essential items as it provides legitimacy to traditional exchange of commodities.

#### **INDIA-CHINA BORDER SCENARIO:**

India started its first border trade with China. The seed for resuming border trade with China was first shown during the 'historic' visit of the Indian Prime Minister Rajiv Gandhi to China in December 1988. Since the visit was aimed at normalising relations with China by deepening bilateral engagements in all fields, the two countries agreed to establish a Joint Working Group (JWG) to seek a "fair, reasonable and mutually acceptable solution" to the boundary issue, and a Joint Economic Group (JEG) to expand bilateral economic cooperation. The JWG and the JEG deliberated on instituting various confidence building measures (CBMs) that would prevent frictions and ensure peace and stability along the Line of Actual Control (LoAC). This allowed the movement of goods and people across the LoAC by reviving border trade between the two countries and acted as a (CBM). To implement this CBM, India and China signed a Memorandum of Understanding (MoU) on the Resumption of Border Trade on December 13, 1991 and the Protocol on Entry and Exit Procedures for Border Trade on July 1, 1992.

These agreements paved the way for restarting border trade by designating Gunji in Pithoragarh district and Pulan in Tibet Autonomous Region (TAR) as trading markets, and Lipulekh as the pass through which border trade would be carried out. Thus after a gap of three decades, border trade with China formally resumed through Lipulekh on July 14, 1992. Following the successful conduct of border trade through Lipulekh, India and China agreed to open another route for border trade. Consequently, a year later, on September 7, 1993, both the countries signed the protocol for extension of

border trade across Shipki La, which specified Namgaya in Kinnaur district and Juiba in Zada county (TAR) as trading markets and designated Shipki La in Himachal Pradesh as the second pass for entry and exit of persons, commodities and vehicles engaged in the border trade. Both these routes were selected as they fall in the middle sector, the least contentious part of the India-China boundary.

During the same time, India expressed a desire to expand border trade to other areas along the border, which though agreed in principle by China, could not become a reality. For example, India proposed opening a trade route through Sikkim but China's reluctance to agree to it came in the way. This proposal was revived a decade later during Prime Minister Atal Bihari Vajpayee's visit to China and upon reaching an agreement, the two countries signed the MoU on expanding border trade on June 23, 2003. In this memorandum, both the countries agreed to establish trading markets at Changgu in India and Reqinggang in TAR, and designated Nathu La in Sikkim as the third pass for conducting border trade. Border trade through Nathu La started on July 6, 2006 after a hiatus of 44 years. The resumption of border trade through Nathu La gave an impetus to border trade with China and at present, it accounts for 80 per cent of the total India-China border trade volume.

#### **PRESENT INDIA-CHINA BORDER TRADE SCENARIO:**

Presently, border trade along the India-China border takes place through following Land Custom Stations (LCS):

1. Gunji (Uttarakhand) - Pulan (TAR)
2. Namgaya Shipki La (Himachal Pradesh) - Juiba (Zada County, Ngari Prefecture)
3. Sherathang (Sikkim) - Renqinggang

The border trade in these three trading posts is conducted through barter system and no customs duties are levied on these commodities. Traders are authorised to trade without acquiring the Import Export Code number (IEC) provided the value of each transaction does not exceed Rs. 25,000. Any trade occurring for more than Rs. 25,

000 would require the traders to acquire an IEC. In the case of Nathu La, the exemption limit has been raised to Rs. 1,00,000 from the year 2007-2008. (CIF Value increased to Rs. 2,00,000 in case of Nathu La).

A permit fee of Rs. 50 is, however, levied on every vehicle entering Sikkim from China and Yuan 5 (Rs. 25) on every vehicle exiting Sikkim and entering China. Unlike on other borders, border trade along the India-China border is restricted to the summer months only as the trading routes, which traverse 14,000 ft to 17,000 ft high terrain, remain closed during the winter seasons due to heavy snowfall. Trading season usually starts from May and ends in November every year and trade is conducted for four days in a week (Monday to Thursday).

Trading takes place according to the mutually agreed list of items. Initially, the official trading list contained 44 items - 29 items for export and 15 items for import. The items allowed for export from India comprises primary as well as secondary products such as spices, flour, cycles, utensils, agricultural implements, shoes, etc. and items allowed for import were mainly animal and animal products such as goat, sheep, horses, sheep skin, yak hair and tail. Following demands for expansion of the trade basket, 5 new items for import and 7 new items for export were added to the trading list in May 2012. Handicraft and handloom products and readymade garments are some of the items that could be exported from India and quilts, blankets, and shoes are some of the items that could be imported from China.

#### **Trade through Nathu La (Sikkim): Nathu La Trade Study Group Report, 2005**

The Government of Sikkim constituted (Nathu La Trade Study Group) NTSG in 2003 under Mahendra P. Lama which submitted a detailed report in mid-2005 and observed Sikkim as an isolated landlocked state can reap huge benefits to itself and to other areas of Northeast India and West Bengal with the opening of the border trade at Nathu La. With Siliguri in West Bengal, as a trading centre, Sikkim can become a major dry port catering both the state, adjoining areas and to TAR. The report projected cumulative

trade flow through Nathu La would be Rs.2266 crore (US\$ 580 million) by 2010 and Rs.12203 crore (US\$ 2 billion) by 2015 (NTSG Report, 2005). Looking at these figures, the proposed volume of bilateral trade between the two economies looks impressive through Nathu La.

However, the trade figures through the pass till 2010 show a dismal outlook of the promises and prospects. The report titled "Sikkim-Tibet Trade via Nathu La: A Policy Study on Prospect, Opportunities and Requisite Preparedness" made the following major policy options and recommendations, with special emphasis on phasing of actions. This includes:

- **2005-2010:** Initial trading actions on both sides backed by basic existing infrastructures, and start building wider and deeper infrastructural facilities
- **2010:** Major trading actions based on upgraded and developed infrastructures
- **2012:** Integration of Trade and Tourism activities for which a fresh bilateral arrangement made to facilitate the movement of tourists across the border
- **2012-2015:** Package tours and open tourism
- **2015:** Inclusion of movement of freights to and from the neighbouring countries including Bangladesh, Bhutan and Nepal through this route
- **2018:** SAARC Tourism, Integrate with other tourism activities of the region

Other recommendations include the following:

Centre-State Coordination & protection of local Sikkim's interests; Infrastructure Building through development packages-building and upgrading of storage facilities, parking bays, security and medical facility at Sherathang and Nathu La; Improvement of the existing highways, and alternative route to Nathu La; Restructuring of Transport Services-freight business, passenger, container and warehousing; Installation and upgradation of banking services, taxation, custom facilities; Sustainable and ecological management of the region; and Construction of Airport facilities, museum, etc.

### PRESENT SCENARIO OF THE TRADE THROUGH NATHU LA (SIKKIM):

In the present scenario, India and China are considered as economic superpowers driven by continuous financial sector reforms, market-driven economy and global trade. Both countries share a common perspective of a multi-polar globalised world. The future of Nathu La trade route ought to be seen in this perspective. As stated earlier, the Nathu La Study Group (2005), commissioned by the Sikkim Government projected trade through Nathu La growing from Rs. 206 crore by 2007, Rs. 2,266 crore by 2010 and Rs. 12,203 crore by 2015, while lower projections placing the trade flow to be Rs. 353 crore in 2010, Rs. 450 crore in 2015.

Nevertheless, on high projections Nathu La failed to deliver expected outcome. Like many other border areas, the India-China border region is also socioeconomically backward, located far away from the flamboyant metros like Mumbai and Shanghai. There exists acute scarcity of primary consumer goods in this backward border region, particularly in the mountainous and plateau region surrounding the Eastern Himalayas. A baby food product, for example, is cheaper in Manipur if imported from Myanmar than the product supplied from Kolkata due to geographical proximity of the former. The silver lining in the cloud for Nathu La can be gauged from the fact the Indo-China trade has never crossed one million dollar through Shipki La and Lipulekh passes.

But Nathu La enjoys the advantage of metalled road through which around sixty trucks can travel every day. Besides, Tibet; Gangtok, Darjeeling,

Siliguri, the Tarai and the Dooars regions of West Bengal are heavily populated, offering huge market opportunity. India and China trade has witnessed a phenomenal growth in recent times. From south Asia's point of view, China is gradually becoming an essential partner since the 1990s and progressive political normalisation with India is reflected in India's more than 70 percent share in the total China-southern Asia bilateral trade, against 35 percent in the mid 1980s (Boillot, et. Al, 2006). Nathu La can substantially contribute to the economic progress of northeast India. Certain hindrances pointed by the merchants which deserve attention are -

- Border trade continues for only four months from June to September for eight hours (7.30 am to 3.30 pm) due to bad weather.
- Indian traders are allowed to export only 29 commodities like agricultural equipments, copper-made utensils, cycle, garments, tea, coffee, rice etc. China can export 15 items like Goat Skin, Sheep Skin, Raw Silk, Yak tail, Yak hair etc.
- Limited Indian traders and trucks can enter China and vice versa every day.
- Indian traders can reach up to Renqinggang, almost 10 kilometers from the Indian outpost. The Chinese traders can reach Sherathang, about 6 kilometers from the outpost.
- Excepting pharmaceutical yield for instance, Borax and Czebeilyte, textiles, utensils, canned foodstuff, tea and vegetable oil, those are not in the list of items, but have been the most accepted export items.

Current Status of Trade through Nathu La: Analysis and Interpretation

**Table I: Growth of Trade Y-O-Y (in percentage) In Rs. (Crores)**

Year	Export (Rs.) Crs.	% of Growth in Y-o-Y	Import (Rs.) in Crs.	% of Growth Y-o-Y	Total Trade (Rs.) in Crs.	% of Growth Y-o-Y
2006	0.090	NA	0.110	NA	0.200	NA
2007	0.280	211.111	0.070	-36.364	0.350	75.000
2008	0.950	239.286	0.013	-81.429	0.963	175.143
2009	1.350	42.105	0.029	123.077	1.379	43.198

Year	Export (Rs.) Crs.	% of Growth in Y-o-Y	Import (Rs.) in Crs.	% of Growth Y-o-Y	Total Trade (Rs.) in Crs.	% of Growth Y-o-Y
2010	4.020	197.778	0.000	NA	4.020	191.516
2011	3.720	-7.463	0.000	NA	3.720	-7.463
2012	5.990	61.022	1.010	NA	7.000	88.172
2013	7.750	29.382	1.170	15.842	8.920	27.429
2014 #	1.920	-75.226	0.040	-96.581	1.960	-78.027

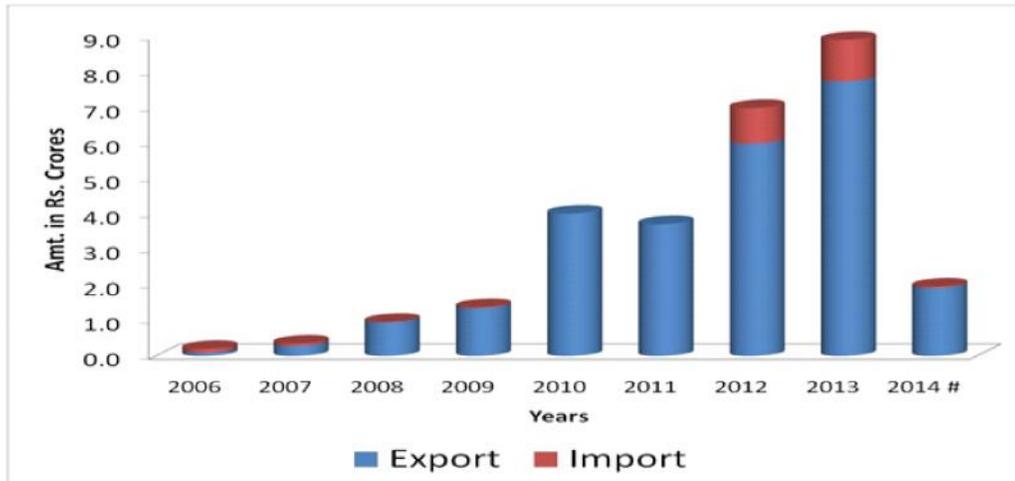


Figure-I : Growth of Trade Y-O-Y (in percentage)

Table II: Cumulative Value of Exports and Compounded Annual Growth Rate (CAGR) Rate:

Year	Export (Rs.) in Crs.	Cumulative Value of Exports(Rs.) in Crs.	% of Growth Y-o-Y	Compounded Annual Growth Rate (CAGR) in %
2006	0.090	NA	NA	
2007	0.280	0.37	211.111	
2008	0.950	1.32	239.286	
2009	1.350	2.67	42.105	
2010	4.020	6.69	197.778	46.60%
2011	3.720	10.41	-7.463	
2012	5.990	16.4	61.022	
2013	7.750	24.15	29.382	
2014 #	1.920	26.07	-75.226	

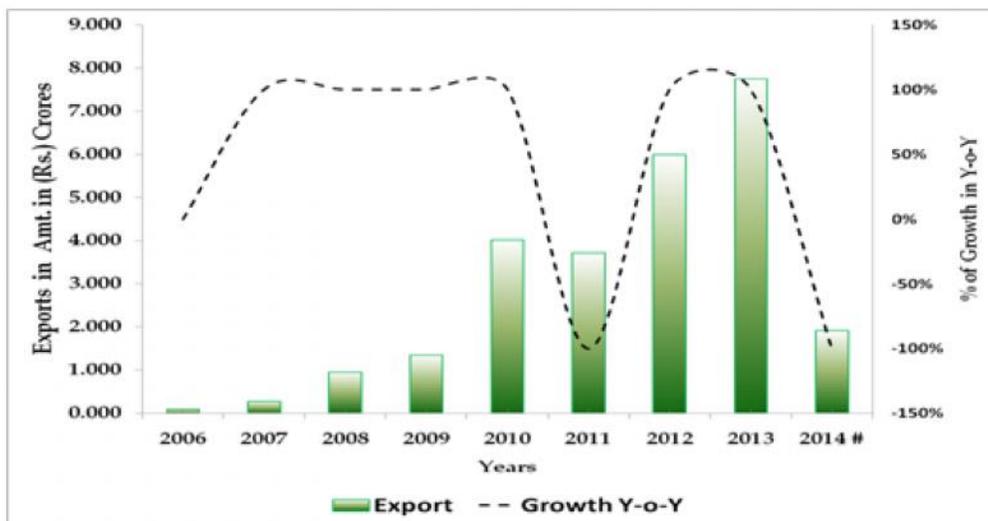


Figure II: Growth of Export on Y-O-Y: (In Percentage):

Table III: Cumulative Value of Imports and Compounded Annual Growth Rate (CAGR) Rate:

Year	Import (Rs.) in Crs.	Cumulative Value of Imports (Rs.) in Crs.	% of Growth Y-o-Y	Compounded Annual Growth Rate (CAGR) in %
2006	0.110	NA	NA	
2007	0.070	0.18	-36.364	
2008	0.013	0.193	-81.429	
2009	0.029	0.222	123.077	
2010	0.000	0.222	NA	-11.88%
2011	0.000	0.222	NA	
2012	1.010	1.232	NA	
2013	1.170	2.402	15.842	
2014 #	0.040	2.442	-96.581	

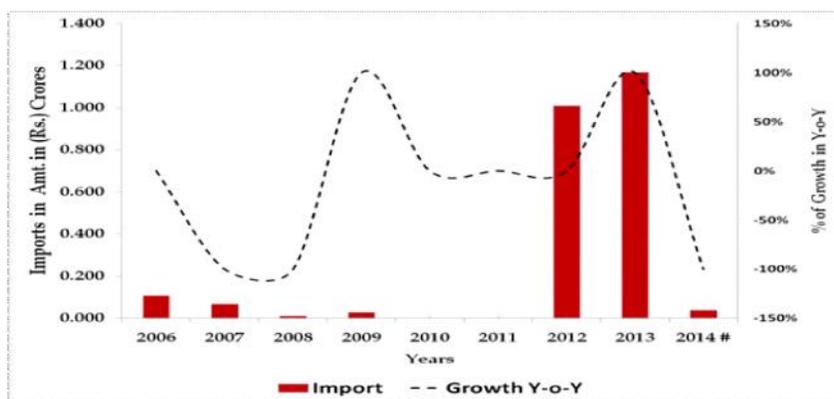
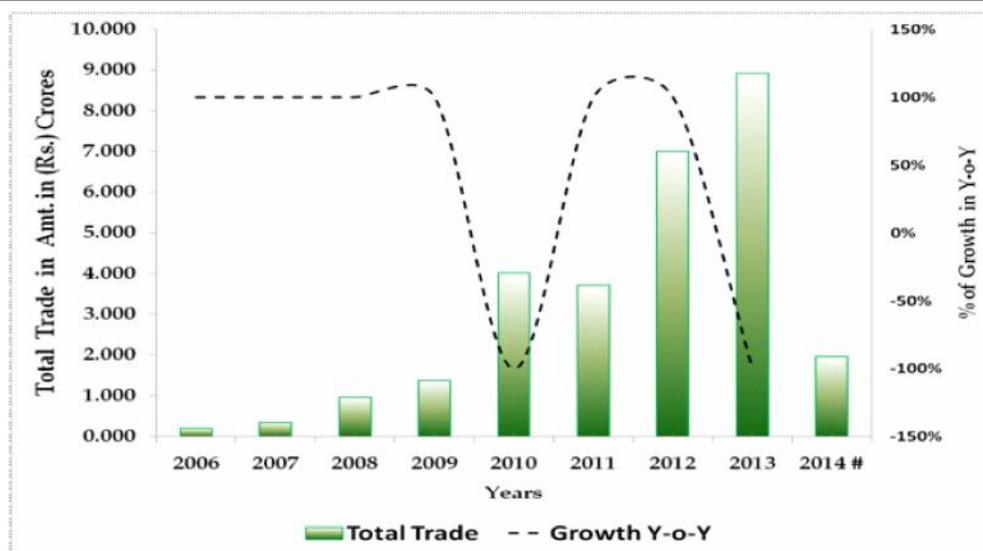


Figure III: Growth of Import on Y-O-Y: (In Percentage)

**Table IV: Cumulative Value of Total Trade & Compounded Annual Growth Rate (CAGR) Rate:**

Year	Total Trade (Rs.) in Crs.	Cumulative Value of Trade (Rs.) in Crs.	% of Growth Y-o-Y	Compounded Annual Growth Rate (CAGR) in %
2006	0.200	NA	NA	
2007	0.350	0.55	75.000	
2008	0.963	1.513	175.143	
2009	1.379	2.892	43.198	
2010	4.020	6.912	191.516	33.02%
2011	3.720	10.632	-7.463	
2012	7.000	17.632	88.172	
2013	8.920	26.552	27.429	
2014 #	1.960	28.512	-78.027	

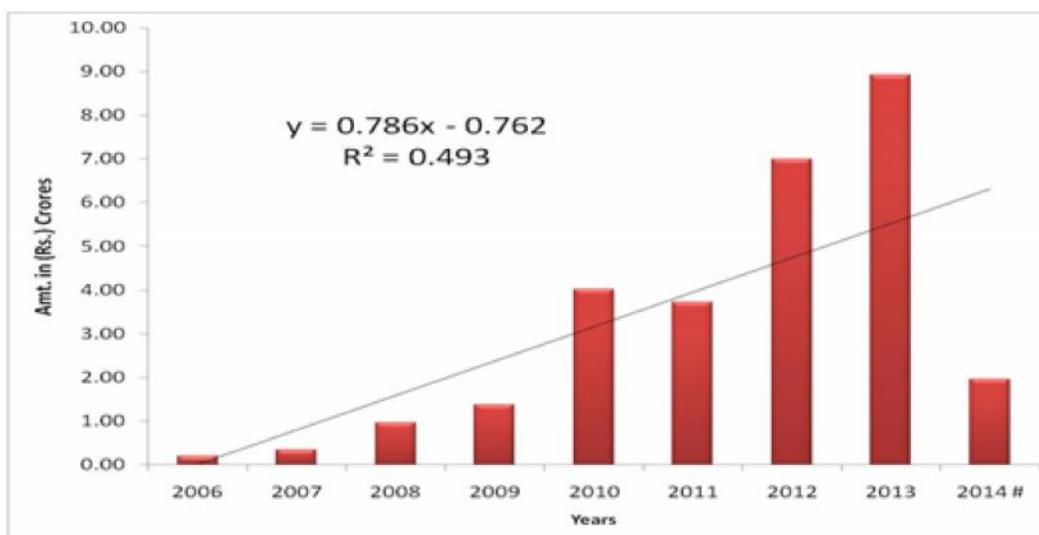
**Figure IV: Growth of Total Trade on Y-O-Y: (In Percentage)****Descriptive Statistics:**

Descriptive Statistics	Export	Import	Total Trade
Mean	2.90	0.27	3.17
Standard Deviation	2.67	0.47	3.06
Minimum	0.09	0.00	0.20
Range	7.66	1.17	8.72
Maximum	7.75	1.17	8.92
Kurtosis	-0.45	0.90	-0.05
Skewness	0.79	1.63	1.01
No. Of Observation	9	9	9

The above table exhibits, the descriptive statistics for the study period from 2006 up to 2014 July. During the study period the export via Nathu La reached the maximum level of Rs. 7.75 crores in the year 2013 and recorded the minimum level of Rs. 0.09 crores in the year 2006. During the study period average value of export was Rs. 2.90 crores with the standard deviation of  $\pm 2.67$  crores. Whereas during the above mentioned aforesaid period the import via Nathu La reached the maximum level of Rs. 1.17 crores in the year

2013 and recorded the zero level during the year of 2010 and 2011. During the study period average value of import was Rs. 0.27 crores with the standard deviation of  $\pm 0.47$  crores.

The Overall Trade via Nathu La reached the maximum level of Rs. 8.92 crores in the year 2013 and recorded the minimum level of Rs. 0.20 crores in 2006. During the study period average value of total trade was Rs. 3.17 crores with the standard deviation of  $\pm 3.06$  crores.



### TRADE POTENTIAL THROUGH THE NATHU LA (SIKKIM): STEPS FOR THE ROAD AHEAD

A development across Nathu La, despite the credentials and high prospects it holds in terms of generating incomes for the local people and creating a marked difference in their lives is not negative only but it remains a fact that its potential is much more than what has been achieved over the years. There have been positive trends in the form of increased involvement of people on both sides of the border in trade. This has also resulted in scaled down signs of aggression and the tensions experienced along the border in the past. Tourism [only domestic tourists allowed] gets a new paradigm shift and opportunities have opened for people on both sides. The border trade is also leading to family reunions of Tibetans at Sherathang.

Certain issues though are posing consistent threat for attaining the true potentiality of the

region in terms of Export Import earnings. In order to overcome those impediments concrete steps are required to be taken which includes:

1. *Enhancing developed all weather infrastructure in Sherathang:* The list of items allowed for trade is obsolete and limiting (although list of items have been increased from time to time). Regulations are unhealthy, unrealistic and stifling. Not allowing traders to stay overnight at the trade marts (with even Indian traders not allowed to stay back in the Indian trade marts of Sherathang), makes trading inconvenient. Infrastructure related decisions should take in view the development of all weather infrastructures which can sustain extreme weathers.
2. *Inculcating positive attitude among Union government officials:* Regulations remain poorly explained and processes remain

- unclear, none of which is facilitating the goods trading in the border areas.
3. *Building better connectivity and allied services Infrastructure:* Nathu La would undoubtedly benefit from better connectivity and improved infrastructure. Even working with the present list, the potential is substantial if Sikkim is allowed to play its traditional role. In the past traders from Nathu La/ Jelep La, had benefited by providing warehousing, transportation and allied services to facilitate the trade. Sikkim never produced the goods and the traders were mostly from the plainsmen community, but the State prospered because it sat on the route and provided the allied services. At present, border trade is exclusively reserved for traders based in Sikkim. Sikkim can be developed for transportation and a warehousing hub opened at Rangpo [the entry-point to Sikkim] so that goods can be shifted to smaller trucks which will be able to negotiate the roads to the passes. This will enhance the future potential of Sikkim even if others are allowed to trade through Nathu La trade routes.
  4. *Build Capacity through skill development among the Local Youth:* Through proper skill development initiatives and training centers youth in Sikkim can be groomed and trained on the nuances of such trade and the paperwork/ permits that need to be secured. This can facilitate them to work as consultants and service providers for the trading parties.
  5. *Enhancing the number of items in the Trading List:* Even working within the present list, a huge potential is being overlooked. Tibet's most voluminous exports over Nathu La/ Jelep La were wool. This wool is used to weave Tibetan carpets and blankets. Tibetan carpets service a huge industry in Nepal at present and are a big economic contributor there. The ready availability of Tibetan Wool [in the present list of items allowed for trade] should be leveraged to gainfully employ the already trained pool of human resource to supply a ready demand for such carpets in the world market. This has not materialized due to lack of adequate warehousing and quarantine facilities at Sherathang.
  6. *Developing the Tourism/Pilgrimage potential of Nathu La:* After Nathu La and Jelep La opened more than a century ago, it was not just commerce that moved across the passes, but also pilgrims. Tibetans used this 'quickest' route to travel to Bodh Gaya, Sarnath and Varanasi on pilgrimage and Mahayana Buddhists from India used it to travel to the holy cities in Tibet. Even Buddhists from West Himalayas are known to have moved as traders through Tibet, carried on as pilgrims to the major towns in Southeast Tibet then come down Jelep La to Kalimpong, moved on to Gaya and Sarnath and then taken trains home. That is the traditional pilgrimage circuit which should be reintroduced to Nathu La. This route will also provide a safer and more comfortable bus ride for Indian tourists headed for Kailash Mansarovar instead of the dangerous trek they currently undertake.
  7. *Converting Rangpo as an Inland Port:* Rangpo a border town between Darjeeling district of West Bengal and Sikkim can be developed as a nodal place for warehousing and Storage points for the goods to be traded. Rangpo has shown rapid development due to hydel projects, pharmaceutical plants and educational institutions. Traders talk about better infrastructure facilities in Renquinggang on the Chinese side of the border.
  8. *Developing alternate routes for trade:* There is an urgent need to develop the alternate routes besides the Kalimpong and Gangtok. One such route Rangpo-Rorathang-Nathu La that is already functional can further be developed and widened in the form of metalled roads.

**CONCLUSION:**

It can be concluded that the export potential using the Nathu La trade route is substantially high. As can also be concluded from the Nathu La Trade Study Group Report, 2005. The only reason for not been able to meet the targeted growth in trade as envisaged in Nathu La Trade Study Group Report, 2005. is due to lack of Infrastructure building and upgrading of storage facilities, parking bays, security and medical facility at Sherathang and Nathu La; Inadequate improvement of the existing highways, and alternative route to Nathu La; inadequate restructuring of transport services including freight business, passenger, container and warehousing; slow pace in Installation and upgradation of banking services, taxation, custom facilities and last but not the least extreme climatic conditions due to which only during June to September, trade is possible. In spite of these bottlenecks, rapid technological growth, "Look East" policy of Government of India, increase in the listed items of trade (DGFT, May 2012) and the "Develop the West" campaign by China after the Eastern Coastal lines worked wonders for them are the positive signs that will enhance the growth in trade and exploit the true potentials of Nathu La.

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