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## India-China Border Trade Through Nathu La Pass: Prospects and Impediments

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# India-China Border Trade Through Nathu La Pass: Prospects and Impediments

Pramesh Chettri

This paper attempts to examine and analyze the prospects and impediments of the Nathu La cross-border trade in the region of Sikkim after its reopening in 2006 up to 2015, and explores the current situation of Indo-China trade through the Pass. Nathu La is one of the three open trading border posts between India and China, the other two being Shipkila in Himachal Pradesh and Lipulekh (or Lipulech) in Uttarakhand. The reopening of India-China cross-border trade on 6th, July 2006 through Nathu La Pas has not only enhanced the benefits of trade, but has also increased tourism in Sikkim and provided a means of livelihood for the people of this region. Sikkim has become an ideal destination for Mahayana Buddhist tourist coming from foreign countries. The rising trend of exports along with import in trade through this route has brought immense positive impact to India. The export of Indian goods to China from this region increased dramatically between 2006–7 and 2015–16. Despite these positive

aspects, the Nathu La border trade has faced many problems. Some of these include the fragility of land, lack of infrastructure, lack of trade knowledge in local aspirants, duration of trade, language barrier, climatic conditions and limited numbers of commodities allowed for export from this region. Analyzing current data, and drawing on interviews with traders, in this paper I suggest that trade with China via Nathu La is not sufficient to meet the needs and aspirations of multiple stakeholders, and examines the feasibility of an alternative route for trade via Nathu La. Finally, this paper examines the constraints that lead to the non-fulfillment of Nathu La Trade Study Group projections for trade, and suggests some measures towards its fulfillment.

**Keywords:** cross-border trade, Nathu La, India-China trade, Sikkim.

## Introduction

This paper is based on in-depth research and statistics about the prospects of Nathu La pass over the last decade or so, and the significant challenges it faces: specially the limit on goods for export, the imbalance between imports and exports, and infrastructure complications. The objectives of this paper are to make a brief analysis of the trends in export and import within the recent decade (i.e. 2006 to 2015) of cross-border trade, and to identify the prospects and some major impediments of Nathu La border trade. This paper also critically examines and analyzes the constraints that lead to the non-fulfillment of Nathu La Trade Study Group (NTSG) higher and lower side projections of trade with present volume from 2006 to 2015. National borders have been the central issue in all forms of cross-border exchanges, including trade, investment, migration, tourism and sharing of natural resources (NTSG 2005). India has a land border of 15,106 km, of which 3,488 km (about 23 percent) shares a border with China.<sup>1</sup> The North Eastern region of India is comprised of eight states, each with unique geographical configurations. Ninety-eight percent of its borders are shared with neighboring Asian countries.<sup>2</sup> The majority of the North Eastern Indian people continue to look at these borders as massive opportunities for trade and related services (Kumar 2000). Sikkim is bounded by three international borders: China from the North, Nepal from the West and Bhutan from the East. Nathu La is in the northern part of Sikkim. It is a part of the ancient Silk Road, situated 56 km from Sikkim capital, Gangtok, 52 km from the Chinese border town of Yadong, and approximately 400 km from the Tibetan capital, Lhasa.

The term Silk Road was first introduced by a German geographer, Ferdinand von Richthofen in the nineteenth century (Harris 2008). It is the world's highest mountain highway, and cross-border trade pass situated at 4,328 meters above sea level. The reopening of Nathu La for trade between India and China after a long gestation period of 45 years on 6th July, 2006 proved highly beneficial to the Himalayan region of Sikkim and its local people. The reopening of Nathu La trade has generated employment on both sides of the border in areas such as transport, communication, road construction, restaurants and hotels, banking, insurance, packaging, etc. At the same time, the infrastructure and volumes of trade through Nathu La have not raised to as significant a level as expected by the Nathu La Trade Study Group (NTSG 2005). Trade potentials emanating from the reopening of Nathu La route remain both immense and highly challenging.

Nathu La has historically played an influential role in Tibet. Initially, trade transactions were done through the barter system, and later the use of Tibetan coins called *chokya* in denominations of 5, 10, and 100 were used. The resumption of this historical trade route after the 1962 Sino-Indian war marked new directions in promoting friendly relationships between the two emerging economic powers of Asia. Currently, agreements between the two nations limit trade across the pass to 36 types of goods from India and 20 from China. As per the schedule, the Indo-China border trade through Nathu La, the total exports from India to China during the year 2015 amounted to 6,025 *lakh* rupees and the total imports from China to India stood at 1105 *lakh* rupees.<sup>3</sup> The rising trend of exports along with import in trade through this route has brought an immense positive impact on India, especially in the Himalayan region, and the border trade has tremendous opportunities for the people of this region. However, Sikkim could benefit more if the locals cultivated, practiced and produced goods such as cardamom, ginger, milk processing products, local chili, orchids, medicinal plants, ginseng<sup>4</sup>, silk and woolen carpets, wooden carvings and *thanka* paintings and other indigenous arts which are exported through this region. These border trade activities could also turn out to be profitable to Darjeeling (located south of Sikkim), West Bengal and Kolkata, and the entire north east region. The increasing inflow of trade and tourism through the Nathu La has also had economic impacts on the livelihood of this region. Sikkim alone has nearly 200 monasteries (Karackattu 2013), which makes Sikkim a hub connecting all the major Buddhist destinations in India such as Bodh Gaya in Bihar, Rumtek in Sikkim, Tawang in Arunachal Pradesh, and in neighboring countries, e.g., Lumbini in Nepal, and Taktsang in Bhutan to Jokhang and Potala in Lhasa.<sup>5</sup>

The major mountain peaks and high-altitude lakes in the Himalayan region of Sikkim such as Kanchenjunga (8,586 meters), Pauhunri (7,128 meters) and Tso Mgo (3,658 meters) have made the region a major tourist destination. Despite the positive aspects, the Nathu La trade has faced many problems such as fragility of land, lack of infrastructure, lack of trade knowledge in local aspirants, duration of trade, language barriers, challenging weather and limited numbers of allowed export commodities to name a few. Despite many challenges, including keeping the aspiration of the local people, the Government of Sikkim has been working with great enthusiasm to further expand the trade volume and tourism through this region.

## Results and Discussion

### Prospects of Nathu La Border Trade

In the era of globalization, the issue of border trade has attracted the attention of governments, planners, bureaucrats, development agencies, politicians and academics in India. The promotion of border trade through local markets is necessary to improve the economic conditions of people living in the areas adjoining China. The signing of a memorandum between the Government of India and China on the reopening of trade route via Nathu La is of critical importance to their political-economic relations. According to statistics from the Department of Commerce and Customs (2003), trade through the corridor of Nathu La was at its zenith in 1957. The Yatung Customs Department recorded a trade transaction of approximately 330 million yuan (RMB) through this route in that year.

Since then, the volume of trade steadily decreased until it was discontinued in 1962–63. The Yatung custom office was shut down in 1962 (NTSG 2005). Nathu La was reopened following numerous bilateral trade agreements in 2006, which coincided with the Year of Friendship between the two countries (Hasija 2012). Allowed export and import items through Nathu La are listed below in Table 1.

The below list is heavily biased towards exports. At the time of the pass's reopening in 2006, the Government of India had declared 29 items for export and 15 items for import, but later on the list of items for border trade was found to be obsolete. As a result, trade could not gain the expected momentum. Keeping in mind the repeated requests made by Indian and Chinese traders for a revision of the tradable items list, finally in 2012 a revised list of five items of import and seven new items of export were added to the existing list, and items were also made duty

| Exports                      |                                      | Imports                    |  |
|------------------------------|--------------------------------------|----------------------------|--|
| 1. Agriculture Implements    | 21. Dyes                             | 1. Goat Skin               |  |
| 2. Blankets                  | 22. Spices                           | 2. Sheep Skin              |  |
| 3. Copper Products           | 23. Watches                          | 3. Wool                    |  |
| 4. Clothes                   | 24. Shoes                            | 4. Raw Silk                |  |
| 5. Cycles                    | 25. Kerosene                         | 5. Yak Tails               |  |
| 6. Coffee                    | 26. Stationary                       | 6. China Clay              |  |
| 7. Tea                       | 27. Utensil                          | 7. Borax                   |  |
| 8. Barley                    | 28. Wheat                            | 8. Yak Hair                |  |
| 9. Rice                      | 29. Textiles                         | 9. <i>Szaibelyita</i> **   |  |
| 10. Flour                    | 30. Processed Food Items             | 10. Butter                 |  |
| 11. Dry Fruits               | 31. Flowers                          | 11. Goat Cashmere (Pasham) |  |
| 12. Dry and Fresh Vegetables | 32. Fruit and Spices                 | 12. Common Salt            |  |
| 13. Vegetable Oil            | 33. Religious Products               | 13. Horses                 |  |
| 14. Gur and Misri            | 34. Readymade Garment                | 14. Goats                  |  |
| 15. Tobacco                  | 35. Handicraft and Handloom Products | 15. Sheep                  |  |
| 16. Snuff                    | 36. Local Herbal Medicine            | 16. Readymade Garments     |  |
| 17. Cigarettes               |                                      | 17. Shoes                  |  |
| 18. Canned Food              |                                      | 18. Carpets                |  |
| 19. Agro Chemical            |                                      | 19. Quilt/Blankets         |  |
| 20. Local Herbs              |                                      | 20. Local Herbal Medicine  |  |

**Table 1. Export and Import Items through Nathu La Trade.**

**Note:** Border trade at Shipkila in Himachal Pradesh and Gunji in Uttarakhand has the same list of items as Nathu La (Karackattu, 2013). \*\* *Szaibelyita* is a mineral class of borates.

(Department of Commerce and Industries, Government of Sikkim, 2012)

| Sl.No. | SPICES         | Area in 1000 Hectares | Production in 1000 Tons | Productivity (kg/hectare) |
|--------|----------------|-----------------------|-------------------------|---------------------------|
| 1      | Large Cardamom | 16.01                 | 3.84                    | 240                       |
| 2      | Ginger         | 9.25                  | 51.57                   | 5,575                     |
| 3      | Tumeric        | 1.30                  | 4.68                    | 3,600                     |
|        | <b>Total</b>   | <b>26.56</b>          | <b>60.09</b>            | <b>2,262</b>              |

**Table 2. Area, Production and Productivity of Spices in Sikkim.**

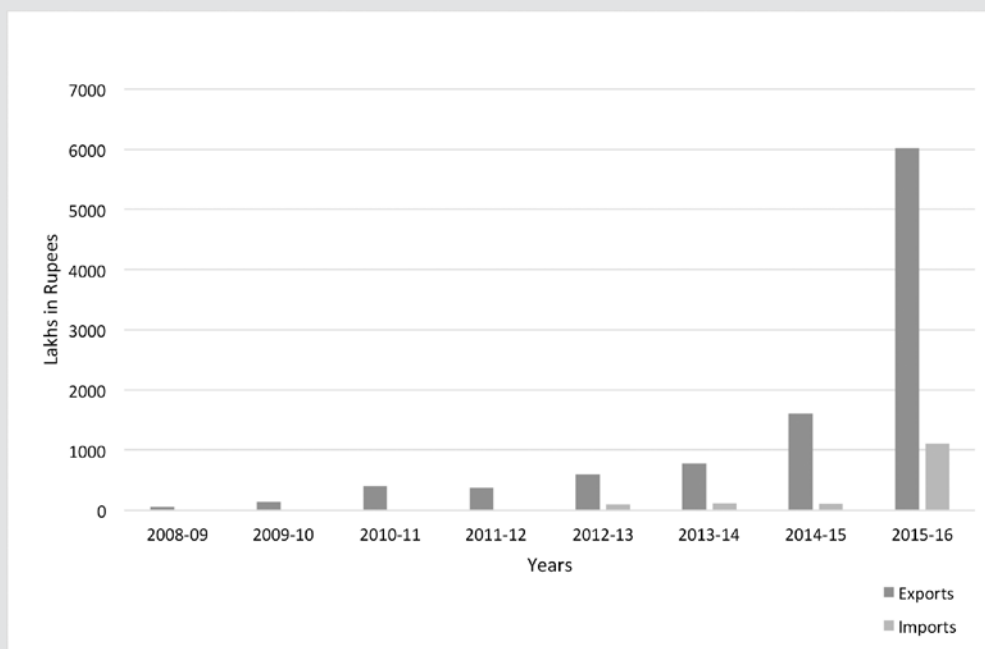
(Comprehensive Progress Report, Sikkim Organic Mission, 2014)

| Date                                | 2006-07<br>(July-Sept) | 2007-08<br>(May-Nov) | 2008-09<br>(May-Oct) | 2009-10<br>(May-Nov) | 2010-11<br>(May-Nov) | 2011-12<br>(May-Nov) | 2012-13<br>(May-Nov) | 2013-14<br>(May-Nov) | 2014-15<br>(May-Nov) | 2015-16<br>(May-Nov) |
|-------------------------------------|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Export from India to TAR*(in lakhs) | 8.87                   | 27.87                | 58.00                | 135.00               | 402.54               | 378.86               | 598.81               | 772.56               | 1604.43              | 6025.00              |
| Import from TAR to India (in lakhs) | 10.83                  | 6.88                 | 1.35                 | 2.96                 | Nil                  | Nil                  | 101.46               | 117.30               | 102.53               | 1105.00              |
| Trade Deficit/Surplus (in lakhs)    | -1.96                  | 20.99                | 56.65                | 132.04               | 402.54               | 378.86               | 497.40               | 655.26               | 1501.90              | 4920.00              |

**Table 3. Detail Report on Import and Export from 6th July, 2006 to 30th Nov., 2015.**

\*Tibet Autonomous Region

(Department of Commerce and Industries, Government of Sikkim, 2016)



**Figure 1. Overview of India China Trade at Nathu La Pass (Year Wise Growth).**

(Department of Commerce and Industries, Government of Sikkim, 2016)

free. In addition to the above list, the state can export agricultural and horticultural products, dairy products and forest products. Some of these items include cardamom, ginger, flora and fauna, dry chili, bamboo chopsticks, orchid, handlooms, bamboo saplings, medicinal plants, silk worms, woolen carpets, wooden carvings and *thanka* paintings. However, this list has yet to be finalized for trading by the two countries. Sikkim and surrounding areas could become a dry port. India is the largest producer of cardamom with 59.9 percent of the global market. Out of the Indian output, almost 88 percent of cardamom comes from Sikkim, which is the largest producer of large cardamom in the world.<sup>6</sup> The cultivation of cardamom can play a dominant role in economically uplifting farmers in Sikkim, a state that produces few items, yet where it has a distinct comparative advantage in cardamom, ginger and other horticultural and floriculture products. The area, production, and productivity of spices in the year 2013–2014 are highlighted below.

If such locally produced goods are promoted for export through this region, the regional growth of Sikkim could be better ensured. However, the trade is based purely on comparative advantages as propounded by economist David Ricardo. He famously demonstrated how both countries benefit by specializing and trading according to their comparative advantages (Hill and Jain 2009). Depending upon the topography, infrastructure, technology and cross-border resource base, competitive advantages can be created.

Data in Table 3 show that the border trade between India-China at the Nathu La pass is heading towards a definite balance, and it is evident that the surplus from the

cross-border trade have increased tremendously after its re-opening. This rising trend of exports shows the positive impact of Nathu La trade for India, especially to the Himalayan region of Sikkim and its local people. Surveys in various markets of Sikkim found that rising exports from the Nathu La trade positively impacted those locals who are directly involved; as well as those associated with those parties, as money percolates through the economy at the district, regional and national level. The data also show that the exports of Indian goods to China are more than imports, having increased from ₹ 8.87 *lakhs* in 2006–07 to ₹ 1604.43 in 2014–15, and ₹ 6025.00 *lakhs* in 2015–16. However, the import of Chinese goods to India has decreased from ₹ 10.83 *lakhs* in 2006–07 to ₹ 2.96 *lakhs* in 2009–10, and in the year 2009–10 to 2010–11 imports were reported as nil. Later the import was increased in 2012–13 and 2013–14, but comparatively lower than exports. In the first year after its re-opening, the trade shows deficit figures of nearly two *lakh* rupees, but later the trade surplus increased tremendously. After additional items were added to both export and import in year 2012, there was a slight increase in overall trade volume. The Chinese export in 2010 and 2011 was nil, which reiterates the need for broadening the list of tradable commodities.

Data from Table 4 highlight that the export through Nathu La region reached a maximum level of ₹ 6016.2 *lakhs* in 2015–16 and a minimum of ₹ 8.8 *lakhs* in 2006–07. During the study period, the average value of exports was ₹ 1001.18 *lakhs* with a standard deviation of ± 1829.83 *lakhs*. Similarly, during the above period import through the Nathu La region reached the maximum level of ₹ 1105 *lakhs* in the year 2015–16, and in the years 2010–11 and 2011–12 the

| Descriptive Statistics | Export<br>( <i>lakh</i> rupees) | Import<br>( <i>lakh</i> rupees) |
|------------------------|---------------------------------|---------------------------------|
| Mean                   | 1001.19                         | 181.04                          |
| Standard Deviation     | 1829.83                         | 376.75                          |
| Variance               | 3348278                         | 141938                          |
| Minimum                | 8.80                            | 1.35                            |
| Maximum                | 6025                            | 1105                            |
| Range                  | 6016.20                         | 1103.65                         |
| Kurtosis               | 8.13                            | 7.57                            |
| Skewness               | 2.79                            | 2.73                            |

Table 4. Descriptive Statistics of Exports and Imports in *Lakh* Rupees (2006–2015).

(Data calculated by the author, 2016)

imports were nil. During this period the average value of import was ₹ 181.03 lakhs with the standard deviation of ± 376.74 lakhs.

After the reopening of India-China cross-border trade on 6th July 2006 through Nathu La, there was both a benefit in trade and also a growth of tourism in this region. Neighboring countries like Bangladesh, Bhutan and Nepal used this trade route for both trade and tourism. The collection of revenue from Nathu La visitor permits between 2006 to 2015 increased tremendously. In the year 2006–2007, the Tourism Department of Sikkim collected a sum total of ₹ 43.91 lakhs as revenue from visitors to Nathu La, and it rose to ₹ 60.43 lakhs in 2008–2009 and ₹ 70.25 lakhs the following year (Rizal and Asokan 2013). The tourism industry is one of the most important sources of revenue in Sikkim, with places like Tsomgo Lake, Sherathang, Nathu La, Kupup and Gnathang attracting tourists continuously every year because of the natural scenic beauty of these areas. More than 300 vehicles enter these areas during peak seasons, as per records of police check posts.

Sikkim and neighboring states are keenly looking forward to using this route to harness various opportunities related to trade, investment and tourism in both western and mainland China.<sup>7</sup> The Indian Government projected the Nathu La as an alternative corridor for Kailash Mansarovar, and a Memorandum of Understanding between the Ministries of External Affairs of India and China was signed on 18th September 2014 for the opening of this new alternative route for Indian pilgrims to the Tibet Autonomous Region in the People's Republic of China.<sup>8</sup> Kailash Mansarovar is known for its serene nature, and its religious and cultural significance for Hindu, Buddhist and Bon practitioners. Nathu La is seen as a safer and easier route for this pilgrimage, with the new route enabling pilgrims to travel the 1,500 km-long journey from Nathu La to Kailash by buses. As the alternative route becomes more commonly tread, the Indian trade through this route will get a boost. Beside Nathu La, places like Jelep La in Kalimpong have also historically played a very important role in trade, and areas like 10th Mile and Topkhana were also important business centers with major Tibetan colonies. *Jelep La* literally means the “easy pass”. Compared to Nathu La, it is a more suitable route for trade with Tibet and China, as it remains open for most of the year due to fair weather conditions, while Nathu La would be difficult to negotiate in winter. The Nathu La border trade markets can be beneficial to the border inhabitants of both countries. From the Chinese side, the Nathu La trade could be more beneficial to the places like Phari, Guru, Gyantse, Karos and Chusui between Nathu La and

Lhasa. Nathu La has historically been Tibet's life-line to the outside world, and markets in places like Yatung, Gyantse, Phari, Gartok, Taklakot, Gyanima-Ebargo, Gyanima-Chakra, Ramura, Dongbra, Poling, Nabra, Xigaze and Tashigong were once thriving centers for Tibetan trade with much of South Asia through Nathu La (Singh 2005).

The major endowments of the state are its natural resources, including huge potential for hydropower. The prospects of opening up border trade through Nathu La poses both challenges and opportunities for the state. There is the possibility of huge revenue generation by the state in terms of license fees, toll taxes etc. Depending upon the volume of goods and services, one can expect a huge revenue and employment generation in transports gains from movement of vehicles from Siliguri to Gangtok and from Gangtok to the Nathu La trade route. One example of the possible extent of revenue generation for the state of Sikkim is cited in Tables 5 and 6.

The total annual revenue generation by Sikkim Nationalized Transport (SNT) or by private truckers through movement of 100-500 trucks daily between Siliguri and Nathu La at the existing rate per ton/km varies between ₹ 38.89 crores to ₹ 194.56 crores.<sup>9</sup>

Based on my projections, the daily movement of 100-500 trucks alone in season from Siliguri to Nathu La could employ 8,000 to 12,000 persons per annum (including drivers, cleaners, mechanics, loaders, warehouse keepers, etc.), and could have major impacts in the region including the establishment of hotels and restaurants, petrol pumps, machinery shops, banks and civic and administrative amenities on the roadside. This reopening could lead to large scale employment generation on both sides of the border in transport, communication, road construction, restaurants and hotels, banking, insurance, packaging, to name a few.

### **Impediments to Nathu La Border Trade**

The resumption of the Nathu La border trade in July 2006 after the 1962 Sino-Indian conflict marked a new direction in bilateral relations between the two neighbors. Due to increasing economic development, Sikkim has recently witnessed a vast change, which includes the needs of the people. There is a monumental difference in the goods being exported now compared to what was exported previously. In the late 19th century, ponies, cows, sheep, blankets, salt, yak-tails and other goods were imported from Tibet. India exported cloth (broad and country cloth, cotton goods, and mixed silk), indigo, tobacco, paint, furs, spices, umbrellas, window panes, looking glasses and lanterns to Tibet. Tibetans also received a large supply



| Trucks per Day | Tons | Amt. per Ton/<br>Kilometer<br>(ton/km) | Kilometers<br>(kms) | Per Day Revenue<br>Generation<br>₹ (lakhs) | Per Year Revenue<br>Generation<br>₹ (crores) |
|----------------|------|--|---------------------|--|--|
| 1              | 4    | 15.67                                  | 116                 | 0.073                                      | 0.27   |
| 100            | 4    | 15.67                                  | 116                 | 7.27                                       | 26.54  |
| 200            | 4    | 15.67                                  | 116                 | 14.54                                      | 53.07  |
| 300            | 4    | 15.67                                  | 116                 | 21.81                                      | 79.61  |
| 400            | 4    | 15.67                                  | 116                 | 29.08                                      | 106.15                                       |
| 500            | 4    | 15.67                                  | 116                 | 36.35                                      | 132.69                                       |

**Table 5. Siliguri to Gangtok (Existing Fare).**

(Data derived from personal interviews with truck drivers in Sikkim, 2016)

| Trucks per Day | Tons | Amt. per Ton/<br>Kilometer<br>(ton/km) | Kilometers<br>(kms) | Per Day Revenue<br>Generation<br>₹ (lakhs) | Per Year Revenue<br>Generation<br>₹ (crores) |
|----------------|------|--|---------------------|--|--|
| 1              | 4    | 15.67                                  | 54                  | 0.03                                       | 0.12   |
| 100            | 4    | 15.67                                  | 54                  | 3.38                                       | 12.35  |
| 200            | 4    | 15.67                                  | 54                  | 6.77                                       | 24.71  |
| 300            | 4    | 15.67                                  | 54                  | 10.15                                      | 37.06  |
| 400            | 4    | 15.67                                  | 54                  | 13.54                                      | 49.42  |
| 500            | 4    | 15.67                                  | 54                  | 16.92                                      | 61.77  |

**Table 6. Gangtok to Nathu La (Existing Fare).**

(Data derived from personal interviews with truck drivers in Sikkim, 2016)

of copper from Kolkata. All this became history with the closing down of the Indo-Tibet trade route as a result of Chinese aggression in 1962. As a result of this, trading largely remained dormant until 2006. As noted, at the time of reopening of Nathu La in 2006, the Government of India had declared 29 items for export and 15 items for import, with frequent requests by Indian and Chinese traders to expand tradable items. In the exercise of powers conferred under paragraph 2.4 of the Foreign Policy, 2004 the Director General of Foreign Trade added five new import items and seven new export items under the Indo-China border trade. The new items of import include readymade garments, shoes, quilts and blankets, carpets, and local herbal medicine. New items of export include processed food items, flowers, fruits and spices, religious products such as beads, prayer wheels, incense sticks and butter oil lamps, readymade garments, handicraft and handloom products, and local herbal medicine.

The list of goods which are exported through this route now is limited to 36 items, shown in Table 1. Amongst the listed items, most of the goods are not locally produced products. This, it seems, indicates a fear among some traders in India that Indian goods would find a limited demand in Tibet. The imports are also limited to 20 items,

and most of the goods match with that of pre-1962 trade list, such as yak tail, goat skin, yak hair, wool, etc. Due to the outdated trade list, many traders I spoke with expressed frustration. They cannot buy or sell their goods profitably, as there is not much demand for the obsolete products in the given list of items for trade. As a result, trade has not been able to gain the expected momentum. In view of the repeated requests made by the Indian and Chinese traders regarding the revision of tradable item list, most of the goods on the trade list were not financially viable in view of the expenses incurred by them in import of goods (Chaudhuri 2011). Another impediment during the early years of the open border were that markets would only remain open from Monday to Thursday every week from 7:30am to 3:30pm (India time) and from 10am to 6pm (Chinese time).

There is also a permit fee of 50 rupees for every vehicle entering Sikkim from China, and likewise a fee of 5 yuan for every vehicle crossing over to the Chinese side up to the trade mart at Rinchengang. Informal trade through this route, which I discuss below, takes place largely due to the inefficiencies and inadequacies of these formal channels, and remains, for the most part, unaccounted for at all levels.

## Informal Trade through Nathu La

The restriction of the natural flows of goods and services through the Nathu La has given a larger space for informal-illegal trade. There are more non-listed items and goods flowing through the informal trade routes than those listed items (Subba 2013). A field visit to the Sherathang trade mart revealed that the major items for sale were not included in the trading lists, and are instead illegally exported and imported in bulk through this route. Based on personal interviews with traders, major informal export items traded at Sherathang in 2015 are *dalda* (hydrogenated oil), biscuits (Parle G brand), *dalay* (local chilies), sugar, and incense sticks. The major informal imported items traded in this route in 2015 are electronic items, such as watches, electric water flasks, mixers, cookery (e.g., glassware), and footwear.

Border trade has nowhere been explicitly defined in the WTO agreements, which implies that the cartographic lines that demarcate inter-state boundaries should not act as stumbling blocks to economic interaction (Mohanty 2008). Due to the minimal industrial development in this region, the export of manufactured items remains by and large negligible. Indian traders from various parts of Sikkim can reach the trade mart at Renginggang 10 km away from nearby Indian outpost, and are permitted to trade only for two hours. Indian traders are frustrated since they cannot buy more profitable goods within the allotted time provided by the Chinese Government. A trader with a travel pass is allowed to move only along the 37-km trade corridor between Sherathang and Rinchegang (Hsu Kuei-hsiang 2005). Another restriction imposed is that Indian traders are not allowed to stay at Rinchegang overnight, nor are Chinese traders allowed to stay in Sherathang. So, a trader has to start their day out early if they want to do trading at Rinchegang and come back the same day. The traders who have been to Rinchegang have said that the facilities are more developed at the Rinchegang trade mart in TAR than at Sherathang in India. There are more *godowns*, each at 100-ton capacity on the TAR side, while on the Sikkim side the capacity of the *godowns* are one-fourth of that.

Since Nathu La lies at a high altitude of 4,310 meters from sea level, the place is always covered by snow. It is thus very hard to upgrade the constructed roads, which are narrow and fragile and get blocked easily during the rainy season. As Dholakia (2009) notes, the Nathu La connection between China and India is not like the smooth alpine highways of Europe, where trucks can roll from Germany all the way to the Mediterranean. In 2006, traders were allowed to sell goods only amounting to ₹ 25,000 *lakhs* a day (about \$ 500), and a fair amount

of profit ends up going towards the rental of four-wheel drive vehicles that can manage the uneven terrain from Gangtok to the pass (Harris 2008). Traders from both sides are legally supposed to trade only in United States dollars, but have been illegally engaged in trade using local currency (Namrata 2012).

In the case of Nathu La, the exemption limit has been raised to ₹ 1,00,000 *lakhs* in the year 2007–2008. Finally, for the border trade between India and China, the customer information file (CIF) value per consignment has been increased from ₹ 1,00,000 to ₹ 2,00,000 *lakhs* in the case of Nathu La, while for Gunji and Namgaya Shipkila, the existing CIF value limit of ₹ 25000 is being enhanced to ₹ 1,00,000. Even with this slight increase, traders are discouraged from dealing in a large scale. Most of the goods on the trade list were not financially viable because of the expenses incurred by them in the import of goods (Chaudhuri 2011). Sikkimese traders at the trade mart have also faced a language barrier. Tibetan traders generally use the Tibetan language for trading purposes, which makes communication difficult for the Sikkimese traders who use Nepali language to communicate. Moreover, border trade would benefit the residents of Sikkim, especially so-called Bhotias, ethnic Tibetan groups, since only they will be allowed to trade with their Tibetan counterparts. There is also the problem of interpretation of trade documents.

Nathu La border trade opens for only six months every year from May to November and most of the time the highest export transaction from this route is recorded in October. The Chinese export in the financial year 2010–11 and 2011–2012 was nil, which supports the need to broaden the list of tradable commodities. Indian traders through this route are seasonally unemployed because of bad weather, and Nathu La would be difficult to negotiate in winter because of this. During winters, Nathu La pass gets heavy snowfall and temperature drops to as low as -25° Celsius. It also has several sinking zones and parts are prone to landslides. Basic infrastructures like roads, bridges, hotels and restaurants, electricity, banking, insurance services, telecommunications, and warehousing facilities are lacking. Sikkim does not have any airport or railhead, and the closest airport is at Bagdogra in West Bengal, 124 km away from Sikkim's capital, Gangtok. Securing the trade route and safeguarding the ecosystem should be prioritized (Pazo 2013).

According to the Nathu La Trade Study Group (NTSG) Report 2005, Rangpo would be the probable town for housing warehouses, but this is yet to be initiated by the government. The existing warehousing facilities in Gangtok and other parts of Sikkim including Rangpo, Singtam, Ranipool are rather small and would not be able

to meet even a fraction of the load generated by the Nathu La trade. There are several other smaller towns beside Gangtok, which are functioning as commercial hubs, but are limited in scope due to lack of proper infrastructure. The infrastructure that needs to be gradually put in place should include hotels, parking spaces, trained guides, Chinese and Tibetan language schools, tourism related educational and professional institutions, financial institutions, security and safety administrations, transport and communications, market and health amenities.

According to NTSG report, the opening of the trade route through Nathu La would not only benefit the landlocked state of Sikkim, but also its adjoining regions like the north east region and West Bengal. “The Reopening of the Proposed Sikkim-Tibet Trade via Nathu La: A Policy Study on Prospect, Opportunities and Requisite Preparedness” (NTSG 2005) made the following major policy recommendations, with special emphasis on the order in which these should take place:

2005–2010: Initiation of trading actions on both sides backed by basic existing infrastructures, and start building wider and deeper infrastructural facilities

2010: Trading on a larger scale to start, based on upgraded and developed infrastructures

2012: Integration of Trade and Tourism activities and 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 neighboring countries including Bangladesh, Bhutan and Nepal through this route

2018: SAARC Tourism, integrate with other tourism activities of third countries of the region including Bangladesh, Bhutan, and Nepal. Open for all tourists to cross the border.

The other recommendations given by the NTSG include the following: safeguarding of local Sikkim’s interests and center-state coordination, 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, traffic movement regulations, insulations from bandhs, communication facilities, installation and upgrading of banking services, taxation

and revenues, custom facilities, quality control and standardization facilities’ market intelligence, sustainable and ecological management of the region, and construction of airport facilities, and museums (NTSG 2005).

By looking at these policy options and recommendations, the proposed volume of cross-border trade between the two countries looks impressive via Nathu La. However, the trade figures through this pass until 2015 have not fulfilled the projected figures of the NTSG. According to the Nathu La Trade Study Group (NTSG 2005) report, the projected cumulative trade flow through Nathu La was estimated at ₹ 206 crore (approximately US\$ 48 million) by 2007, ₹ 2,266 crore (US\$ 527 million) by 2010 and ₹ 12,203 crore (US\$ 2.84 billion) by 2015,<sup>10</sup> while lower projections placed the trade flow at ₹ 353 crore (US\$ 7.84 million) in 2010, and ₹ 450 crore (US\$ 10 million) in 2015. The NTSG also assumed that the charges on tourists visiting Sherathang and Nathu La could generate a revenue of ₹ 1.81 crore in 2006 and ₹ 3.47 crore in 2010. As data in Table 7 indicate, there is a wide gap between the NTSG projection and actual traded volume from year of reopening in 2006 to the year 2015.

From Table 7, it is also clear that the Nathu La Trade Study (NTSG) projected ₹ 353 crore by 2010, but the actual cumulative traded figure was only ₹ 6.54 crore—a difference of ₹ 346.46 crore. This was only 1.85 percent of the projected trade, and deficit in percentage was 98.15 per cent. Likewise the report projected ₹ 450 crore by 2015, but actual figure was only ₹ 114.60 crore and there is a gap of ₹ 335.4 crore. The deficit in percentage was 74.53 percent. However, the volume of trade is not satisfactory as seen by the projected figures of the NTSG. After the addition of items in both export and import in 2012, there was a slight increase in trade volume, but it still did not meet the projected figure of the NTSG. The trade figures through Nathu La until 2015 show a dismal outlook of the promises and prospects. The comparative study of two other border trade routes (Shipkila in Himachal Pradesh and Lipulek in Utttaranchal) have helped the NTSG to look into various issues in a more comprehensive manner. It is clear from Tables 4 and 5 that NTSG was over ambitious about the cross-border trade through Nathu La pass, and the government has not given serious attention to key policy reforms for trade as would be required to meet this huge gap. Besides security fears, there might be apprehension that, if restriction-free trade is allowed, Chinese commodities would flood India’s northeastern states. However, here I suggest that there is a considerable imbalance between Chinese desires to use India as a big market and India holding back because of the worry of Chinese goods flooding the market. There remains a huge gap in perceptions on both sides of the border.

| Years     | NTSG Projection (₹ crore) | Actual Trade (₹ crore) | Deficit (₹ crore) | Percentage Fulfilled | Deficit in Percentage |
|-----------|---------------------------|------------------------|-------------------|----------------------|-----------------------|
| 2006–2007 | 206                       | 0.54                   | (205.46)          | 0.26                 | 99.74                 |
| 2006–2010 | 2266                      | 6.54                   | (2259.46)         | 0.29                 | 99.71                 |
| 2006–2015 | 12203                     | 114.60                 | (12088.40)        | 0.93                 | 99.06                 |

**Table 7. Higher-Side Projection of Trade by NTSG and Actual Present Volume of Trade from 2006 to 2015.**

Values in bracket indicate loss

(NTSG report 2005; Department of Commerce and Industries, Govt. of Sikkim, 2016)

| Years     | NTSG Projection (₹ crore) | Actual Trade (₹ crore) | Deficit (₹ crore) | Percentage Fulfilled | Deficit in Percentage |
|-----------|---------------------------|------------------------|-------------------|----------------------|-----------------------|
| 2006–2010 | 353                       | 6.54                   | (346.46)          | 1.85                 | 98.15                 |
| 2006–2015 | 450                       | 114.60                 | (335.40)          | 25.46                | 74.53                 |

**Table 8. Lower Side Projection of Trade by NTSG and Actual Present Volume of Trade from 2006 to 2015.**

Values in bracket indicate loss

(NTSG report 2005; Department of Commerce and Industries, Govt. of Sikkim, 2016)

## Conclusion and Suggestions

From a 30,000 foot view, Nathu La cross-border trade shows a positive effect on the economic, social and political status of people in the Himalayan region of Sikkim. Despite these positive aspects, the Nathu La border trade has faced many problems from historical times to the present.

Governments have to be more focused to protect local interest and basic amenities for trade. The list of exported goods is limited and most of them are outdated. Through the Nathu La, well known to this area are yet to be included in the trading list. Pre-1962, commercial interactions across the Himalayas were facilitated by an Indian Consulate in Lhasa and Indian trade agents in Yatung and Gyantse, and China had a Consulate in Kolkata and a trade mission in Kalimpong. It would be good to consider reviving and reinstating these. Further research can also be done on examining the needs and practices of informal traders. Sikkim and its adjoining regions can become a tourist hub if proper road connectivity, amenities and communication facilities are provided.

After the reopening of Nathu La trade, there have been huge gains to stakeholders on both sides of the border. We might think about three levels of benefits: direct, indirect and ripple effect benefits. Direct benefits are those that flow directly to the trade stakeholders, indirect benefits are captured by suppliers and contractors providing various inputs to the trade and stakeholders of the trade. Ripple effect benefits include additional benefits that flow into the community as a result of expenditures

from those who received direct and indirect benefits. There has been a significant increase in both exports to and imports from China in the last ten years, which has shown that there is a huge scope in the market of China. The potential of the cross-border trade through this region also enhances the motivation for leading a new channel for the upcoming China-India trade relations. The existing warehousing facilities in Gangtok and other parts of Sikkim including Ranipool, Singtam, and Rangpo are small and would not meet the load generated by Nathu La trade. The Government of Sikkim should set up a modern warehousing facility in and around Sikkim and Siliguri for the facilitation of trade through the Nathu La region. Siliguri, being a hub of commercial and transportation activities that also shares borders with four foreign countries, could prove a confluence of great importance. The slow progress of road widening, alternative routes and updating the trade list and revising the seasons for trade through this region are also the hindrances which, if addressed, could decrease the huge gap between NTSG projection and actual traded volume. It would be unwise to restrict the natural flow of goods and services through this route. This will continue to give space to informal-illegal traders that thrive on restrictive trade practices. The present situation of the Nathu La trade requires a new study on all dimensions, not just trade. The political, economic, social and security aspects, as well, have to be explored to lead to regional development with benefits for all stakeholders.

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## Endnotes

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2. Government of India, Report of the Committee on Revitalization of the Northern Eastern Council, 2004, Ministry of Development of North Eastern Region, p 13.
3. Govt. of Sikkim, Commerce and Industries.
4. Ginseng is species of slow-growing perennial plants with fleshy roots, belonging to the genus *Panax* of the family Araliaceae.
5. Sikkim Development Report Planning Commission Government of India (1999).
6. Sikkim Development Report Planning Commission Government of India (1999).
7. Report Sikkim: Ensuring Human Security.
8. <<http://www.thehindubusinessline.com/news/world/china-allows-kailash-mansarovar-yatra-via-nathula-pass-in-sikkim/article6423568.ece>>.
9. Per year revenue generation of 100 trucks from Siliguri to Gangtok and Gangtok to Nathu La (₹ 26.54 crores + ₹ 12.35 = 38.89 crores). Per year revenue generation of 500 trucks from Siliguri to Gangtok and Gangtok to Nathu la (₹ 132.69 crores + ₹ 61.77 = 194.56 crores).
10. Calculated at the rate of 1 US \$ = ₹ 43.

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