



# IPCS

INSTITUTE OF PEACE AND CONFLICT STUDIES

Issue Brief # 203, January 2013

## India, China and the Nathu La Yesterday, Today & Tomorrow



**Namrata Hasija**  
Research Officer, IPCS

Six years have passed since the Nathu La was opened for border trade between India and China. In 2012, there were new hopes and enthusiasm with the revised trading list released by the Ministry of Commerce and Industries of India. This brief intends to explore Nathu La trade in three segments – past, present and the future, in terms of the trade before 1962, the trade that exists today and its future potential.

### I NATHU LA YESTERDAY

Historically, trade was flourishing along various routes throughout the world, by the first century C.E. with items including luxury items, raw material and, spices. The Silk route encompassed a wide trade network involving many countries cutting across Asian and European continents and numerous other Empires. The Roman, Han (Chinese), Parthian, the Kushana Empires and the nomadic confederation of the Xiongnu were part of this trading network.

The history of trade between the two great civilizations – India and China goes back to the pre-Christian era and the two regions were initially interlinked by traders who traded along the Silk route. With the introduction of Buddhism in China many monks came to India via this route in search of original Vinaya texts. These monks afraid of bandits usually came along with these traders caravans'. As a result, Buddhism became a part

*This brief is a part of a series on Nathu La within the larger IPCS project on improving connectivity between India and China. Also see the IPCS Task Force report titled "Trans Himalayan Trade and Development 2020: Looking Beyond Nathu La."*

this trade nexus and had gained widespread credence in China. This route thus, became a pathway of not only trade but exchange of ideas, cultural, beliefs and rise of a cosmopolitan culture along which new towns and cities came into being.

In medieval age, due to the disintegration of the Mongolian empire and later on with the modernisation of Europe the Silk Road lost its importance. The trade originally carried on through this land route gradually shifted to sea routes due to changing socio-political and economic conditions. Thus, the maritime routes became more important for trade. Nevertheless, the communities along this Silk Route continued trading with each other.

### Nathu La Trade: A Short History (1774-1962)

Under the British rule, the relations between India, Tibet and China changed substantially along with their trading patterns. The British India attempted to control the Tibetan trade, which was resisted by both the Tibetan and Chinese authorities.

The first evidence of British efforts to initiate formal trade linkages with Tibet came in 1774, when Warren Hastings dispatched a mission to Shigatse which was received by Tashi Lama. Another friendly mission to explore trade linkages was sent by British in 1783. However, there were no substantial results from these visits as no actual trade was initiated after these two missions. In April 1873, a deputation from the Society of Arts, London led by A. Campbell, recommended improving existing communication with Sikkim and extending roads up to the Tibetan frontier. John Campbell after meeting the Raja of Sikkim sent

China Research Programme (CRP)



IPCS

INSTITUTE OF PEACE AND CONFLICT STUDIES

J.W. Edgar, Deputy Commissioner of Darjeeling to Sikkim and Tibetan frontier to advise on the prospects of trade with Tibet via Sikkim. After his visit he wrote a 'Report of Administration of Bengal' in 1874-75 which strongly recommended exploring Anglo-Tibetan trade through Kalimpong and Sikkim after his visit to the Tibetan frontier.

A convention was signed in 1894 to facilitate such a trade exchange however; the Tibetans kept resisting any trading activity. This was because by the 1850s, Tibet had banned all foreigners from the country except nationals of neighbouring countries. If any Tibetan was found guilty of helping any foreigner he was punished severely. Tibetans feared the foreigners would harm their religion and seize all its gold mines. Many foreigners tried to reach Lhasa but failed miserably many a times losing their lives. It was only with the help of Indian spies that British government could map the country. However, Younghusband mission accompanied by a military escort in 1904 that a formal agreement was signed between Great Britain and Tibet. The mission captured Gyantse and reached Lhasa by defeating Tibetan army. The agreement specified that the occupation of Chumbi by the British would end after payment of 25 lakh and what were originally called 'marts' would be opened for three years. A follow up agreement was signed by the two governments of British India and Tibet in 1908 on 'Tibet Trade Regulations' which formalized and initiated trade between Tibet and Sikkim.

The 1911 revolution in China and the subsequent declaration of independence by Tibet affected the above agreements. China in 1914 refused to ratify a tripartite treaty between Great Britain, Tibet and China, leading to a new set of trade regulations between Great Britain and Tibet known as 'Anglo-Tibet Regulations 1914'. This resulted in the "existence the Anglo-Tibet trade based primarily on two very crucial routes Jelep la and Nathu La" (Nathula Trade Study Group: 2005). Out of the two routes Nathu la was used primarily for military purposes.

*Since late 1970's, efforts were made to increase trade between both the countries. Both countries agreed that trade routes like the Nathu La have immense potential. Nathu La was reopened following numerous bilateral trade agreements in 2006 which coincided with the "year of friendship" between the two countries.*

The real surge in the trading activity via Nathu La came after India's independence. In the Panchsheel agreement signed between China and India (1954) the Sikkim trade route was not mentioned as Sikkim was not formally an Indian state till this time but was only a protectorate state under the Indian government. However, the trade via Nathu La was regulated through the India Trade Agent (Central Government) who issued trade permits to traders.

The trade was on the lines of an open market. High value commodities like petrol, diesel, auto parts, liquor, rice, sugar, Rolex and other western watches, construction materials and so on was traded by Indians across the border. They imported wool, Chinese silk and Chinese silver dollar (it was also called dyang and was made of pure silver and permit was required to trade in dyang. However, they were brought in Yak skins without paying import duty and was in huge demand among Indian traders). The volume of trade amounted to lakhs every month. The profit was 3 times the cost of production. There was no tax to be paid by the Indian merchants and since the pass was open throughout the year, trade naturally prospered. The Chinese demanded more goods from the Indian side and traders benefitted from it till the route was closed down after Sino-Indian war in 1962. Some of the big names were Bhaju Rathna Sau (now in Kathmandu), the Sarraf Brothers, Nandu Ram, Mintri Bros from Gantok and Musk House Guwahatiwalla, and so on. In fact there was a whole network which involved traders from Nepal also. Within India traders involved in the trade were from Kalimpong, Sikkim, Guwahati, and so on. The trade thus, prospered from 1950-62 and traders from both sides earned huge profits and the volume of trade was enormous.

## II NATHU LA TODAY

Since late 1970's, efforts were made to increase trade between both the countries. Both countries agreed that trade routes like the Nathu La have immense potential. Nathu La was reopened following numerous bilateral trade agreements in 2006 which coincided with the "year of friendship" between the two countries. The list of items that be exported from India to TAR (Tibet Autonomous Region) and from TAR to India are listed in Annexure I.

### **Demands from Sikkim**

There were repeated demands from the Sikkim government and the local traders from both sides to revise the list of tradable items. For them, the

present list in the schedule was obsolete and did not have any commercial value. Finally after six years, the list of items to be traded through Nathu La was revised in 2012 with Indian and Chinese governments agreeing to allow merchants on both sides of the border to export and import more commodities. The new list is listed under Annexure II. Statements came in from various departments of Sikkim appreciating the revision of the list. There was hope amongst the traders and the members of Nathu La Border Trade Welfare Association as they felt that the new items added items for the trade are relevant in today's market. They expect the turnover to go up and also the participation of more traders. The enthusiasm among the traders was confirmed by the district administration as well.

However, the hopes of the traders fizzled out when they found that the revised items were not exempt from the list and a 29 percent tax had to be paid on them. The items that are under border trade are exempt from any tax. This resulted in traders declaring a boycott of the trade. Even after various memorandums the customs officials refuse to buy the argument that items under border trade are exempt from tax as per rules. Customs officials refused to give any exemption to the traders until and unless the Centre issued a notice waving off the 29 per cent import duty. The officials added that the custom duty charged would be refunded if a waiver was announced and the claim was made within six months of the notice being issued. However after some delay the centre sent a notice which stated that all the revised items were exempted from tax under border trade regulations. The traders called off the boycott after the declaration.

India-China bilateral trade through Nathu-la for 2012 ended the year on a high note with merchants from Sikkim importing items worth more than Rs 1 crore after two consecutive years of zero purchase by the Indian traders. This time, there was an increase in the export also. The Sikkimese traders exported items worth nearly Rs 6 crore (the exact amount is Rs 59,881,780), compared to last year's figure of Rs 334.4 lakh). Sumita Pradhan, the joint secretary of Sikkim Commerce and Industries Department credited this jump in business to the revised list for import and export along with many trade analysts. The data provided by the customs office in Gangtok showed that the Sikkimese traders had purchased items worth Rs 10,146,622 this year.

### III NATHU LA TOMORROW

After these positive trade figures has the question

*...the trade will be boosted if the government revises the obsolete list. The illegal trade at least in these items has been stopped and traders are very enthusiastic about the new items. With the positive result many have suggested more articles that can be added in the list to expand trade.*

as to whether a revised list will help been answered? The answer is yes, the trade will be boosted if the government revises the obsolete list. The illegal trade at least in these items has been stopped and traders are very enthusiastic about the new items. With the positive result many have suggested more articles that can be added in the list to expand trade. These could include processed milk products e.g. Sikkim milk, Alpine cheese, which is manufactured by Sikkim Dairy Products (P) Ltd. Aroma which is a bio-organic orthodox tea. It is packed and marketed by the Denzong Organics which has been certified by Naturland, Germany.

Sikkim is one of the largest producers of cardamom or what is known as "bara elachi". It is widely used for medical purposes, as spices. Temi Tea and Sikkim Solja, these are varieties of tea plucked and processed in the tea gardens of Sikkim. Liquor e.g. Sikkim Distilleries which produces liquor which are being widely consumed both in the local and inter-state market. Yuksom Breweries which is engaged in the production of beer under the name Dansburg, Dansburg Blue, Hit Beer have their retails all over India and therefore inclusion of these items would provide a boost to these industries.

Sikkim Cottage Industries/ Directorate of Handicrafts and Handlooms is involved in manufacturing the following: Thangkas, which are the religious scrolls, which are used both for religious purposes and also as decorative item, Choktses, they are the carved ornate tables made in a traditional style, hand-woven sarees, hand-woven carpets, handmade toys, Paintings, and other hand made products. The potential of the trade is immense which can be analysed from the trade from 1950-62 and also from the surge after the revision of the list. The Indian government should also open the trade to all Indian citizens rather than restricting it to Sikkimese traders.



Though many in Sikkim might disagree with this but the trade before 1962, gives proof of its immense potential when people from Bengal and other parts of Northeast participated in it. In fact many traders from Haryana, Bihar, etc also participated in this trade.,

The central government can ask for a similar list from the Chinese side and should seriously think about expanding the trade further by expanding the list. Traders from both sides are enthusiastic about the trade which will also help to boost the economies of the border areas. The boycott of trading activities by traders after the revision of the list and the delay by the central government in sending a letter affirming the exemption of tax from the revised list show attitudinal problems of the government. The profitability of the trade during 1950-62 was mainly because of the range of items involved in the trade. Therefore, to boost the trade in 2013 the revision of the list, building of infrastructure on the Indian side and correct attitude of the government is necessary.

#### Annexure I

The list of items that be exported from India to TAR (Tibet Autonomous Region) 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.

#### Annexure II

Traders from Sikkim can now import readymade garments, shoes, quilt/blankets, carpets and local herbal medicines from the TAR of China. The latest notification allows traders in Sikkim to export more items, including processed food, flowers, fruits and spices, religious products such as beads, prayer wheels, incense sticks and butter oil lamps, readymade garments, handicraft and handloom items, and local herbal medicines.

#### References

Atreya, Sarikah "Nathu La border trade to begin on May 3," 20 April 2010.

Goswami, Namrata(2009), "Looking "East" Through India's North East ," [www.idsa.in/system/files/OP2\\_northeastindia\\_ngoswami.pdf](http://www.idsa.in/system/files/OP2_northeastindia_ngoswami.pdf), accessed on 14/02/2012

Kuei-hsiang Hsu, "The Impact of Opening up Sikkim's Nathu-La on China-India Eastern Border Trade," [www.mtaac.gov.tw/mtaacbook/e/upload/09411/0202/2.pdf](http://www.mtaac.gov.tw/mtaacbook/e/upload/09411/0202/2.pdf)

Mishra, Kumar Binoda (2009), "Looking at Nathu La through the Security Prism," in Jayanta Kumar Ray,Rakhee Bhattachary and Kausik Bandopadhyay (eds.), Sikkim's Tryst with Nathu La: What AwaitsIndia's East and Northeast?, Delhi, Anshah Publishing House for Maulana Abul Kalam Azad Institute of Asian Studies, Kolkata

Subba, B. Bhim(2011), "Border Trade at Nathu La: Five Years After," [www.ipcs.org](http://www.ipcs.org).

"Nathu-La Trade in 5th Year, Items on Lists Same," 20 April 2010. [http://www.telegraphindia.com/1100420/jsp/siliguri/story\\_12358068.jsp](http://www.telegraphindia.com/1100420/jsp/siliguri/story_12358068.jsp).

"Indo-China Border Trade through Nathula Pass,"<http://sikkimindustries.nic.in/report%20on%20nathula%20trade.pdf>.

"Out Dated Tradable Item List Hindering Nathula Trade," 14 September 2011. <http://www.northeasttoday.in/our-states/sikkim/out-datedtradable-item-list-hindering-nathula-trade>.

"China Imposes Tax on Indian Goods at Nathula," 23 May 2011. <http://nealliance.net/sikkim/chinaimposes-tax-on-indian-goods-at-nathula>.

"Sikkim Demands for Revision of Nathu La Trade Items," 16 June 2009. <http://www.nenanews.com/ANE%20June%2016-30,09/mj4.htm>.

"Sikkim traders boycott border trade when new items come with 29% customs," 23 May 2012. [dutyhttp://sikkimnow.blogspot.com/2012/05/sikkim-traders-boycott-border-trade.html](http://sikkimnow.blogspot.com/2012/05/sikkim-traders-boycott-border-trade.html).

"Clarification on Customs Duty exemption for new items of Border Trade pending with Union Finance Minister," 17 June 2012. <http://sikkimnow.blogspot.com/2012/06/clarification-on-customs-duty-exemption.html>.

"New items of Border Trade included in Customs exemption list; Traders rejoice", 20 June 2012. <http://sikkimnow.blogspot.com/2012/06/new-items-of-border-trade-included-in.html>.

Nathula Trade Study Group, Sikkim-Tibet Trade via Nathula: A Policy Study on Prospect, Opportunities and Requisite Preparedness. 2005.

*Views expressed are author's own*



# IPCS

INSTITUTE OF PEACE AND CONFLICT STUDIES

B-7/3, Safdarjung Enclave, New Delhi, 110029. [www.ipcs.org](http://www.ipcs.org)