



Nathu La & the Sino-Indian Trade Understanding the Sensitivities in Sikkim

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As India and China began normalising relations in the mid-1970s they also initiated a process of dialogue. This enabled both countries to explore the feasibility of trade ties and identify areas of common economic interest. At Beijing's persistent initiative, which proposed all-round improvement of ties while setting aside resolution of the border dispute to a later date, moves were gradually started to build economic and trade ties to develop improved bilateral relations. This coincided with the launch of China's Four Modernisations Programme and enunciation of its policy of ensuring a 'peaceful neighbourhood environment'. The driver for improved economic relations with India, including through various mechanisms like the 'Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation' (BIMSTEC) and the trans-national rail and (Stilwell, or Ledo) road transportation, was the imperative to promote the lagging economies of China's hinterland south-western provinces and secure for them easily accessible export markets in South and South East Asia. These imperatives remain.

In 1984, India and China concluded a Trade Agreement which accorded both countries Most Favoured Nation (MFN) status. An active bilateral relationship began developing in 1992 and it had made satisfactory progress by 1994. That year the two countries signed a Double Taxation Avoidance Agreement. A filip was given to the process when both India and China became Dialogue Partners in the Association of South East Asian Nations (ASEAN). The trend continued with both countries signing the Bangkok Agreement in 2003 and deciding to offer some trade preferences to each other. According to the Agreement, China extended concessions on 217 products exported from India while India

reciprocated by offering concessions on 188 products exported by China. They also agreed to initiate open border trade along the Silk Route and expressed interest in participating in a multilateral trade system as per WTO commitments.

I SINO-INDIAN TRADE: BENEFITS FROM ENGAGEMENT

The economic relationship took off after 2003 and by 2008-09 at least 90 Indian companies had established offices in China. The lead was taken by the IT sector, which saw business opportunities, with some representation from the pharmaceuticals and automotive sectors. Initial trade targets were set at US\$ 20 billion by 2008 and US\$ 30 billion by 2010. But these were quickly exceeded as bilateral trade grew exponentially with it reaching US\$ 61.76 billion by 2010, or an increase of 42.4 per cent over 2009. By last year China was India's leading trade partner while India ranked as China's ninth trading partner. During Chinese Premier Wen Jiabao's visit in December 2010, the Chinese visitor's focus remained on bilateral economic ties and both countries agreed to further boost trade and set US\$ 100 billion as the target for 2015. A boost to bilateral trade, and especially Chinese exports, was given by the agreement reached to open a branch in India of China's Exim Bank and another to permit settlements in Yuan. A substantive effect of the two agreements, which requires to be underlined, will be the development of business interests vested in stable and growing India-China ties regardless of trade imbalances or problems concerning sovereignty or the border. This could be a poisoned chalice.

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securing sub-contracts for the infrastructure sector and expanding its already substantial profile in the telecommunications sector. Its huge foreign exchange reserves give it the capacity to invest in these sectors. It has also been proposing the establishment of Free Trade Zones and High Tech Parks and increased access for its civil aviation industry. While bilateral trade is very unbalanced in China's favour, Indian IT and pharmaceutical companies have been encouraged by Beijing and are active in China. Both these sectors have been identified by China as ones where India leads and China needs to catch up. Efforts are being made to woo India's bio-tech sector. China is also looking for expertise and participation by Indian entities in the banking, outsourcing and legal sectors. Regrettably bilateral trade primarily comprises the export of raw natural resources like iron ore. India has also opened other resources like potassium, bauxite and rare earths for export without assessing the utility of these scarce resources for India future needs. A review is essential on which items need to be controlled, where exports need to be capped, and which require regulation.

II SOVEREIGNTY AND ASSERTIVENESS: ISSUES OF CONCERN

Some caution is essential when the burgeoning India-China economic and trade ties are assessed. Without seeking to under-estimate the mutual benefits that accrue from active trade interaction, it is important that Delhi factors in the growing unease in India-China bilateral relations and China's assertiveness. Beijing has shown no signs of changing its policy of trying to legitimise its claims on territories over which India exercises sovereignty, or trying to prevent India from achieving its position in the world that it aspires to. Some recent examples are: the efforts to deny India a waiver by the NSG; sustained opposition to India's bid for a Permanent seat in the UNSC; Beijing's position with regard to issue of visas to Indian citizens who are residents of J&K or Arunachal Pradesh; preventing the Asian Development Bank (ADB) from granting development aid to a poverty alleviation project

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in Arunachal Pradesh; and vehement opposition to the recent US suggestion for a trilateral US-China-India dialogue on the ground that India can not be placed on par with China. Official Chinese media articles have also particularly since mid-2010 warned that China might 'teach' India lesson.

In this backdrop, of which serious note needs to be taken, the efforts of Chinese telecommunications companies Huawei and ZTE, need to be scrutinized. Both companies are closely associated with China's Military and Security establishment and neither has made public its accounts or assets. Both receive preferential business consideration and contracts from the People's Liberation Army (PLA). They further China's strategic interests. Huawei and ZTE are maintaining, or setting up, country-wide land-line and/or mobile telephone networks in the countries surrounding India namely, Afghanistan, Pakistan, Nepal, Bangladesh and Sri Lanka. They are well established in Myanmar. Both, Huawei and ZTE have, surprisingly, been able to develop major interests in the Indian telecommunications market despite the obvious implications for the country's security. Both companies have large offices in Bengaluru and Delhi. Huawei has a major software research centre in Bengaluru—an area in which India is a leader. It also claims to have provided "cutting edge technology to all the telecom operators" in India. ZTE registered a sales volume of US\$ 1 billion in India in 2009. It has tied up with the Russian telecom company Sistema, which recently launched operations in India. To boost acceptability both companies have launched scholarship programmes for Indian students.

China's emphasis on cyber warfare and repetitive targeting of select Indian cyber networks necessitates heightened concern of the access allowed to these firms. Huawei and ZTE are together the 'main service providers' (MSPs) for the majority of Indian mobile telephone networks and in most cases also maintain the network operations. The vulnerabilities are obvious. Mobile telephones are used by all levels of politicians, bureaucrats, armed forces and security officials. Corporate and industrial tycoons use them too. Confidential subjects are routinely discussed on these lines. Both Huawei and ZTE have the access to eavesdrop and monitor conversations of persons of interest. If considered necessary they are in a position to selectively disrupt, or terminate, communications of certain phones. In times of crisis or hostility these companies could suspend the country's entire mobile telephone network operated or maintained by them causing widespread confusion, systems breakdowns, damage and financial and material loss. Similar concerns prompted UK's Joint Intelligence

Committee to issue a warning about Huawei. Other areas vulnerable to attack include those entities -- including public utilities -- using Chinese computer software and hardware. India is undoubtedly a prime target of Chinese cyber attacks and such attacks could be launched by Chinese IT companies from within India.

It is evident that China's leadership has focused on development of an overarching architecture for cyber warfare and network operations. This combines the capability for attacking cyber-based communications and information systems as well as space-based communications like mobile and satellite telephone networks. The inclusion of Lanzhou, Chengdu and Guangzhou among the five Military Regions selected for enhanced Information Warfare capability is noteworthy. Significant also are the efforts of the Chinese commercial telecommunications companies, all of whom are linked to the People's Liberation Army (PLA), to penetrate and dominate the communications infrastructure of countries which are of strategic interest to China. The continuous cyber attacks on targets in various countries similarly point to China's efforts to upgrade its capability.

There are two other areas of serious concern that impinge directly on national security. The first relates to the manufacture and supply of turbines for power generation. Presently there are a couple of companies in India that have the capability to manufacture and supply these turbines. High quality precision engineering is required for the manufacture of these turbines. Chinese companies are able to manufacture and supply these power generation turbines at a lower cost. Resultantly Indian power companies buy Chinese manufactured turbines. While this makes abundant commercial sense, India cannot really afford to allow its companies to shut down due to paucity of orders as that would deprive the country of high quality precision engineering capability. As such, India needs to explore ways to develop and encourage high precision manufacturing, if necessary by ensuring steady orders and finding ways to accelerate production and bring costs down.

Illegal Chinese settlements are the other concern. An estimated 20,000 Chinese workers are presently housed in temporary facilities at work sites of Chinese sub-contractors across India. There is negligible check on their movements or whether they return to China after completion of their contract. Surprisingly a large number have unauthorisedly stayed on and even forged human relationships. In course of time, unless this tendency is checked, India could well have a large illegally settled Chinese population such as in Africa.

The region's sensitivity has been heightened by China's claims on Sikkim. It was only after almost sixty years in 2003, during Indian Prime Minister Vajpayee's visit, that Beijing implicitly agreed that Sikkim was a part of India and agreed not to depict Sikkim in its official maps as an independent entity, but as a part of India.

III REVIVAL OF BORDER TRADE: PROSPECTS AND IMPLICATIONS

Strategy, sovereignty and territory are inextricably intertwined in deliberations relating especially to national borders. The case of Sikkim and Nathu La are no different. It is these considerations that have also been responsible for the glacial progress with regard to the re-opening of the erstwhile traditional trade-marts between India, Tibet and China. The issue became more complicated with the disappearance of one party, namely Tibet, which had long served as a buffer, and the Chinese aggression in 1962. The gradual improvement in relations between India and China, however, additionally prompted realization that the revival of border trade would be of mutual benefit particularly to the inhabitants of the border regions.

The region's sensitivity has been heightened by China's claims on Sikkim. It was only after almost sixty years in 2003, during Indian Prime Minister Vajpayee's visit, that Beijing implicitly agreed that Sikkim was a part of India and agreed not to depict Sikkim in its official maps as an independent entity, but as a part of India. This was done in the first set of official maps published by China in 2006-07. But Beijing has retained the potential for introducing ambiguity into the issue at a later stage and has, till date, declined to issue a formal statement recognising Sikkim as part of India. In 2000, for example, Ughyen Thinley Dorjee, who had been confirmed by both Beijing and the Dalai Lama as the XVIIth Gyalwa Karmapa, escaped from Tibet in to India with the objective of returning to the Gyalwa Karmapa's spiritual seat in Rumtek Monastery in Sikkim. Chinese officials have maintained a stoic silence on the matter, including because any protest about Ughyen Thinley Dorje assuming residence in Rumtek would imply explicit endorsement of India's sovereignty over Sikkim. There has also not yet been a Chinese reaction to the unusual criticism by Ughyen Thinley Dorjee, recognised by Beijing and the Dalai Lama as the XVIIth Gyalwa

Karmapa, of the repression of Tibetans inside China by Chinese authorities, made just few weeks ago.

Sikkim is especially sensitive politically and militarily for India. Intrusions into Sikkim are particularly worrisome as they additionally cast serious doubt on China's credibility to abide by bilateral agreements. After armed Chinese troops intruded on over 75 occasions in northern Sikkim during 2007, possibly to assess India's vulnerabilities, China raised it as a dispute during India's External Affairs Minister's visit to Beijing in May 2008. China's attention significantly appears focused on the 'Finger Area', or area north of Guangyong. At its closest point this area is barely 30 miles north of the 'Chicken's Neck' or Siliguri corridor. A sudden military move across this belt, combined with a pincer move down from the Chumbi Valley, would completely cut India off from the north-east. China's objective would be its claimed approx 90,000 square kilometers of territory comprising Arunachal Pradesh or, what China calls 'southern Tibet'. China's insistence on opening new areas of territorial dispute such as J&K also cast doubt on its credibility as a partner to an agreement. Factors contributing to the need for serious concern are the all-weather expressway that China has built right up to the border at Nathu La and its plans to extend the Golmud- Lhasa Railway to Yadong, across Nathu La. This will at once facilitate movement of military goods and personnel as also rail-mobile missiles.

Strategic considerations today, in fact, perforce also have to take note of the religious factor and dominant presence in Sikkim of the Karma Kagyu School of Tibetan Buddhism. An incipient non-traditional threat centres around the religious dispute for the throne of the XVIIth Gyalwa Karmapa of the Karma Kagyu sect and Rumtek Monastery in view especially of Beijing's efforts to woo the Tibetan Buddhists and particularly influential personages among them.

Once the agreement on Sikkim had been reached in 2003, Beijing also agreed to India's suggestion about opening trading posts in Yadong/Nathu La. India had first proposed opening of a border trading post at Yadong during the seventh Joint Working Group meeting held in Beijing in July 1994. Yadong/Nathu La were finally opened on July 6, 2006. It is interesting though that while China opened Yadong/Nathu La only in 2006, they had years earlier constructed an all-weather two-lane highway up to Yadong as well as permanent trading huts, customs buildings and check posts. There are plans to extend the

railway from Lhasa to Yadong by 2015. This will facilitate transportation of goods and passengers. China's construction activity suggests that Beijing has planned to develop Yadong as a major trade port through which it can supply goods to Sikkim, Bhutan, and India's north east as well as onwards via sea to Bangladesh and Myanmar. Yadong is apparently poised to become a container port. In case India opens Nathu La to large scale trade, there will be an influx of Chinese goods. Cheap consumer items will flood local markets and heavy items and goods will be shipped in for transport to other destinations in India or for re-export. Indian traders and companies will suffer. The low prices of Chinese goods mean there will be low margins for intermediaries. Indian companies and traders will also be unable to sell their products to China.

Border trade has been slow in this sector due to the meagre facilities provided on our side of the border. Slow growth of trade has, in fact, provided an opportunity for development of infrastructure on the Indian side and this must be taken advantage of. The road linking Gangtok with Nathu La is a narrow two-lane metalled road which is prone to frequent disruption due to weather and other events. This needs to be upgraded and another road link added. Gangtok itself is poorly connected with the rest of the country. It is consequently losing out on the immense tourism potential of its scenic and natural beauty. Properly connected, Sikkim and Nathu La can be developed as high-end tourism and adventure destinations. Before opening Nathu La to Chinese trade, it is essential that the transport infrastructure of Sikkim be developed. It should have air and multiple all-weather road connections. Roads should link Sikkim's western and north-western regions with Gangtok and there should be an adequate number of hotels. Encouragement of and enhanced tourism will automatically grant increased legitimacy to Indian sovereignty over this and adjoining regions. Tourism can be extended to other parts of India's north-east and, for this, a policy should be adopted of aggressively reducing the number of areas requiring inner-line permits. It is only once India has such appropriate infrastructure in place that its businessmen, traders and commercial enterprises can compete effectively with their Chinese counterparts, that border trade should be broadened and deregulated.

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