Chapter VI

UNAUTHORISED TRADE

The unauthorised trade i.e., smuggling is not a new phenomenon between India and Nepal. Long before her independence there had been a regular flow of ganja and other prohibited articles into India in large quantities in return for manufactured goods. During last twenty years and particularly since India's rupee devaluation of 1966 it has markedly increased. The Government of Nepal does not find it much injurious to her interests but, India finds it a threat to some of her growing industries and also to her basic political and fiscal policies.

In this chapter, we shall discuss the nature and mode of unauthorised trade i.e., smuggling taking place on Indo-Nepalese border. Section one deals with the factor responsible for smuggling. Section two is concerned with the mode of unauthorised trade and section three comprises the list of some smuggled items. Section four comments on the socio-economic effects of smuggling. Section five tries to assess the prospective future pattern and section six makes some concluding remarks about the findings of the chapter.

1. Responsible Factors.

A significant factor for this malpractice is the geographical setting of the two countries. Nepal has no easy
outlet, except through the Indian territory. Nepal has a long border along the northern frontier of India. The border consists of numerous rivers and dense forests, makes convenient route for the movement of the smugglers. It is also difficult to maintain check-posts at every spot on the 500 miles long Indo-Nepalese border. So, Indo-Nepalese border has helped such smugglers to exercise their free play on a massive scale.

Another factor is political; the international tensions and basic differences in the ideologies being the foremost. The ideological difference between India and China finds active expression in Nepal. The advanced nations which supply cheaper goods to the consumers of the under-developed regions, are not much guided by commercial considerations or maximising gains but their main motive is to spread their ideology and gain favour on international issues. Also China has resorted to price reduction largely for destroying Indian influence and her close economic relations with Nepal. Economic aid in cash and kind is thus being used as an instrument for political ends.

The chief economic factor responsible for smuggling is cheap goods received by Nepal from Russia and China. Luxury or semi-luxury goods received as grant or on deferred payment basis from Russia and China. Nepal is also importing consider-
able quantity of luxury goods from foreign countries against her foreign exchange earnings. Chinese pens, cigarettes and blankets, Russian watches and Japanese transistors have become a headache for India. e.g., the price of Russian cloth per yard was only 80 paisa as compared to Rs. 2 for Indian cloth of the same variety and a big superior quality Russian soap was sold at 50 paisa only which might cost Rs. 1.25 in India. The imports of machinery and spare parts, raw materials, cars, scooters, cosmetics, radios, transistors photographic goods and watches have increased in Nepal. Later on these items try to find their way into India. This economic penetration into Nepal has exerted political impact on adjoining Indian territories. Table 6.1 presents an account of such imports into Nepal.

The liberal import policy of Nepal is also one of the causes for smuggling. She started 'Bonus Voucher Scheme' to encourage the exports of Nepalese goods to overseas countries. The foreign exchange earnings could be reclaimed for importing goods of choice. Nepal remained passive over their resale price. Foreign countries, particularly China found it easy to dump consumer goods there for their ultimate disposal to Indian ready markets. The Nepalese exporters

1. Indian Express, October 18, 1967.
get foreign exchange easily due to 'customs clearance Permit' system from people who do not want foreign exchange through the incentive system and who are willing to arrange their own payments. Mostly the Customs Clearance Permit holders in Nepal are Indians and they arrange remittances of the foreign exchange for the materials brought into Nepal through black market in India. The whole border right from Raxaul to Ghodasahan has grown to be smuggling zone. Raxaul is one of the important centres, the other centres are Birganj and Nepalganj in Nepal and Nanpara and Nautanwa in Uttar Pradesh from where goods safely come to Motihari, Ramgarwa, Darbhanga, Champaran and Muzaffarpur for sale. By cunning tactics they are then sent to big cities by various secret routes.

The loophole in the Indo-Nepalese Treaty of 1960 also facilitated smuggling. According to the Treaty, India agreed to allow without any quantitative restrictions duty free import of Nepalese manufactured goods, utilising indigenous raw materials. It was specially agreed that a separate arrangement would be required for the raw materials of the third country origin. Despite these, India allowed from Nepal the unrestricted and duty free imports of third country goods. This flooded Indian markets with the banned goods

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<tbody>
<tr>
<td>1. Machineries and spare parts.</td>
<td>4,664</td>
<td>48,716</td>
<td>7,697</td>
<td>15,336</td>
<td>1,33,651</td>
<td>32,612</td>
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<td>2. Raw materials.</td>
<td>4,960</td>
<td>11,498</td>
<td>11,604</td>
<td>9,604</td>
<td>88,736</td>
<td>42,836</td>
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<td>3. Building and constructional materials.</td>
<td>6,948</td>
<td>11,933</td>
<td>5,106</td>
<td>5,542</td>
<td>38,493</td>
<td>18,742</td>
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<td>4. Vehicles, cars, trucks, scooters &amp; motorcycles etc.</td>
<td>7,352</td>
<td>11,335</td>
<td>10,471</td>
<td>13,643</td>
<td>26,782</td>
<td>4,929</td>
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<td>5. Readymade Garments, Carpets etc.</td>
<td>25,999</td>
<td>26,664</td>
<td>23,201</td>
<td>30,232</td>
<td>48,632</td>
<td>34,906</td>
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<td>6. Radio, Transistors, Record Player etc.</td>
<td>861</td>
<td>890</td>
<td>1,017</td>
<td>1,147</td>
<td>982</td>
<td>1,153</td>
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<td>7. Beverages &amp; tobacco.</td>
<td>2,142</td>
<td>4,147</td>
<td>2,113</td>
<td>1,746</td>
<td>7,332</td>
<td>350</td>
</tr>
<tr>
<td>8. Medicine &amp; Medicinal goods.</td>
<td>1,554</td>
<td>4,725</td>
<td>1,670</td>
<td>2,125</td>
<td>5,979</td>
<td>23,649</td>
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<td>9. Agricultural tools, implements &amp; other materials.</td>
<td>1,479</td>
<td>7,737</td>
<td>28,557</td>
<td>5,186</td>
<td>75,367</td>
<td>3,826</td>
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<td>10. Stationary goods.</td>
<td>2,239</td>
<td>3,676</td>
<td>2,337</td>
<td>6,160</td>
<td>12,659</td>
<td>3,037</td>
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<td>11. Cosmetic</td>
<td>1,532</td>
<td>1,818</td>
<td>3,719</td>
<td>2,231</td>
<td>934</td>
<td>364</td>
</tr>
<tr>
<td>12. Food and Food Articles.</td>
<td>834</td>
<td>17,193</td>
<td>32,498</td>
<td>2,304</td>
<td>9,646</td>
<td>5,608</td>
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<td>13. Watch and watch materials.</td>
<td>225</td>
<td>45</td>
<td>105</td>
<td>378</td>
<td>197</td>
<td>60</td>
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<td>14. Photographic goods.</td>
<td>405</td>
<td>1,094</td>
<td>1,471</td>
<td>1,797</td>
<td>1,116</td>
<td>1,056</td>
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<td>15. Miscellaneous.</td>
<td>24,107</td>
<td>17,663</td>
<td>23,506</td>
<td>45,241</td>
<td>8,976</td>
<td>8,397</td>
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**Total:** 84,311 169,174 154,872 143,671 461,456 181,525


Note: 1. Year refer to financial year.

2. Comparable figures for different commodity groups were not available for 1976-77, 1977-78 and 1978-79. Only total value of imports was available which is given below:

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<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tr>
<td>1976-77</td>
<td>Rs. 371,800</td>
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<tr>
<td>1977-78</td>
<td>Rs. 393,800</td>
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<tr>
<td>1978-79</td>
<td>Rs. 609,700</td>
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Source: Main Economic Indicator, March 1979, Nepal Rastra Bank.
like stainless steel and terylene suiting. Since every item that is being imported from Nepal duty free is a high tariff item. So the smugglers have been making huge profits. It also happens that the manipulators import finished goods from Japan and other foreign countries stamp them as 'Made in Nepal' and push them as Nepalese products to Indian markets. The Indian customs authorities thus find it difficult to check their movements. Hence, the liberal transit facilities provided by India to Nepalese overseas trade being exploited by such smugglers.

Another significant factor is the speculative economic conditions between the two markets. Due to the devaluation of Indian Rupee in April 1966, the cost of imported goods in India immediately shoot up and smuggling became still more attractive. Thus, overnight the Nepali equivalent of Rs. 100 Indian currency fell from Rs. 160 to Rs. 101.6 making Indian goods more attractive in Nepal. After devaluation Government of India imposed heavy export duties on 12 traditionally important export items including Jute manufactures, tea, tobacco, hides and skins and mica. While they attracted heavy export duties when shipped directly from India, they could find their way to foreign markets duty free if they went first to Nepal. Some Nepal residing

1. Indian Express, October 1967.
Indians and the natives of the same were quick to co-operate. Nepal introduced ineffective licensing system on Indian trade and imposed high customs duties on Indian goods to safeguard her economy from the effect of Indian devaluation, which resulted into the shortages of consumer goods in Nepal. The prices of kirana goods greatly increased in Nepal. The commodity which was available previously at Re. 1 was being sold at Rs. 150 (approx.) causing misery to the Nepalese consumers and gains to the smugglers. Prevalence of uncertainty in the par value of the two currencies naturally gave incentive to smuggling. However, the position reversed since 1967 when the Nepalese Government announced the devaluation of Nepalese currency.

Apart from these aforesaid factors, the administrative inefficiency and weakness is also responsible for the smuggling on Indo-Nepalese border. The slackness on the part of officials on the check posts and insufficiency of the preventive machinery on the long open border made goods slip down on either side easily. It is alleged that Embassy people and foreign establishment personnel also do the same business largely. The foreign experts working in Nepal are required to move from one part of Nepal to another through bordering Indian railway stations and by this opportunity of shifting they conveniently dispose off their superfluous items to the smugglers. The Government of Nepal also has enhanced the
limit of licence free goods with the foreign travellers from Rs. 1,000 to Rs. 5,000. The Ministers were not required to pay customs duty on goods imported by them valued at not more than Rs. 5,000 every year. All this has increased the entry of foreign goods into Nepal depriving both the Governments of their dues. After the 1960 Treaty it was provided that, to ensure that the goods conform to the description of import licence, Indian customs authorities will open for examination certain percentage of packages. But there shall be no opening of packages imported by their Majesty, other privileged members of the Royal family, by H.H. G. Nepal and by diplomatic personnel and missions. Due to this system and lack of instructions and inefficiency of customs officers foreign articles entered into Indian markets by illegal methods.

2. Mode Of The Unauthorised Trade.

A large number of Indian and Nepali citizens have a direct or indirect hand in such type of trade. This trade has been going up through the hands of menial labourers like coolies, conductors, taxi-drivers and tongawalas. Some unscrupulous traders are involved in it and bands of students, travel agencies and girls are said to be employed in such business. The tactics adopted by smugglers are quite interesting. Most of the smuggled goods are brought in tiffin-carriers, boxes, bedding and bags. Cases have come into light when goods were
hidden below the riksha seats and underwears of a new design specially made for such purposes. The methods which are adopted once are rarely repeated. The smugglers act according to the pre-determined plan, routes and timings so that the whole circle may function smoothly. Some of the prohibited costly goods enter Indian markets through parcels for Hongkong, Singapore and from the border post offices. A large number of parcels despatched from Barkatiganj to Azamgarh, Dhobighat and Baraul, from Baraul to Darjeeling and Sewan and from Khagadia to Ghodashan and Varanasi can be observed. In Nepal one can import foreign goods up to the value of Rs.200 twice a year without licence. This gift parcels with Nepal bond luxury goods smuggled down to India. There are many establishment on both sides of the border for serving as the trade link. They have their nominal shops on both the sides of the border. On the Indian sides, they are Indians and across the border they become Nepali citizens. In some cases the father is an Indian while the son is a Nepali citizen. The shifting of place, changing addresses and dual citizenship make it difficult to detect the culprits. The Kathmandu-Dacca air service had been a smuggler's service and it made Kathmandu as a base for smuggling from Hongkong and for ultimate export to India. Smuggling of narcotic drugs like ganja, opium and charas are also very important. In Nepal ganja is found in abundance, there is no restriction on its cultivation and sale. The wide gap of prices between India and Nepal makes possible
its large inflow into India. It is sold in Nepal at Rs. 15 to Rs. 20 per seer while its price in south Bihar is Rs. 120 and in West Bengal from Rs. 160 to Rs. 200 per seer. The main centres of smuggling this prohibited item are Jogbani, Bhatgaon, Kuarsi, Ghurna and Bibiganj in Bihar and trucks, bullock carts and trains are used for sending it to Uttar Pradesh, Bombay and Madras. Mr. Saiman Tigga, a Revenue Minister of Bihar once estimated that nearly 3.5 crores worth of ganja was smuggled yearly into Champaran and Purana districts of Bihar. It was reported that majority of landlords of Kailali village on Nepal border were engaged in ganja business. They maintain and utilise well trained and armed men for such business across the border. They did not put number plates on their vehicles and used to slip down into Indian border. Sonia time for this work some Indian and Nepali officers also have been purchased by the smugglers. The smuggling incidents sometimes take the form of an armed clash with the border police.

3. Smuggled Items.

Since smuggling is a two way traffic, Indian goods, more particularly jute, textiles, mica and rice are smuggled out to Nepal for their final exports to third countries, most probably China who in exchange supplies her cheap luxury

items for its final export to wide markets of India. The smuggler-cum-producers import raw materials with the foreign exchange they earn. They smuggle watches, pen, camphor, jaree, mixed fibre, yarn-polyester and polyamide, radios, films and cameras into India largely. Some foreign luxury goods such as stainless steel utensils, nylon yarn, watches etc., whose entry has been banned in India, are seen flooding her markets. On the other hand commodities like petroleum, tyres and jute are being smuggled away from India to supply foreign needs. Cases of smuggling of Nepali silver coins and gold have also come to light. The Russian and Czechoslovak sugar and fertilisers are smuggled into India via Janagar, Jogbani, Raxaul and Golgalia. Instead of its original form, the foreign sugar was imported in the form of cubes. Smuggling has increased most in synthetic fabrics and stainless steel utensils, the import of which is subject to heavy duty in India. Nepal has been encouraging these industries under he industrial plan. But because of their cheapness and heavy demands these are safely smuggled in large quantities into India.

The extent of smuggling can be guessed by the fact that from Sigauli alone goods worth Rs. 10,000 were detected in a single day. According to another estimate, prohibited goods valued at 50 to 60 lakhs was brought by trucks and bullock carts. Unofficial sources put the value of smuggling business at Rs. 10 crores. But the official estimation were given by Mr. Chavan (ex-Foreign Minister, India) is of the
order of Rs. 100 to 150 crores per year. The extent of smuggling is at least as large as Indo-Nepalese trade through usual legal trade channels.

Nepal has been perhaps the best place for this illegal trade in costly products like petroleum and food articles with Tibet. Nepalese traders have been smuggling to Tibet petrol and petroleum products received from India. Mica, a valuable foreign exchange earner, is being smuggled to Nepal in large quantities. Bristles in Nepal are cut to the normal sizes and bleached chemically for foreign markets. They are imported into Nepal from India and then exported to U.K. and France. Wheat had been smuggled to China from U.P. through Nepal while the price of wheat in Nepal and China is less than the price in U.P. Considering the smuggler's cost it was not profitable to sell Indian wheat in Nepal or China, but the wheat smugglers in return are paid in kind in transistor, pens and watches giving them a double side profit. Moreover, China makes payment in pound sterling which is a great inspiration to Nepalese traders. They do not display the goods and deal with only known customers.

Paddy and rice are also said to have exported to Tibet through Nepal. Many new rice mills inside Nepal have been established and in Bhadrapur and Biratnagar their number

runs into several hundreds. It might be due to the easy smuggling facilities and favourable supply from the Indian paddy growing areas near the border. There has been no significant improvement in the agricultural production of Nepal but there has been a regular drain of foodgrains from that country, so it is clear that essential part was imported from India for re-exports.

Certain commodities, specially of strategic importance, were also said to have re-exported to Tibet for Chinese army requirements. India raised this issue with the Nepalese authorities and as a result Nepal Government banned certain articles like non-ferrous metals, rubber, chemicals of strategic value, batteries, diesel, crude oil, lubricant oil, survey instruments, electrical appliances, drill cloth, tent, Indian tinned food etc. The construction of Kodari-Kathmandu road would increase chinese movements and an easy route for smugglers who would be active in exporting Indian goods to Tibet.

3.1 : Jute Smuggling:

In the exchange of luxury and fashionable goods India used to sent petroleum, Mica, sugar and jute to Nepal for their export to third countries. In 1967 with the application of Export (Control) Order (1962) when the free traffic of jute to Nepal was stopped, the growers have started sending it
through back doors. It has been estimated that about 4 to 5 maunds of jute is smuggled to Nepal per day. Jute is the most important item for India because, it is in short supply. Regular two-way trade in raw jute exist between India and Nepal for geographical reasons. Difficult hilly terrain separates Nepal’s jute growing areas from her Biratnagar industrial area. It is convenient for her to sell raw jute to India and import Indian jute for her mills at Biratnagar.

The regular trade took the shape of smuggling which is a loss of foreign exchange for India. The abnormal increase of Nepalese jute exports must have been due to large imports of jute into Nepal. The exports of jute in 1966-67 has increased nearly from 12.81 lakhs to 571 lakhs i.e. 45 times with in a couple of years while the local production of Nepal has gone up only by 7 percent over 1963-64. Generally jute and jute products are sent to Nepal in the month of November when the new crops start coming to markets. The high quality fibre produced in the Forbesganj area of Bihar is being smuggled to Nepal for re-export as Nepali jute. It is due to the high prices abroad. The high quality Sirpur Jute is sold in Biratnagar of Nepal at Rs. 43 per maund for white and Rs. 62 per maund for tossa against Rs. 35 and Rs. 38 respectively in Forbesganj area of Bihar. The high price in Nepal may be

due to the heavy demand of jute for export for earning foreign exchange. In Nepal, a Bonus Voucher Scheme has been set up to encourage exports to convertible and hard currency areas, where by foreign exchange earnings could be reclaimed by the exporter for importing goods of his own choice. As there were not many items in Nepal to be exported to overseas countries, these Nepalese exporters concentrated on exporting unprocessed jute even though it was being sold in world market at fifty percent of its cost of production. This loss on jute export was very lean in comparison to the profit they could make by importing foreign luxury goods under the scheme and later smuggling them into India. In order to derive maximum benefits from the scheme, they even restored to smuggling Indian jute to Nepal. After devaluation of the Indian Rupee (1967) India levied an export duty of Rs. 900 per tonne on hessian and Rs. 600 per tonne on other jute goods. The smugglers in India adopted various cunning tactics and secret routes to pass them to Nepal with the co-operation of Nepalese traders on the border for third country exports. Hence, the smugglers earn a lot by evading Indian customs laws. The carpet Industry of India might suffer due to shortage of good quality of jute because of its smuggling. The smuggling of fine quality jute to Nepal may

cause great difficulties for Indian mills.

3.2: Coal Smuggling:

Considerable smuggling of steam and is going on into Nepal as the prices it fetches there are much higher than those in India. The particular interest engaged in the smuggling trade are said to be those small and medium scale factories with have been managing to get big quotas of steam coal through their State Governments but whose requirements are much smaller than what they got.

4. Socio-Economic Effects.

India and Nepal both are affected by this illegal trade system in their control, planning and price policies in many ways. Indian industries have to face keen competition from cheap foreign goods which have entered into her market by illegal methods. The huge profits to the smugglers led to the establishment of numerous factories on the Indo-Nepal borders just to evade Indian customs and economic discipline. The Government of India is losing revenue, which otherwise it would have earned. An estimate of it works out to be 29 crores per year. Also, the Nepalese bonus scheme would have far-reaching effects on Indian economy as a whole and a loss of foreign exchange and export duty to the national


exchequer in particular. Smuggling of Indian goods to China through Nepal may hit very hardly Indian economy or may inflict other types of injuries to the country like demoralising effect on Government and the people which led to widespread corruption, black marketing and other social evils.

The lure of profits takes them to any extent even below their social status. The illegal foreign trade and exchange effected their fiscal policies and the black money runs into circulation speedily. This will affect long term industrial development of both the countries. It also creates a serious law and order problem.

5. Prospective Future Pattern.

Government of India and Nepal both have taken certain steps to curb this illegal business. The crews and passenger baggages are checked through customs before clearance on Indian border. Nepal has also increased the number of border security troops near the districts of Sarlahi and Mahottari to check the ganja business. The Government of India has also intensified her border vigilence. She tightened picketing on the border and number of mobile pickets have been activated. The border vigilence keeps close collaboration with the bordering states. A separate Excise Intelligence Bureau is working in West Bengal to co-ordinate the activities of customs checking. In reality, the Indo-Nepal border consist of dense forests, flooded rivers during the monsoon
and dry channels at other times of the year, this creates great difficulty to regulate the border. The movement of gift parcels from Nepal to India should be checked at the point of entry itself. There should be restrictions on indiscriminate imports of foreign goods by Nepal on gift parcel business or alike to protect the Indian indigenous industries. There should be severe punishment for the smugglers. The border police and women police should be strengthened and they should be provided weapons for their self defence and speedy vehicles to enable them to chase smugglers. For efficient patrolling there should be a good number of roads. The customs and tariff policies of the two countries should be reviewed and a coordinated procedure of liberal transit traffic should be adopted. The officers and persons informing cases of smuggling should be rewarded. A separate smuggling Intelligence Bureau should be established to detect and prevent such events. The distribution of goods made from third country raw materials can be arranged through co-operative channels. This would check organised smuggling business. The loopholes of the Treaty on this behalf should be properly studied and checked. There should be a strict vigil over the activities of businessmen who maintain trade links on both the sides of the border. All the three bordering state Governments should work in close harmony, collaboration and co-ordination to prevent such nefarious activities. The Government of India should control the movement of Indian black money to Nepal. Nepal should also check the illegal foreign currency to stop the flow of
black money and leakages in foreign exchange. The quality of Indian products should be improved and some more imports should be permitted without affecting the prices and hence a discouragement to the smugglers. The important import items like stainless steel, synthetic fabrics should be stamped by the customs to distinguish legally permitted import items and unauthorised items. The Custom authorities of both the countries should work with co-operation and co-ordination. They can work collaborately through some international organisations like INTERPOL. Smuggling is a National crime and it should be curbed at all costs. The contravention of Foreign exchange and Prevention of smuggling Act and National Security Act of Government of India serves the purpose but the results are not good.


The 800 miles long Indo-Nepalese border consisting of numerous rivers and dense forests, along which movement of people is unrestricted is the Primary factor responsible for smuggling. Secondly cheap luxury goods received by Nepal from Russia and China are smuggled to India. The loophole in Indo-Nepalese Treaty (1960) is also responsible for such trade. Apart from these factors the administrative inefficiency is also responsible for smuggling on the Indo-Nepal border. Moreover customs men can keep vigil only over road and air traffic routes and not over beaten tracks in obscure places.
Contravention of the foreign exchange and Prevention of Smuggling Act and National Security Act hold no terror for the smugglers. In such conditions the two Governments sought each other's help to check such illegal trade. Recent developments and changes about this illegal activity are given in Appendix VI.