



Indo-Bhutan Trade Relations: An Analysis

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Abstract : *Indo-Bhutan trade relations are the classic example of successful bilateral co-operation and deep rooted trade relations from its inception. We can perhaps look at such relation as a model of friendship and co-operation between close neighbors. Both India and Bhutan are inter dependent on each other up to some extent as their economics are closely related to each other. India is Bhutan's largest trading partner and Bhutan is also an important partner, as Indian economy significantly relies on Bhutan's Hydropower. This paper examines Indo-Bhutan trade relations systematically and highlights the relationship between two countries and its prospects in future.*

Introduction

Bhutan is one of the least developed countries in the world having limited economic resources. Hydropower forms the backbone of Bhutan's socio-economic strength it is a small Buddhist Kingdom in the Eastern Himalayas, heavily reliant on trade with India. The Historic relations between India and Bhutan, trace back to 747 A.D. (sinha, 2004), when the great Indian saint Padmasambhava introduced Buddhism in Bhutan. Diplomatic relations between India and Bhutan were established in 1968. Bilateral relation between these two countries is the Treaty of friendship and Co-operation signed in 1949, which was updated in 2007. The treaty provides for perpetual peace and friendship, free trade and commerce as well as equal justice to citizens of each country.

India is not only Bhutan's development partner but it is also a largest trading partner of Bhutan; accounting 95% of Bhutan's exports and 74% of its imports (Shnaiderman & Jurin, 2012). Bhutan is also an important partner, as Indian economy significantly relies on Bhutan's Hydropower.

Electricity from Hydropower represents not only important traded goods between Bhutan and India but also depicts a key feature of Bhutan-India bilateral relationship (Bist, 2012). Nearly 75% Hydro electricity is supplied to India by major Hydropower Projects of Bhutan, financed and technically supported by government of India. India and Bhutan are inter dependent as their economies are closely related to each other.

Objective of the Study

1. To study in brief the general relations between India & Bhutan.
2. To Analyse the Trade relations between India & Bhutan.
3. To Analyse Hydropower energy Trade between India & Bhutan.

Trade relations between india & bhutan

Until 1958, Bhutan's major trade link was with Tibet. The first recorded Indo-Bhutanese trade link was established in the past turmoil period of Cooch Behar annexation by Bhutan and the subsequent peace initiatives, which cumulated into Anglo-Bhutanese Treaty of 1774. This treaty made it possible for



the Bhutanese traders to visit Bengal to sale buy goods.

The relation between Bhutan and British India became imminent when the Deb Raja solicited the mediation of Panchen Lama of Tibet and fell back to the British power. This relationship opened up a door for trade between India and Bhutan from the last quarter of the eighteenth century onwards, while the

East India Company desired to promote its trade in the Himalayan kingdom. Various political events led to the evolution of Bhutanese trade during the eighteenth-nineteenth centuries. **A downward trend ushered in Bhutan's trade with British India during the last quarter of the nineteenth century.**

Figure (1.) Trends of Exports and Imports for (1879-1900).

Figure: -1

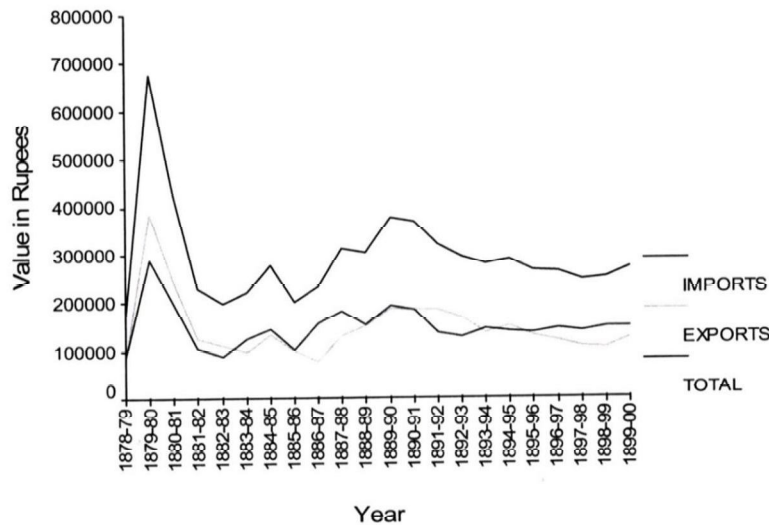


Fig 1: Bhutan's trade during 1879-1900

(Source: Rennie, Bhutan and the story of the Doar war, pp.159-16)

The above figure clearly demonstrates a steady decline in all these series. Taking Exports and Imports together, the shrinkage was worked out at 7.44 % annually. The main reason for shrinkage in import and export was internal political disturbances during the period.

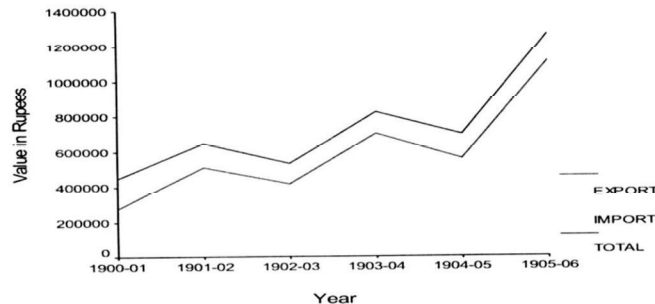
China's threat to Bhutan further pushed Bhutan to be closer to British India during the first quarter of twentieth century. Supportive gestures from the British end went a long way to improve the Indo-Bhutan trade relations in the early twentieth century. In fact, Bhutan's trade with British India showed rising trend from the beginning of the twentieth century, Since the British India



government was largely instrumental of trade-centric policies.

Figure:-(2.) Rising trends of Exports and Imports during (1900-01 to 1905-06).

Figure:-2



(Source: Atchison, A collection of Treaties, P. 100)

Our aforesaid trend analysis of Exports and Imports shown in Fig 1 & 2 clearly shows that **there was a secular decline in Exports and Imports during 1878-79 to 1899-1900 and there was a rising trends during the period of 1900-01 to 1905-06**, This brought trade prosperity to Bhutan.

With the departure of British from the Indian subcontinent, it became necessary for India and Bhutan to make a fresh beginning. The base for trade relations between India and Bhutan is the treaty of friendship and co-operation signed in August, 1949, which was updated in February, 2007. The treaty sets bilateral trade relations between India and Bhutan. The updated Indo-Bhutan treaty not only reflects the contemporary nature of relationship but also lays the foundation for their future development and trade in the 21st century.

A new era of Bhutan's foreign trade commenced following the closure of trade routes between Bhutan and Tibet

in 1960 and construction of roads linking the Bengal-Assam plains to Thimphu and Paro in 1962. **The Indo-Bhutan trade and transit agreement 1972 established a free trade regime between these two countries.** For free moments of goods between these two countries, both should have annual consultations. **The agreement also provides duty free transit of Bhutanese exports to third countries.** Bhutan-India bilateral meeting on Trade and Transit was held in Bhutan on 21 Jan. 2014. The significant consequence of this meeting was lifting ban on Imports of furniture and alcohol.

Bhutan is still facing the challenges of trade infrastructure and adverse current account deficit, where as our country is currently facing the challenge of rebalancing its trade strategies due to changing global economic environment. India has to reshape its policies towards free trade agreements according to changing global economic environment as well as to



realize the long term objectives of Foreign Trade Policy (2009-14). In order to boost trade and investment, Bhutan has allowed FDI from India in Indian rupees. A free Trade regime exists between India and Bhutan.

Over the period of 1981-2001, Bhutan's export to India accounted for an average of 86.5% of its Exports and Imports from India accounted for an average 79% of the total imports. The significance of trade with India seems to have increased over time. The sub-period

averages indicates that while Exports to India accounted for an average 74.3 % of total exports during the 1980s, the ratio increased to 91% during the 1990s and 94.4% during 2000-01. However, the average proportion of imports from India to total imports seems to have gone down from 87% during the 1980s to 71.5% during the 1990s and then increased to 78.4% during 2000-01. In 2001, about 94% of Exports and 78% of Imports took place with India.

The growth rates of exports to India and imports from India seem to have fluctuated during 1981-2001 which is depicted by under mentioned figure:-3

Figure:-3

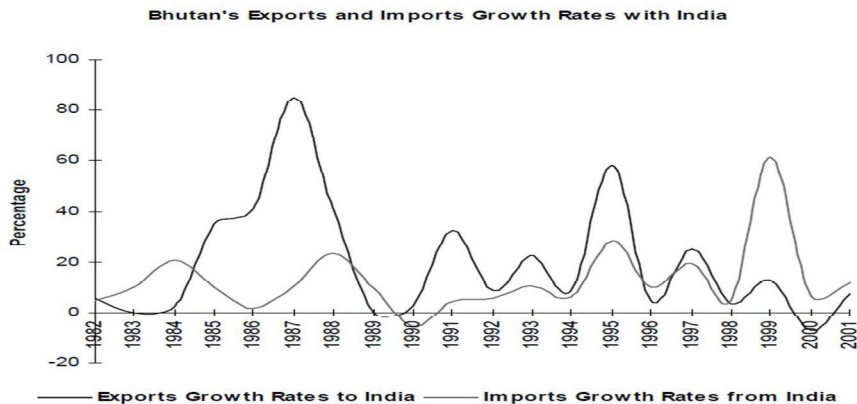


Figure-3 shows that during 1981-2001, the growth rates of exports (13.8) seem slightly higher than the growth rates of imports (11.3). This is true for the two sub-periods of the 1980s and 1990s. During the 1980s, the average growth rate of exports of 23.3 was much higher than the average growth of 10.1% imports. Similarly for the year 1990s, the average growth rate of exports was recorded at 18% while imports grew at an average rate of 14.5%. It was in the year 2000, that a deceleration in exports was reported, to be recovered once again in 2001. During 2000-01, import growth

rate has been consistently higher than export growth rate.

Indo-Bhutan Export Import Analysis (2001-2015)

Exports to Bhutan from **2001 to 2009** have been Rs. 6.98, 7.58, 10.26, 10.19, 12.80, 13.05, 15.09, 13.33 and Rs. 23.3 billion respectively, where as imports from Bhutan from 2001 to 2009 have been rupees 4.70, 5.13, 5.92, 7.76, 9.97, 14.48, 22.72, 21.48 and Rs. 20.5 billion respectively. **The data shows that between 2001 to 2009 both exports to Bhutan and Imports from**



Bhutan have rising trends except 2008 and 2009 where Import from Bhutan has declining trends. During 2010, Imports from India were Rs. 2930 cr., accounting 75% of Bhutan's total Imports. Bhutan's Exports were Rs. 2600 cr., accounting 90% of its total Exports. Total Trade in 2010 grew by 26% from previous year. **During 2011**, Imports from India were Rs. 3520 cr., accounting for 72.3% of Bhutan's total Import. Bhutan's export to India amounted to Rs. 2640 cr., accounting for 83.8% of its total export. **During 2012**, bilateral trade reached 68.3 billion. Imports from India were Rs. 4180 cr., accounting for 79% of Bhutan's total Imports. Bhutan's Exports to India amounted to Rs. 2780 cr. (including electricity), accounting for 94% of its total Exports. Total bilateral trade grew by about 11% from the previous. **During 2013**, bilateral trade reached Rs. 7287 cr. Imports from India were Rs.

4,389 cr., accounting for 82.4% of Bhutan's total Imports. Bhutan exports to India stood at Rs. 2,898 cr. (including electricity) and constituted 91% of its total Exports. **During 2014**, Imports from India were Rs. 4,785 cr. accounting for 84.1 % of Bhutan's total Imports. Bhutan's export to India amounted to Rs. 3180 cr. accounting for 89.4% of its total Exports. **During 2015**, bilateral trade reached Rs. 8,550 cr. Imports from India were Rs. 5,374 cr., accounting for 79% of Bhutan's total Imports. Bhutan's export to India stood at Rs. 3,180 cr. (Including electricity) and constituted 90% of its total exports. Accordance with the bilateral trade agreement, GOI refunds excise duty on Bhutanese imports from India and this refund has increased from Rs. 194 cr. for 2014 to Rs. 291 cr. for 2015, partly on account of huge increase in Motor Vehicle Imports.

Table-1: bExport to Bhutan and Import from Bhutan

(Rupees in Billion)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export to Bhutan (Imports from India)	6.98	7.58	10.26	10.19	12.80	13.50	15.90	17.33	23.30	29.30	35.20	41.80	43.89	47.85	53.74
Imports from Bhutan (Exports to India)	4.70	5.13	5.92	7.76	9.97	14.48	22.72	21.48	20.5	26.00	26.40	27.80	28.98	31.80	31.80

Source: Royal Monetary Authority, RGOB & Embassy of India, Thimphu, Bhutan

Table-1 shows rising trends of exports to Bhutan, whereas Import from Bhutan shows fluctuating trends. The above table also shows that exports to Bhutan have been higher than Imports from Bhutan.

Major items of Exports from Bhutan to India are electricity, Ferro-alloys, Carbides, Cement, Dolomite, Gypsum, Rubber products, Agri products

(oranges, cardamom and potatoes), alcoholic beverages, Chemicals, Timber and wood products. **Major items of exports from India to Bhutan** are High Speed Diesel, Ferrous products, Motor spirit including aviation spirit(petrol), copper wire, Processed food, Rice, wheat, Nuts, Spices, flour, Machinery items, Automobiles & spare



parts, plastic, coke and semi coke of coal, soybean oil, milk powder etc.

Bilateral trade is conducted in Indian Rupees which is fully convertible to Ngultrum at par. In order to boost trade and investment, Bhutan has also allowed FDI from India. Trade is extremely important for Bhutan, as it constitutes one of the largest sources of earning for the country. Bhutan's trade and other economic relations are confined to only a few countries in the sub-region, mainly India, Bangladesh and Nepal, and a few countries outside the sub-region. Four additional entry/exit points for India-Bhutan bilateral trade have been agreed

Hydropower energy Trade

Hydropower has been the main engine of economic growth of Bhutan over the last two and half decades. Nearly 99.5% of its electricity is generated from Hydropower (Bist, 2012). After domestic consumption, Bhutan exports the surplus (75%) hydropower energy to India on bilateral agreement. (Singh 2013). **Electricity from Hydropower represents not only important traded goods between India and Bhutan but also depicts a key feature of bilateral relationship** (Bist, 2012). Hydropower energy has been Bhutan's top export, accounting for 31.2% of overall exports and 9.8% of GDP during F.Y 2013-14. According to Bhutan's 10th the five year plan, the **Hydropower is expected to contribute 50% of its GDP and 75% of fiscal revenue by 2020** (Bist, 2012). Thus, H.P in Bhutan has also been a story of successful bilateral co-operation and energy trade between India and Bhutan.

India provides financial assistance and technical support to hydropower sectors in Bhutan. Govt. of India has constructed three out of four Mega hydropower projects in Bhutan, totaling 1416 M.W (336 M.W Chukha HEP, 60 M.W Kurri Chhu HEP and 1020 M.W Tala HEP), which are operational and exporting surplus power to India. About $\frac{3}{4}$ power generated from Bhutan's H.P projects is exported to India. Govt. of India has agreed to provide financial assistance in developing 10000 M.W hydropower projects in Bhutan by 2020 and agree to purchase power from Bhutan. In 2014, an inter-Govt. agreement was signed between India and Bhutan for four more HEPs of 2120 MW capacity under the joint venture model and others HEPs are under DPR stage. Hydropower exports provide more than 40% of Bhutan's domestic revenue and constitute 25% of its GDP.

In India, electricity is the key input for economic growth and prosperity. The major share of electricity consumption in India is commercial & Industrial in addition to residential and agricultural. India has taken initiatives to improve energy, transport and communication infrastructure for sustainable economic development. The electricity Act, 2003, is an important initiative. All these steps are towards achieving an average annual growth of 8% in GDP. The export of electricity and revenue of Bhutan has increased due to more demand of electricity by India. Demand of electricity in India is increasing due to increase in population and middle class families, Industrialization & Commercialization as well as urbanization and change in life style of rural and urban people.



Increasing export/revenue of Bhutan accordance with increasing demand of electricity in India has been shown by the under mentioned table 2 & 3:-

Table – 2

Electricity Demand (in TWH) India

Year	Total Demand by Various Sectors (TWH)
2012	762
2022	1433
030	2239
2047	4712

Table -3

Revenue through **export of electricity to**

	Total exports (Rs/NU millions)
2006-07	6903.8
2007-08	10,123.1
2008-09	10,434.9
2009-10	9953.2
2010-11	10,349.8
2011-12	9798.3
2012-13	10,323.4
2013-14	10,247.9

Source:- The Business & Management Review, Nov. 2015,pp 167

Source:- The Business & Management Review, Nov. 2015,pp166

Table 2 shows that in 2022 electricity demand is likely be doubled than 2012 (i.e. within 10 years), triple in 2030 and likely to increase more than 6 times by 2047. India is investing more amounts in Bhutan's hydropower project, so that electricity can be imported at lower rate from Bhutan. **Table 3** shows revenue of Bhutan through export of electricity to India. Surplus energy after domestic consumption is exported to India. Total export from Bhutan to India is increasing from 2006-07 to 2008-09 but the export has decreased in subsequent year since revenue earned through exports depend on other things like level of domestic consumption. We see that in 2013-14 the export earnings has failed down by

Rs./NU 75.6 Million in comparison to 2012-13.

The hydropower energy trade does not only depict the political relationship but also economical interdependency between two countries in the era of globalization. India investment in various hydropower projects of Bhutan reflects the mutual benefit and co-operation between two neighboring countries. Bhutan's recent vigorous economic growth is attributable to the development of its hydropower sector by the Govt. of India. Both Govts. should take initiatives for development of hydropower projects as GDP growth



always depend on annual growth in power generation.

In addition, Indian nationals operate a large range of small-scale trading and service activities on licenses issued by the Ministry of Trade and Industry in Bhutan. On a larger scale, Indian investment in Bhutan exists in the manufacturing and processing industries, construction, service, engineering, steel and electronic industries, and consultancy. Similarly, many other Indian and Bhutanese companies (or joint ventures) benefit from massive power projects and manufacturing industries. Several economic and commercial conferences, trade fair and exhibitions have been held in Bhutan and India for further bilateral trade and commercial relations. **"Bhutan India Business Conclave"** was organized by BCCI of Bhutan and ICC of India to promote India-Bhutan trade and commercial relations.

Conclusions:-

Bhutan is a small Buddhist Kingdom in the Eastern Himalayas, heavily reliant on trade with India. India and Bhutan are interdependent on each other up to the some extent, as their economies are closely related to each other. India is Bhutan's largest trading partner. Bhutan is also an important partner, as Indian economy significantly relies on Bhutan's Hydropower. It is the classic example of successful bilateral co-operation and deep rooted bilateral trade relations between India and Bhutan from its inception. Anglo Bhutan Treaty 1774, Treaty of 1949 & 2007, Indo-Bhutan Trade and transit agreement 1972 as well as Bhutan India bilateral meeting on trade and transit, 2014 have been the main pillars in cementing the trade

relations between the countries. Our trend analysis of Exports and Imports clearly shows that there was a secular decline in Exports and Imports during 1878-79 to 1899-1900 and there was a rising trend during the period of 1900-01 to 1905-06. P.M.'s Narendra Modi recent visit to Bhutan is very significant, as Modi gave strategic remark that **"India and Bhutan are made for each other"**. This remark shows that India-Bhutan trade relations will be strengthened in future and it will pave the way of socio-economic development of the countries.

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