

## Post-Independence Bhutan-India Economic Relations

### Authors

Jamtsho, Associate Lecturer and  
H.V. Jhamb, Professor, Norbuling  
Rigter College.

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### Abstract

India and Bhutan have been sharing peaceful and friendly relationship for centuries. This cordial relationship at the level of Government and People has facilitated advancement of mutually beneficial economic relations. Therefore, this paper explores the trade data from 2005 till 2020 to find out post-independence Bhutan-India trade relationship. Currently, majority of Bhutan's exports goes to India and at the same time India remains the biggest source of its imports. India is also the major foreign investor in Bhutan through joint ventures particularly in the hydro power sector in Bhutan.

### Introduction

Bhutan and India have been sharing a cordial relationship since time immemorial. According to historical sources, the formal relationship between Bhutan and India began in 1949 after the signing of a Friendship Treaty. However, Bhutan and India shared religious and cultural relationship before 1949. Padmasambhava, an Indian Spiritual Master, visited Bhutan in the eighth century and is revered as the Second Buddha in Bhutan. From 1774 till 2007, Bhutan and British-India signed several treaties. The first treaty of peace (Anglo-Bhutanese Treaty) was signed in 1774 followed by Treaty of Sinchulain in 1865. Since then, the Treaty of Sinchula has been the basis for the Treaty of Punakha of 1910 and finally the Indo-Bhutanese Friendship Treaty of 1949 (Phuntsho, 2013).

The Indo-Bhutan Friendship Treaty was updated in New Delhi in 2007, where article 2 of the 1774, 1865, 1910 and 1949 treaties was removed. The article was refined as "In keeping with Bhutan and India's long-standing friendship and collaboration, the governments of the Kingdom of Bhutan and the Republic of India will work closely together on problems affecting their respective national interests. Neither Government shall permit the use of its territory for actions that endanger the other's national security or interests" (Ministry of External Affairs, 2007).

The revised Friendship Treaty of 2007 not only emulated the current nature of the relationship but it also laid the groundwork for their future growth in economic, educational and cultural cooperation. The two countries celebrated their 50 (Golden Jubilee) years of friendship in 2018 since the institution of formal diplomatic relations in 1968 after the establishment of the Indian Embassy in Thimphu, Bhutan's capital (Embassy of India, 2021).

The advantages of Bhutan-India connections are also visible in education and culture.

India is a very popular educational destination for Bhutanese students. The Indian government also offers scholarships to Bhutanese students such as Ambassador's scholarships and the Nehru-Wangchuck Scholarship which was instituted by Prime Minister Dr. Manmohan Singh during his official visit to Bhutan in 2008 (Taneja, Bimal, Nadeem, & Roy, 2019).

Cultural ties can also be seen in the vibrant cultural exchanges that take place between the two countries. Sacred Buddhist sites in India are a place of pilgrimage for Bhutanese. The two nations also share an open border with regular cross-border movement for business, tourism, shopping, and medical care in both directions. In this context, this paper will study the post-independence Indo-Bhutan trade trends.

### **Research Method**

This study adopts a descriptive research design and used Time Series and Indices statistical tools for data analysis. The data was collected from Bhutan Trade Statistics and Royal Monetary Report for the year 2005 to 2020.

### **Literature Review**

Chandra (2020) states that the geo-strategic dimension have always been a significant factor in determining a country's rapport with its neighbors. This is relevant to Bhutan as it is strategically located between India and China, countries with the highest population in the world. India, as Bhutan's closest neighbor, influences the country's economic development. Chandra (2020) analyzes the geo-strategic features of Indo-Bhutan relations, as China routinely intervenes on Bhutanese boundaries, posing a security danger to India. He also mentions this strategic location of Bhutan as the linchpin of economic relations between Bhutan and India.

Further, according to Padma (2017), Bhutan and India have had a close relationship since ancient times, and the two countries enjoy a "unique bond." Bhutan and India have a special relationship that can be used as an example of bilateral relations in South Asia. India has played a key role in Bhutan's planned economy since 1961. Bhutan is a landlocked country that shares borders with India, China, Nepal, and Bangladesh, providing it with certain geostrategic advantages. Due to Bhutan's strategic location and proximity to sensitive conflict-prone border areas, India-Bhutan relationship started as a "special relationship" in the initial years which has now evolved into a "strategic partnership".

Taneja et al.(2019) mentions that India is Bhutan's largest export market, largest source of imports and a leading foreign investors. Hydropower cooperation is one of the most important areas of mutual cooperation between India and Bhutan. For the Indian economy, hydropower energy is a steady and clean source of electricity while for Bhutan it significantly contributes to the country's Gross Domestic Product (GDP). Hydropower cooperation reflects the growing economic relations and cordial bilateral ties between India and Bhutan.

According to Ranjan (2018), the first hydroelectric collaboration between Bhutan and India occurred in 1961 in Jaldhaka. India has been assisting Bhutan in the development of hydropower in the country since then.

Sharma and Lal (2017) underscores that Indo-Bhutan trade relations is a classic example of successful bilateral cooperation. They state that the relationship between the two countries can be taken as a model of friendship and co-operation between

close neighbors. India and Bhutan are interdependent on each other since India is Bhutan's largest trading partner and Hydropower energy from Bhutan contributes to propelling economic development in India.

Malik and Sheikh (2016) examines the connection between the India and Bhutan highlighting the intricacies and changes in the relationship since 1949, as well as its future prospects. For years, India has provided Bhutan with development support in the form of loans, grants, and other project monies. In fact, grants have increased significantly in each plan period.

In his study, Kharka (2013) investigates the relationship between the Bhutanese economy and India, particularly the amount of previous and present dependence. He analyzed the Gross Domestic Product (GDP), Balance of Trade (BoT), budgetary grants influx from India, exchange rate relationship, and Bhutanese inflation dependence on Indian inflation. He also conducted regression analysis to determine whether Bhutan's inflation was caused by its reliance on Indian imports. He highlights Bhutan's dependence on India for economic and investment projects. Kharka also concludes that Bhutan's trade is mainly reliant on India and Bhutan's inflation is triggered by the inflation rate in India.

Bhutan has been a successful agricultural exporter to India. Bhutan exports oranges, potatoes, vegetables, and apples while importing rice, wheat, vegetables, fruits and spices. This study also offers empirical estimates of the profits and losses associated with trade in rice, potatoes, and oranges, as well as some analysis of how those gains and losses are distributed among Bhutanese groups (Dem & Minot, 2010).

All the literature shows that Bhutan and India have mutually benefitting economic relations. However, the available literature on Indo-Bhutan bilateral relations is all from the Indian perspective and there is no study from a Bhutanese perspective. Therefore, this paper will study the post-independence Indo-Bhutan economic relationship through a Bhutanese perspective.

### **Economic Relations**

The economic relations between India and Bhutan were established during the visit of India's First Prime Minister Pandit Jawaharlal Nehru in 1958. This visit was the debut of the economic cooperation between Bhutan and India. This cooperation propelled Bhutan's planned socio-economic development with the launching of the First Five Year Plan in 1961 with assistance from the Government of India which focused on construction of motorable roads, establishment of telecommunications infrastructure, and the implementation of industrial and agricultural projects. Since then, India provided financial aid to Bhutan to assist in its economic development as shown in table 1.

**Table 10.**  
Budget received by Bhutan from Indian Government

Year	Nu. in Billions	
	Total Allocations	India's Contribution
1961 - 1966 (1 <sup>st</sup> FYP)	0.107	0.1072
1966 - 1971 (2 <sup>nd</sup> FYP)	0.202	0.2022
1971 - 1976 (3 <sup>rd</sup> FYP)	0.475	0.4266
1976 - 1981 (4 <sup>th</sup> FYP)	0.111	0.853

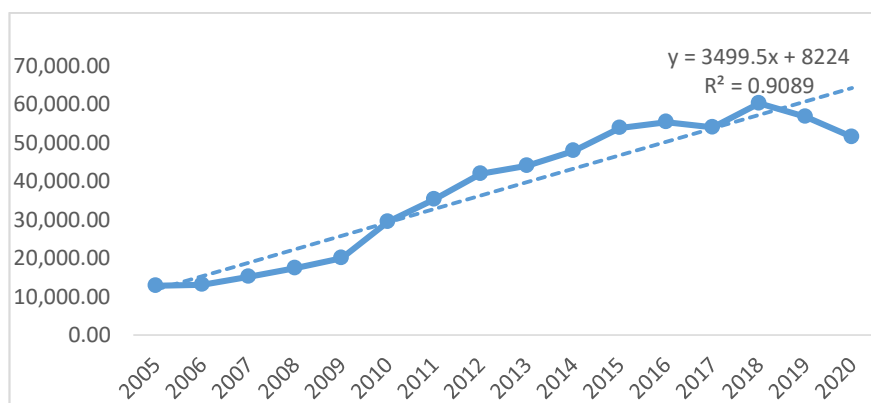
1981 - 1987 (5 <sup>th</sup> FYP)	4.441	1.34
1987 - 1992 (6 <sup>th</sup> FYP)	9.5	4
1992 - 1997 (7 <sup>th</sup> FYP)	23.5	7.5
1997 - 2002 (8 <sup>th</sup> FYP)	40	10.5
2002 - 2008 (9 <sup>th</sup> FYP)	89	26.1014
2008 - 2013 (10 <sup>th</sup> FYP)	149	34
2013 - 2018 (11 <sup>th</sup> FYP)	213	45
Compounded Annual Growth Rate	99%	73%

Source: Embassy of India , (2022)

Since the first five-year plan in 1961, the Government of India has been a key partner in Bhutan's development by giving constant financial aid. As seen in the table, total budget allocation has increased by 99% from the first to the eleventh five-year plans. The contribution from the Government of India has decreased by 73% over the 11 five-year plans. This decrease was mainly seen due to increase in various large-scale industries such as hydro power projects, Penden Cement Plant, Paro Airport and Bhutan Broadcasting Station. The increase in various large-scale industries facilitated more revenue for the Royal Government of Bhutan. The hydro power projects such as 1020 MW Tala Hydroelectric Project, 336 MW Chukha Hydroelectric Project, 60 MW Kurichhu Hydroelectric Project were the highest revenue generators (Embassy of India, 2021).

Apart from financial assistance, the Government of India assists the Royal Government of Bhutan with annual kerosene/LPG subsidy and an excise duty refund. This strong economic tie was solidified by the 1949 Treaty of Friendship. This treaty planted the seeds of free trade. Further, the 1972 Trade and Commerce Agreement strengthened the economic ties. Today, Bhutan's major trade and development partner is India (Kharka, 2013).

### Trade Trends between Bhutan and India



**Figure 1:**  
Bhutan's Import from India

Figure 1 presents Bhutan's total import from India for the period of 2005 to 2020. The data shows a steady growth of imports from India till 2016. However, there is a decline in import in the year 2017 resulting from a decline in the volume of hydropower related imports. In 2017, the volume of imports from India declined by 0.5% (Royal Monetary Authority , 2017). Further, in the year 2019 and 2020 there was a decrease in imports

from India which was mainly caused by Covid related import restrictions (Royal Monetary Authority, 2020).

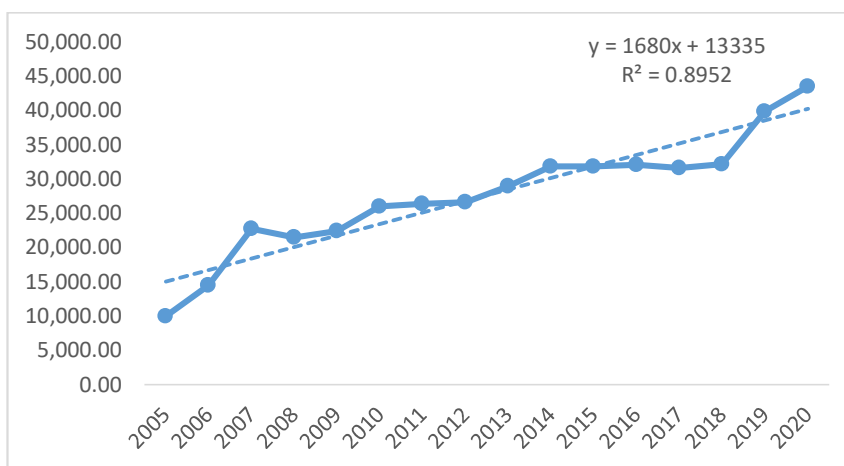
Table 2 presents the top average total imported items from India over the study period. Some of the highest products imported under mineral products are mineral fuels, salt and ores followed by machinery and mechanical appliances category. The other top imports to Bhutan from India are electrical machinery and equipment and nuclear reactors, base metals, articles of base metal, Iron and steel.

**Table 2.**

Average of total imported items from India by Bhutan (2005-2020)

Description	Average Imports (Nu. mil)	Rank
Mineral products	9,616.62	1
Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	5,876.37	2
Base metals and articles of base metal	5,858.30	3
Vehicles, aircraft, vessels and associated transport equipment	3,078.87	4
Vegetable products	2,574.51	5
Live animals; animal products	1,854.53	6
Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	1,676.66	7
Products of the chemical or allied industries	1,561.05	8
Plastics and articles thereof;	1,413.14	9
Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork	1,111.40	10
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	807.65	11
Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	741.17	12
Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	568.89	13
Textiles and textile articles	492.82	14
Miscellaneous manufactured articles	400.64	15
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	279.29	16
Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	125.60	17
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	17.85	18
Rubber and articles thereof raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	12.38	19
Works of art, collectors' pieces and antiques	0.65	20
Arms and ammunition; parts and accessories thereof	0.45	21

Source: (DRC, 2005-2020)



**Figure 2:**  
*Bhutan's Export to India*

Figure 2 depicts Bhutan's export to India. The overall trend of export to India has increased for the period of study which is from 2005 to 2020. However, there was a decline in export in 2008 which was caused by the global financial crisis which mainly affected manufacturing and tourism sectors (Royal Monetary Authority, 2008). There is also a decline in volume of export in 2017 resulting from fall in export of ten top products (Royal Monetary Authority, 2017). There is an increase in exports in 2019 and 2020. This increase in export was mainly driven by an increase in mining related products and electricity production (Royal Monetary Authority, 2020).

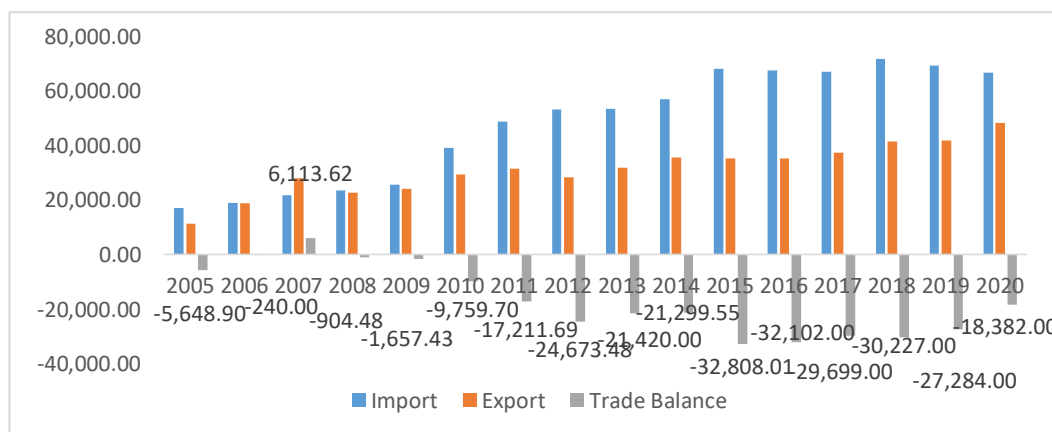
Table 3 depicts the top export product category to India. The Indian market has been Bhutan's largest export market with 77% of export share compared to other countries. Bhutan generates its highest revenue through export of electricity. The other main sources of revenue are Silicon, Copper and Ingots under base metals category, Dolomite, Gypsum and cements under mineral category, and Calcium, oxygen and lemon under chemical category.

**Table 3:**  
Average of total exported items from India by Bhutan (2005-2020)

Description	Average Exports (Nu. mil)	Rank
Base metals and articles of base metal	8578.40	1
Mineral products	5333.50	2
Products of the chemical or allied industries	1267.45	3
Vegetable products	881.80	4
Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	652.64	5
Plastics and articles thereof;	422.47	6
Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	300.46	7
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	291.36	8
Textiles and textile articles	142.43	9
Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	97.00	10

Miscellaneous manufactured articles	19.22	11
Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	17.21	12
Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	12.44	13
Live animals; animal products	8.99	14
Vehicles, aircraft, vessels and associated transport equipment	1.08	15
Rubber and articles thereof raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	0.58	16
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	0.29	17
Works of art, collectors' pieces and antiques	0.12	18
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	0.017	19
Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	0.005	20
Arms and ammunition; parts and accessories thereof	0.001	21

Source: (DRC, 2005-2020)



**Figure 3:**  
Balance of trade of Bhutan for the period of study

Figure 3 presents the total balance of trade of Bhutan for the 16 years. Due to a lack of domestic production capability, the economy has been predominantly driven by imports. The 2019 report shows that during the last 16 years the total trade of Bhutan has reached Nu. 96,469.00 million, with imports accounting to Nu.56, 659 million and exports accounting to Nu.39, 810 million. Except for the year 2007, when the trade deficit was positive due to the export of electricity to India, Bhutan has sustained a consistent trade deficit, with imports growing faster than exports. As discussed by Kharka (2013), Bhutan has been and is still dependent on India for its economy progress.

## Conclusion

Over the years, the relationship between Bhutan and India has seen steady improvement in bilateral cooperation in all key areas such as hydropower, transportation, communications, infrastructure, health, education, culture, information technology industry, and agriculture (Lok Sabha Secretariat, 2014). This paper made an attempt to study the post-independence trade relations between India and Bhutan. The findings of the paper presented that the total trade balance between India and Bhutan has improved for the period of the study because of the increase in exports and decrease in import. On the other hand, there was also an increase in volume of trade by 4 times between Bhutan and India for the period of study.

The relationship between Bhutan and India rightly reflects the words of President John F Kennedy who stated “Geography has made us neighbors, history made us friends, economy made us partners, and necessity has made us allies.” The discussion of the trade trends clearly reveals that both Bhutan and India have benefitted and will continue to do so with potentials for increase in trade volume.

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