

Indo- Bhutan Relationship: From Mutual Dependence to Beneficial Bilateralism

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Abstract:

Indo-Bhutan relationship is often cited as a “shining” example of friendship and cooperation between a large country and a small neighbor. The basis for bilateral relations between India and Bhutan is formed by the Indo-Bhutan Treaty of 1949. The much speculated Article 2 in the treaty, which states that, “The Government of India undertakes to exercise no interference in the internal administration of Bhutan. On its part the Government of Bhutan agrees to be guided by the advice of the Government of India in regard to its external relations”. Bhutan was not happy with the article 2. After the Indo-China war (1962), Bhutan began to diversify its relations in the international community, thereby projecting its status as an independent and sovereign nation. Planned development in Bhutan began in 1961. With the first two five year plans (FYP) wholly financed by the Government of India, Bhutan’s source of foreign aid had diversified significantly. Even after becoming a member of the United Nations, India continues to be the major donor of external aid to Bhutan. The ratio of financial aid of India to Bhutan has come down from 100% in the 1st FYP to 23% in the 11th FYP. India is not only Bhutan’s main development partner but also its leading trade partner. As far as its trade relation with India is concerned, Bhutan is a country with chronic trade deficit. Power exports account for the largest source of Bhutanese Government’s revenue in the form of taxes and dividends from hydropower companies. It accounted for more than 40% of national revenue and 25% of gross domestic product (GDP). Indian government also extended its economic assistance to different hydropower projects, and in the field of education, Indian Government provides different scholarships to Bhutanese students at undergraduate level and at post graduate level every year. Bhutan supported India’s position on issues of the NPT, CTBT and India’s aspirations to be a permanent member of the United Nations Security Council. The illegal establishment of camps by the insurgent groups i.e. United Liberation Front of Assam (ULFA), Bodo Liberation Tigers (BLT), National Democratic Front of Bodoland (NDFB) and Kamtapur Liberation Organization (KLO) militant outfits, has been a matter of great concern and security threat for both Bhutan and India. Bhutanese army finally launched military operations to push out the militants on 15th December, 2003. Though this problem exists still now, China wants Bhutan to follow an independent policy which essentially means that Bhutan does away with its traditional policy tilt towards India. Clearly it will be a challenge for Bhutan to

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maintain friendly relations with China without undermining its own relations with India. With economic liberalization on the rise in India, Bhutan is facing a gradual loss of the protected status in its trade with India. Instead of these problems, the current geo-political and geo-economic relations ensure that Bhutan remains a major trade and development partner. Presently China's aims at neutralizing Bhutan in the wake of any political and military conflict with India and use it as a base to facilitate trade and commerce with Tibet and the rest of South Asia. Today Bhutan is also more interested in maintaining an equidistance relation with both India and China. So India needs to assess its bilateral relationship on a realistic paradigm instead of pre-conceived idealism.

Keywords: Bhutan, Treaty of 1949, Diversified Relation, Insurgent Groups, Trade, China, Liberalization

INTRODUCTION

Where South-Asia, till not so long ago, characterized by the familiar trend of mistrust and suspicion primarily directed towards India, there has been one exception i.e. the Indo-Bhutan relations. Both countries have been able to maintain good and cordial relations without any mistrust and suspicion. This relationship is often cited as a “shining” example of friendship and cooperation between a large country and a small neighbor. This friendship is deeply rooted in religion, culture, history and economic ties, encompassing a wide range of areas and issues of common interests like security, politics, trade and economy. Bhutan is handicapped by geographical disadvantage and an underdeveloped economy and is dependent on India, its southern neighbor, with which it has greater geographical and socio-cultural proximity. It is bounded on three sides by India. From east to west, the Indian states of Sikkim, West Bengal, Assam, and Arunachal Pradesh (formerly the North-East Frontier Agency) share their borders with Bhutan. In view of the long-standing political disputes and border confrontations between India and China, Bhutan has long been part of India's strategic defense plan. This article tries to convey the different dimensions of Indo-Bhutan relationship. It attempts to find out the answer of some questions and these are as follows: Firstly, is the relationship based on equi-beneficial interest of both countries? Secondly, what are the challenges that both countries are now facing? Thirdly, what are the ways to create good relationship between these two countries by excluding the China factor?

Bhutan relations with British India:

Recorded historic relations between Bhutan and India date back to 747A.D. when the great Indian saint Padmasambhava introduced Buddhism in Bhutan. Bhutan's first contact with the British was made when her raids against Cooch Behar forced the

latter to ask the East India company for help in 1772 (Field, A.R., 1960), which led to the first Anglo-Bhutanese war of 1773 resulting in the treaty of peace between the honorable English East India company and the Deb Raja of Bhutan on 25th April, 1774. The period of hostility between 1837-1864 with the company and later with British Empire started after Bhutan came into direct contact with the British after its annexation of Assam in 1829. The hostility led to the Duar War in 1865, and its direct result was the Treaty of Sinchula in 1865 where Article 2 states that, “agreed that the whole of the tract known as the Eighteen Doars¹⁸ is ceded by the Bhutan Government to the British Government forever.” Article 4 provides that “In consideration of the cessation by the Bhutan Government of the territories specified in Article 2 of this Treaty i.e. the British Government agreed to make an annual allowance to the Government of Bhutan of sum not exceeding 50 thousand rupees.” The Article 8 is very important and it refers to the British Government arbitration in matters of differences which Bhutan might have with the Rajahs of Sikkim and Cooch Behar, and the British Government’s decision would be abided by (Lab, Kapil, 1974). This treaty institutionalized the relation between the two countries for the first time, and provided basis for future relation. It is appropriate to note here that the British did not want to control Bhutan. The British aim was primarily to find a route to trade with Tibet through Bhutan. (Udayan, B, 2005).

The growing relationship between British India and Bhutan made the Chinese furious. To contain British India’s imperialist policy in the region the Chinese announced their claim over Bhutan and started interfering in its internal matters .British therefore decided to revise the Treaty of Sinchula of 1865 to protect Bhutan from Chinese influence. China’s invasion of Tibet (1910-1912) and subsequent claims made on Bhutan resulted in signing of the Treaty of Punakha in 1910 (Lab,Kapil,1974(11/a)with British India. This treaty has only two articles. One deals with increasing the amount of the annual allowance paid to Government of Bhutan by the British Government. The other deals with the revising Article no- 8 of the 1865 treaty. The revised Article reads, “The British Government undertakes to exercise no interference in the internal administration of Bhutan On its part, the Bhutanese Government agrees to be guided by the advice of the British Government in regard to its external relations.”¹⁹ From the Bhutanese point of view, the Treaty of Punakha, 1910, not only changed the political history of Bhutan but also the social and economic life of Bhutanese people. By these efforts Bhutan wanted to protect itself

¹⁸ There were a total of 18 Duars under Bhutanese rule - 7 Assam Duars in Darrang and Kamrup, and 11 Bengal Duars from river Testa to Manas, including distri cts of Ambari Falakata and Jalpesh .

¹⁹ http://www.ide.go.jp/English/Publish/Download/Jrp/pdf/132_3.pdf

from the Chinese expansionist policies. Secondly, it was not possible for Bhutan to maintain a separate political identity without the help of British India. Thirdly, Bhutan felt that this was the way to modernize Bhutan and bring radical changes into the economic system of the country with British India's assistance. Simultaneously this treaty also served British India's interest as it extended its commercial, political and military relations with Tibet as well as in the Himalayan region through the territory of Bhutan. This treaty was an attempt by the British to checkmate China's ambition to either impose its authority on or interfere in Bhutan (Udayan, B, 2005).

After Independence:

The initiation of Indo-Bhutan friendship as it stands today is credited to the efforts of Indian Prime Minister Pandit Jawaharlal Nehru and His Majesty Jigme Dorji Wngchuck, the third king of Bhutan (Choden,T.2004)²⁰. This friendship is a continuation of British pattern .After independence India signed standstill agreement with Sikkim, Nepal and Tibet to continue existing relation until new agreements were signed. Bhutan became suspicious of independent India's intentions. But Bhutan's own status became clearer following Nehru's invitation for a Bhutanese delegation to participate in the Asian Relations Conference in 1947. Following this the negotiation for a fresh Indo-Bhutan treaty started in the summer of 1949²¹. The outcome of this negotiation was a treaty of peace and friendship on August 8, 1949 between India and Bhutan. Sri Harishwar Dayal representing the Government of India, and Deb Zimpon Sonam Tobgye Dorji, Yang-Lop sonam, Chho-Zim Thondup,Rin-Zim Tandin and Ha Drung Jigmie, Palden Dorji, representing the Government of Bhutan(Grover,V.(ed.),2007).Through this treaty, Bhutan entered into a special relation with India and laid the foundation for greater assistance for its economic development. The Treaty has ten articles, which provides for, among others "peace and friendship", "free trade and commerce" between the two countries. Article 2 states that, "The Government of India undertakes to exercise no interference in the internal administration of Bhutan. On its part the Government of Bhutan agrees to be guided by the advice of the Government of India in regard to its external relations." Article 3 where "the Government of India agrees to make an annual payment of Rupees 5 lakhs to the Government of Bhutan (GOB)" in place of the compensation granted by the British Government under Article 4 of the Treaty of Sinchula, and enhanced by the Treaty of Punakha(1910) and a temporary subsidy of Rupees one lakh per annum granted in 1942. Article 6 states that the Government of India (GOI) agrees that Bhutan shall be free to import with the assistance and

²⁰ http://www.bhutanstudies.org.bt/publicationFiles/JBS/JBS_Vol11/v11-6.pdf

²¹ ."Treaty of Perpetual Peace and Friendship between the Government of India and the Government of Bhutan,"<http://www.bhutannewsonline.com/treaties.html>

approval of the GOI, from or through India into Bhutan, whatever arms, ammunitions, machinery, warlike materials or stores may be desired or required for the strength and warfare of Bhutan and that this arrangement shall hold good for all time as long as the GOI is satisfied that the intentions of the GOB are friendly and there is no danger to India from such importations. The GOB, on the other hand, agrees that there shall be no export of such arms, ammunitions etc. across the frontier of Bhutan either by the GOB or by private individuals. But Bhutan was not happy with the second part of article 2 and article 6. It implied that the treaty restricted Bhutan from extending her relations beyond India. However, Bhutan must have realized the importance of this treaty, on account of the rise of Communist power in China and its claims on her lost territories viz., Tibet, Bhutan, and Nepal. In support of its claim, the Chinese Government in 1954 published a map in "A Brief History of China", where a considerable portion of Bhutan was depicted as a pre-historical territory of China. Four years later in 1958, China not only published another map claiming large tracts of Bhutanese land but also occupied about 300 square miles of Bhutanese territories. The Chinese claims led Bhutan to re-evaluate its traditional policy of isolation; the need to develop its lines of communications with India became an urgent necessity. From the Indian point of view, article 2 of this treaty has its own significance. In the first place, the treaty was a logical continuation of the British Government. Thus, from the point of view of defense, India benefits from this security arrangement .As an ally of India, Bhutan provides a natural barrier to protect the Himalayan frontier of India .In other words ,it prevents the Chinese from entering into India.

Relation with Outer World:

Since the late 1950s, there have been some factors causing Bhutanese resentment against India. Firstly, in 1959 when Bhutan requested India about participating in negotiation with the Chinese for resolving the Sino-Bhutan border disputes in the wake of Chinese repression in Tibet, India turned it down. Secondly, a misunderstanding arose in May 1960 between India and Bhutan over a map which was released by the Indian side. Bhutan said that the map has not shown the border between the two countries as an international one (Moorthy, K.K,1961). Later boundary strip maps between two countries were signed. Thirdly, way back in 1961, when Bhutan wanted to have direct relations with countries like west- Germany, U.K., U.S.A. and France, India prevented it from doing so(Karan. P, 1961).Fourthly, Sino-Indian border war in 1962 weakened India's position in the sub-continent as well as in the eyes of the Bhutanese people. Many of them reacted as if they were in doubt whether India would be able to protect them if China repeated its Tibetan exercise in Bhutan. It created a lot of apprehension in the minds of Bhutanese leaders. Therefore, the post 1962 war period compelled Bhutan to re-evaluate

central aspects of its foreign policy (Muni, S.D, 1984). As a result of this, Bhutan began to diversify its relations in the international community, thereby projecting its status as an independent and sovereign nation. Bhutan became a member of the Colombo Plan in 1961²², the Universal Postal Union in 1966 and United Nations in 1971. As a member of the U.N., Bhutan has voted independently and not always with India, particularly since 1973 (Muni, S.D, 1984). In 1971, Bhutan was the second country after India to recognize Bangladesh. Bhutan had raised its representation in India to the ambassadorial level in 1971 and in 1978 changed the name of its diplomatic office in New Delhi from Bhutan mission to the Royal Bhutan Embassy to further reflect its sovereign status (Murthy.P, 1999). During the coronation ceremony of the King of Bhutan in June 1974, Bhutan invited more than one hundred fifty foreigners. Representatives from U.S.A., Britain, France, China, Soviet Union, Canada, Switzerland, Australia and New Zealand attended this function. This gathering of major powers in Thimpu boosted its confidence as a sovereign power. Bhutan also asserted its independent stance at the NAM summit conference in Havana Cuba in 1979, by voting with China and some South-East Asian countries instead of India on the issue of allowing Cambodia's Khmer Rouge in the conference. In 1980 Bhutan's foreign minister was elected as the chairman of the Economic and Social Council for Asia and Pacific (ESCAP) and it was seen as another big leap by the Himalayan state in the international arena.

In the 1980s, Bhutan diversified its relations with other countries including Switzerland, Denmark, European Economic Community (EEC), Norway, Netherlands, (1985), Kuwait, Japan and Finland (1986), South Korea (1987), Austria (1989), Thailand (1991), Bahrain (1992), Consulate in Hong Kong and Singapore (1982), Consulate in Macaw (1885) and in 1983, established formal diplomatic relations with Nepal (Muni.S.D, 1984(15/a). Bhutan's membership in various U.N. agencies like FAO, IDA and IMF in 1981 was censured by its membership in the U.N followed by regional association in SAARC in 1985²³. But the major regional initiative and diversification was when the boundary talks with China in Beijing took place in April 1984 (Kohli, M, 1993). Bhutan also reduced India's assistance in its 5th Five Years Plan by 43 % and found new patrons in various western countries besides international monetary and welfare organizations. This behavior clearly suggested that Bhutan was eager to

²². <http://www.oneindia.com/feature/understanding-india-Bhutan-relations-1467521.html>

²³ http://www.ide.go.jp/English/Publish/Download/Jrp/pdf/132_3.pdf

deviate from the 1949 agreement and adhered to a more loose interpretation of the phrase “aid and advice of India.” In the 1990s, the Indo-Bhutan bilateral relation was characterized by a more give and take relationship (Murthy.P, 1999).

Areas of co-operation: Economic Co-operation

Mutually beneficial economic inter-linkages between India and Bhutan have been an important element in our bilateral relations. Planned development in Bhutan began in 1961, with the first two five year plans (FYP) wholly financed by the Government of India. India has provided assistance mainly in the social sectors such as education and human resource development, health, hydropower development, agriculture and roads. Bhutan’s source of foreign aid had diversified significantly since it became a member of the United Nations, India continues to be the major donor of external aid to Bhutan (Table-1).

Table-1, Plan- wise allocations made by the Royal Government of Bhutan, showing India’s contribution therein, is as follows:

YEAR	TOTAL ALLOCATON (in Rs.crores)	INDIA’S CONTRIBUTION	PERCENTAGE OF INDIA’S CONTRIBUTION
1961-66 (1 st plan)	10.72	10.72	100%
1966-71(2 nd plan)	20.22	20.22	100%
1971-76(3 rd plan)	47.52	42.66	90%
1976-81(4 th plan)	110.62	85.30	77%
1981-87(5 th plan)	444.05	134.00	30.2%
1987-92(6 th plan)	950.00	400.00	42.1%
1992-97(7 th plan)	2350.00	750.00	31.9%
1997-2002(8 th plan)	4000.00	1050.00	26%
2002-2008(9 th plan)	8900.00	2610.00	29.33%
2008-2013(10 th plan)	14900.00	3400.00	23%
2013-2018(11 th plan)	21300.00	4500.00	21%

Source: <http://www.indianembassythimphu.bt/pages.php?id=33>

An examination of above Table-1 suggests that India’s financial aid to Bhutan significantly decreased from 5th Five Years Plan (1981-1987) onwards. The ratio of financial aid of India to Bhutan has come down from 100% in the 1st FYP to 23% in the 11th FYP (Table-1). From this time Bhutan tried its best to become self-reliant and make a contribution from its internal sources.

Hydro power co-operation:

Along with Five Years Plans, the Indian government always extended its economic assistance to other fields also. Mainly in hydropower projects, cement plants, communication, education, health etc. Our hydropower cooperation with Bhutan is a classical example of win–win co-operation. Bhutan has a total generating capacity of 30,000 MW, and an economically viable total capacity of 23,760 MW, comprising in

total of 76 hydro projects of which 1,400 MW have been built, and another 10,000 MW will be constructed by 2020 (Tenzing.L,2014). In the past, major projects undertaken by Bhutan with Indian assistance include 1020MW Tala hydroelectric project, 336MW Chukha hydropower project, 60MW Kurichhu hydropower projects .These projects are already operational .Further, Government of India has agreed to provide assistance to Bhutan in developing the hydropower sector and to purchase at least 10,000MW of power from Bhutan by 2020²⁴. For this purpose, ten hydro power projects have been identified, which are given below (Table-2)

Table 2: Hydro-power Projects in Bhutan

Projects	Capacity(MW)	Start Date	Completion date (FY)
Punatsangchu-I	1,200	2009	2015
Mangdechu	720	2010	2019
Punatsangchu-II	1,020	2010	2019
Sunkosh Reservoir	2,585	2011	2020
Kuri-Gongri	1,800	2012	2020
Amochhu Reservoir	620	2012	2018
Kholongchu	650	2012	2018
Chamkarchu-I	670	2012	2018
Wangchu	600	2012	2018
Bunakha Reservoir	180	2012	2018

Source: 'Annual Report 2010-2011"Royal Monetary Authority of Bhutan. Also available at <http://www.rma.org.bt/RMA%20publication/Annual%20Report%20annual%20report%202010-2011.pdf>

The equation of hydro power cooperation between India and Bhutan is simple. Bhutan needs the revenue for its long term and sustainable economic development, and India needs the electricity to push up its economic growth rate, and meet its rapidly rising energy demands. India's peak power demand in March, 2012 was 130,006 MW, with a deficit of 15,773 MW (minus12.1 per cent). Its demand alone, will increase to 2, 83,470 MW by 2021. This also needs to be understood in the context of trust, goodwill and good relations between the two countries. (Bts-2014) So by discussing Indo-Bhutan relation in the realm of hydropower sector it is quite clear that this relationship is based on equi-beneficial interest.

²⁴ <http://www.indianembassythimphu.bt/pages.ph?=34>

Indo-Bhutan trade relation:

India is not only Bhutan's main development partner but also its leading trade partner. It may be noted that Bhutan was a chronically trade deficits country with India, where bilateral trade was taking place primarily in goods. The first recorded Indo-Bhutanese trade link was established in the post-turmoil period of Cooch Behar annexation by Bhutan and subsequent peace initiatives, which culminated into the Anglo-Bhutanese treaty of 1774. This Treaty made it possible for the Bhutanese trader to visit Bengal to sell and buy goods; this can be considered an elementary form of export-import reported between Bhutan and India. Until 1957 Bhutan's major trade link was with Tibet, which opened the Indian trade post at Yatung and it was through Chumbi valley in Tibet that the traders from India could approach western Bhutan. The trade routes between Bhutan and Tibet were finally closed in 1960 and by this time Bhutan had already entered into development partnership with India by virtue of the treaty of 1949. This helped in redirecting Bhutan's trade towards India. With the construction of lateral roads linking the Bengal-Assam plains to Phuentshaling, and Phuentshaling to Thimpu and Paro in 1962, a new era in Bhutan's foreign trade commenced. A free trade regime exists between India and Bhutan. The India-Bhutan Trade and Commerce Agreement was first signed in 1972 and 2006 was the last time that this agreement was renewed for a period of ten years (Lab, K. 1974).

Currently, the major items of exports from Bhutan to India are electricity (from Tala, Chukha and Karichhu Hydroelectric projects), base metals and articles, minerals, vegetable fat and oils, alcoholic beverage, chemicals, cement, timber and wood products, cardamom, fruit products, potatoes, oranges and apples, raw silk, plastic and rubber products. Major export from Bhutan to India are high speed diesel, ferrous products, motor spirit including aviation spirit (petrol), copper wire, rice, wheat, flour, wood-charcoal, hydraulic turbines, machinery items, coke and semi coke of coal, soybean oil, milk powder etc (Choden, T, 2004). Sixteen exit/entry points in India identified in the protocol for Bhutan's third country trade are: Jaigaon, Charmurchi, Ultapani, Hatisar (Gelephu), Darraga, Kolkata, Haldia, Dhubri, Raxaul, Panitanki, Changrabandh, Phulbari, Dawaki, New Delhi, Chennai and Mumbai. Of these, Kolkata, Haldia, Mumbai and Chennai are the designated sea port. Dhubri is the revering route. New Delhi, Chennai Mumbai and Kolkata are the air routes and the Rauxal is the rail route. The others are the designated road routes²⁵.

²⁵ <http://www.indianembassythimphu.bt/pages.php?id=41>

Table.2Bhutan's trade with India (From 2001 to 2013):

Year	Total Import	Import from India	Percentage Of total import from India	Total export	Export to India	Percentage of total export to India.
2001	8,990.20	6,988.74	77.73	4,994.75	4,700.47	94.10
2002	10,046.14	7,573.57	75.38	3,131.18	2,789.64	89.09
2003	11,566.92	10,228.52	88.42	3,586.63	3,322.40	92.63
2004	18,639.49	10,193.90	54.68	8,271.15	7761.56	93.83
2005	17,035.07	12,795.08	75.11	11,386.17	9,969.83	87.56
2006	19,011.00	13,053.00	68.66	18,771.00	14,488.00	77.18
2007	21,745.44	15,099.54	69.43	27,859.06	22,723.72	81.56
2008	23,495.12	17,339.55	73.80	22,590.64	21,480.02	95.08
2009	25,650.17	19,968.01	77.84	23,992.74	22,434.39	93.50
2010	39,084.09	29,338.00	75.06	29,324.39	26,000.89	88.66
2011	48,697.64	35,201.07	72.28	31,485.95	26,377.97	83.77
2012	53,093.61	41,838.29	78.80	28,420.13	26,627.35	93.69
2013	53,272.98	43,889.37	82.38	31,852.98	28,979.16	90.97

Source: Bhutan trade statistics, from 2001 to 2013, Department of revenue & customs, Ministry of Finance, RGB. Also available at <http://www.mof.gov.bt/publications/reports/bhutan-trade-statistics>

As presented in Table.2, Bhutan's exports to India over the period of 2001 to 2013, accounted for an average 89.35 percent of its exports, while imports from India accounted for an average 74.58 percent of the total imports. The significance of trade with India seems to have increased over time. Energy is the Bhutan's top export item and India is the only buyer. It occupies 35.5% of the total exports. Out of total power generated, 80% is exported to India after meeting domestic consumption. Power exports accounts for the largest source of Bhutanese Government's revenue in the form of taxes and dividends from hydropower companies. It accounted for more than 40% of national revenue and 25% of gross domestic product (GDP).

Table: 3 Ratio of Bhutan's Electricity Export to Total Export to India.

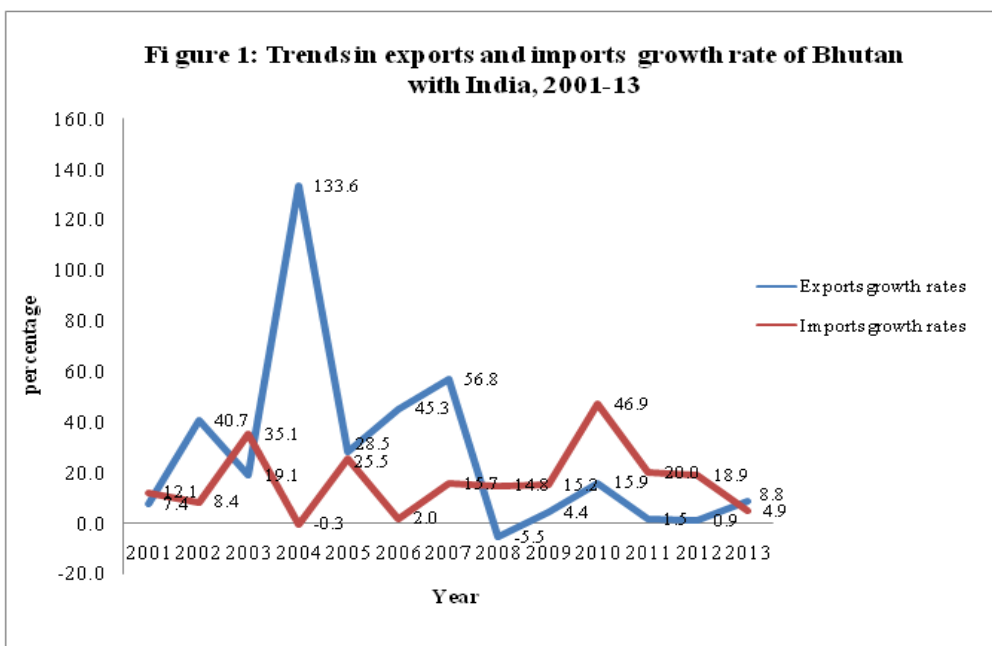
Year	Total Export (Nu Million)	Export of Electricity	Ratio of Electricity export to Total Export
2006	14,488.00	4982.00	34.38
2007	22,723.72	10034.33	44.15
2008	21,480.02	11032.59	51.36
2009	22,436.39	10090.72	44.97
2010	26,000.89	10411.46	40.04
2011	26,377.97	10441.46	39.58
2012	26,627.35	9125.27	34.27
2013	28,979.16	11227.26	38.74

Source: Bhutan trade statistics, 2013, Department of Revenue & Customs. Ministry of Finance, Government of Bhutan.

The above Table-3 shows Bhutan's electricity exports to India and its proportion to the rest of exports. Though the share of electricity exports in total exports comes to about 38.74%, its ratio to rest of exports seems to have gone up. The ratio of electricity exports to other exports to India has gone up from about 34.38% in 2006 to 38.74% in 2013²⁶.

This shows that Hydropower generation is still the most important area of comparative advantage and with the existing bilateral ties with India by its production and sales; Bhutan will continue to depend largely on this source of exports earnings.

Trends in exports and imports growth rate of Bhutan with India,2001-2013



Source: <http://www.mof.gov.bt/publications/reports/bhutan-trade-statistics>

As per in Figure-1, the growth rates of export to India and imports from India seem to have fluctuated a great deal. On average during 2001-2013, the growth rates of exports (27.49) seem slightly higher than the growth rates of imports (16.84).

Additional areas of co-operation:

India also assists Bhutan's security and defense arrangements, especially in training and equipping the Royal Bhutan Army. Besides training and courses for army personnel conducted by the Indian Military Training Team (IMTRAT)²⁷ in the past, Bhutanese army cadets continue to be sent to the National Defense academy (NDA) in Pune and the Indian Military Academy (IMA) in Dehra Dun (Choden,T.2004)²⁸, Indo-Bhutan relations are also prominent in the field of education. Indian Government provides scholarship to 85 Bhutanese students at undergraduate level and 77 at post graduate level every year in Indian Institutions of higher learning²⁹. Under the Technical and Economic co-operation (ITEC) programme and Technical Co-operation Scheme (TCS) of Colombo plan training slots (80 slots) are provided to Bhutan every year³⁰. Ambassador's Scholar ships are granted to meritorious Bhutanese students who are already studying in various school/colleges in India on self-financing basis. In the past ten years, more than 3000 Bhutanese students have benefited from the Ambassador's Scholarship Scheme. The Government of India offers one fellowship and two scholarships for meritorious Bhutanese nationals, under SAARC scholarship scheme. In addition, the prestigious Nehru-Wangchuk Scholarship scheme ³¹was initiated in 2009 and implemented from the academic session 2010-2011 and under the new Bhutan ICCR Scholarship Scheme (implemented in 2012), Bhutanese students are undergoing graduate/post graduate courses in India. Ambassador Scholarships are granted to deserving and talented Bhutanese students studying in selected and premier Indian educational institutions. A significant number of Indian teachers contribute to education in Bhutan with many of them posted to teach in remote areas in Bhutan. In addition, Sherubtse College in eastern Bhutan has developed into a premier institution for tertiary education in Bhutan with its affiliation to Delhi University in India.

Other areas co-operation include bilateral civil aviation dating back to 1983 when Bhutan's national airline Druk Air, began commercial operations to India with flights from Paro to Calcutta and later from Paro to Delhi in 1988. By 2000 Druk Air also

²⁷ . website, <http://www.indianarmy.nic.in/arimtrat.htm>.

²⁸ http://www.bhutanstudies.org.bt/publicationFiles/JBS/JBS_Vol11/v11-6.pdf

²⁹ <http://www.indianembassythimphu.bt/pages.ph?=99>

³⁰ <http://www.indianembassythimphu.bt/pages.ph?=102>

³¹ <http://www.indianembassythimphu.bt/pages.ph?=105>

granted permission to use Bagdogra as diversionary airport for refueling, technical and during bad weather conditions.

In the international arena, Bhutan has not always voted a hundred percent in line with India but it has consistently supported India's position on most occasions and significant issues. Some of these include issues of the NPT and CTBT, the establishment of nuclear weapons free zone in South Asia, India's aspirations to be a permanent member of the United Nations security council, India's candidature to various international bodies, negotiations in the W.T.O. and the importance of India in the success of SAARC(CBS et al,2004). Bhutan proved to be India's trusted friend in 2003 when it launched operation All Clear and operation Flush out against Indian insurgents taking shelter in its territory³².

Areas of concern

Although, Bhutan and India share an extraordinary friendship, there are some issues that are of concern to both countries. These are mainly illegal presence of militants in Bhutan rebelling against the Indian Government, the state of relations with China, and effect of India's liberalization policy to Bhutan's economy.

Illegal presence of militants:

India's major concerns with Bhutan presently are those relating to the disturbed situation in the north-east. Over the last decade or so, the illegal establishment of camps by the United Liberation Front of Assam (ULFA), Bodo Liberation Tigers (BLT), National Democratic Front of Bodoland (NDFB) and Kamtapur Liberation Organization (KLO) militant outfits in the dense jungles of south-east Bhutan has been a matter of great concern and security threat for Bhutan. They use the strategies of attack and retreat, crossing the India-Bhutan border and attacking targets in India, causing a serious headache for the India government. In addition to hampering businesses and the implementation of development activities in many parts of the country, the presence of these militants was a potential cause of affecting the friendly relations enjoyed by Bhutan and India. The presence of over 3000 well-trained and well equipped militants in some 30 camps located within the forests of Bhutan, with the ULFA owing 13, the NDFB controlling 12 and the KLO having (Banerjee, D.,&B.S Laishram ,2004). Bhutan is not in any way supporting these insurgents, but its police forces are limited to meet such contingencies and without Bhutan's help, it will not be possible to fight the insurgency.

³² <http://www.oneindia.com/feature/understanding-india-bhutan-relations-1467521.html>

In mid 1990s, for the first time, the Government of Bhutan thought of flushing out the militants existing inside the country. But in consideration of the close ties between Bhutan and India, and recognizing that the militants are nonetheless Indian citizens from the neighboring states of Assam and West Bengal, the Bhutanese Government repeatedly urged the militants to leave the country. But the militants had no real intention of leaving Bhutan. Given the lack of positive response and co-operation from the militants, Bhutanese army finally launched military operations to push out the militants, on 15th December, 2003 (Banerjee, D., & B.S Laishram, 2004). Both India and Bhutan have their own worries for the moment. India fears that rebels would remain in Bhutan or scatter elsewhere and still pose threat to India's security. India also fears that Nepali refugees in Bhutan would join the rebels and make them stronger²⁴. India and Bhutan constantly discuss their worries to think of ways to protect themselves from the rebels. Though it was not a permanent solution, this problem still now exists. Presently the rebel groups are scattered everywhere and they sought assistance from other countries, and were turned down by China. India fears that the rebels would seek asylum in places like Bangladesh and Myanmar and that Pakistan would supply them with weapons and training. So the India should try to build up adequate infrastructure and manpower to guard 266 kilometer Bhutan-Assam border. Bhutan has to be on guard as long as the insurgency problem is not solved³³.

Border Demarcation

Indo-Bhutan border issues went long unresolved. They share 699 kilometers international border. This border had been delineated in the treaty of peace of 1865 between Bhutan and Britain, but it was not until the period between 1973 and 1984 that a detailed delineation and demarcation was made. Border demarcation talks with India generally resolved disagreements except for several small sectors, including the middle zone between Sarbhong and Geylegphug and the eastern frontier with Arunachal Pradesh³⁴.

China factor

³³ "Bhutan to Build Wall along Assam Border, " July 11, 2004, IANS, <http://www.newkerala.com/news-daily/news/features.php?action=fullnews&id=1743>

³⁴ "Border Talks Focus on Rebel Movement, " October 19, 2004, The Telegraph <http://www.telegraphindia.com/1041019/asp/others/print.html>.

The China factor has been very important in defining the nature of relationship between India and Bhutan. As discussed earlier, China made several efforts to exercise what it called “historic rights” over Bhutan. But since 1960s, especially after Indo-China war (1962), China has displayed relative patient farsightedness in considering Bhutan as a small but important factor of its south-east policy framework. For China, the location of Bhutan which lies in the north of India and which is the only road linking relatively unstable north eastern states, the Siliguri Corridor, is beneficial because it provides rare political and military opportunity in South Asia, specifically against India in general, in the long term. The approach of China over last five decades has been to minimize the role and importance of India in Bhutan. What China wants from Bhutan is to follow an independent policy which essentially means that Bhutan does away with its traditional policy of tilt towards India. By consistently refusing to accept any Indian advocacy for Bhutan coupled with “pressure tactics of Border incursions”, the Chinese have brought Bhutan to the negotiation table (Malik, J.M, 2013). Simultaneously, in the late 1970s, the Janata Government in New Delhi had made the task easier for Bhutan, as its policy of “beneficial bilateralism” signaled normalization of India-China relation (Gulati, C.J., 1990). This process of normalization of relations between India and Bhutan made it possible for Bhutan to have direct bilateral talks with China. While the preliminary talks began in 1981, the first formal negotiations began in Beijing in 1984 (Jha, Tilak, 2013). After nineteen rounds of talks by January 2010, the two sides have nearly finalized boundary demarcation and almost prepared to established diplomatic ties³⁵. Though, as current geo-political and geo-economic realities ensure that India will continue to be one of the most critical elements in Bhutan’s foreign relations, Bhutan has to consider reality of China to its north. Clearly it will be a challenge for Bhutan to maintain friendly relations with China without undermining its own relations with India.

Liberalization Policy:

Bhutan has enjoyed protected status in its trade relations with India till 1990s. With economic liberalization on the rise in India, Bhutan is facing a gradual loss of this status and unless Bhutanese industries are able to maintain competition they could lose their market share in the increasingly open market in India. Bhutan has already felt the impact of the reform in India’s subsidy policies that has resulted in the decrease in its budget for assistance to Bhutan³⁶ (Table-1).

³⁵ <http://www.bhutan-research.org/special-bhutan-china-relations>. Assessed on 3rd May 2013

³⁶ http://www.bhutanstudies.org.bt/publicationFiles/JBS/JBS_Vol11/v11-6.pdf

Concluding Remarks

Despite these problems, the current geo-political and geo-economic relations ensure that Bhutan remains a major trade and development partner after the recent period of stagnation in the relations which resulted in India's suspending supply of subsidized LPG and kerosene. In Bhutan's transformation from monarchy to democracy, India shared its expertise and experience and helped the country in bolstering its democratic practices and institution- building. As both India and Bhutan have more engagement with China today, the Article 2 of 1949 Treaty began to work more against India's interests. Therefore, India negotiated a new treaty with Bhutan in 2007, whereby the provision requiring Thimpo to seek "India's guidance in foreign policy" was replaced with "border sovereignty" and would not require getting India's approval over importing arms. Post 2007 Treaty, Bhutan seeks to extend its hand of friendship to other countries, and China will be its prime focus. At the same time China will also not miss any opportunity to cajoling Bhutan so easily into its fold through intermittent "Carrot and Stick" policy.³⁷ Bhutan believes for the friendship to be equal; India needs to now accept the new reality of Bhutan. China aims at neutralizing Bhutan in the wake of any political or military conflict with India and uses it as a base for future trade and business in Tibet and rest of South Asia. Since, the relationship with China is still at the informal level, there is no concrete economic policy towards Bhutan. And also China is being cautious while dealing with Bhutan because it understands the intrinsic political and economic relation Bhutan has shared with India for decades. So it would be difficult to detach itself from India. Today Bhutan is more interested in maintaining an equidistance relation with both India and China. So, India's needs to asses her bilateral relationship on a realistic paradigm instead of pre-conceived idealism. Indian foreign policy should acknowledge Bhutan's strategic importance, its local level economic viability, trade potentiality, counter-terrorism, and the new balance of power that is created with China trying to be dominant economic and military power in the Asia-Pacific. India should support Bhutan to conciliate to her urgent objective i.e., asserting its status as an independent power at the regional level. As the kingdom has faced challenges like unemployment, national debt, transition from absolute monarchy to parliamentary governance, from guided foreign policy to the role of full player on the world stage and above all from medievalism to modernity, a maturing Bhutan calls for even greater nurturing and fostering.

³⁷Carrots in form of economic assistance and assurance of independence, and sticks in the form of continuous claims.

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