

## “Opportunities & Challenges to India- Bhutan Bilateral Trade in Present Scenario”

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### **Abstract**

*India has trade relations with Bhutan since time immemorial. In the olden days, Bhutan played the role of carrying agent or middle-man between India and Tibet. From Assam, Bengal and Cooch Bihar, the Bhutanese used to collect dyes, endi (coarse silk made of the produce of silk-worm fed on the castor oil plant, called endi locally), cloth, supari and tobacco and exchange them for wool, tea, salt and musk from Tibet. They also traded spice including chillies, lac, rice, grains and other agricultural and forest products in return for the merchandise of Tibet. Indo-Bhutan Treaty evolved and strengthened the cherished bonds of friendship and trade relation between the two countries. Under the Treaty Bhutan is to be guided by India as regards its security, external relations and there will be free trade between the two countries. India has been playing a substantial role in the economic development of Bhutan since last three decades. India has offered generous grants, loan and other assistance for the completion of five years plans of Bhutan. India has been a Bhutan's hydro-electric, geological and mining projects since 1958. India has been assisting Bhutan in every sphere ranging from economic development to education, cultural activities and communications. Bhutan has unique relationship with India. Indo-Bhutan relationship is relatively trouble free, compared to other bilateral relations in the South Asian region. Bhutan and India share traditional, warm, friendly and close bilateral relations – both at political and economic level*

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### **Introduction:**

Bhutan's economy is one of the world's smallest and least developed, and is based on agriculture, forestry, and the sale of hydroelectric power to India. Agriculture provides the main livelihood for more than 85% of the population. Handicrafts are a small cottage industry and a source of income for many. The sculpting of religious figurines is a popular occupation, and gilded Buddha statues and Buddhist saints are sold to tourists. A landscape that varies from hilly to ruggedly mountainous has made the building of roads, and other infrastructure, difficult and expensive. This, and a lack of access to the sea, has meant that Bhutan has never been able to benefit from significant trading of its produce. Bhutan currently does not have a railway system, though Indian Railways plans to link up southern Bhutan with its vast network under an agreement signed in January 2005. Historically, there have been well patronized trading routes from the Tibetan plateau to the Indian subcontinent through Bhutan, but haulage has been limited to human porters and livestock. The industrial sector is minimal, production being of the cottage-industry type. Most development projects, such as road construction, rely on Indian contract labour. Agricultural produce includes rice, corn, root crops, citrus, food grains, dairy products and eggs. Industries include cement, wood products, processed fruits, alcoholic beverages and calcium carbide.

Bhutan was once totally dependent on India not only for its development assistance but also for its entire government revenue. After it joined the Colombo Plan and the UN, such as the UN, the Colombo Plan, the World Bank, and the Asian Development Bank began to pour in loans and credits. The World Bank granted a US \$9 million interest-free loan to help with the development of a calcium carbide plant near Phuntsholing. As of 1990, total Asian Development Bank loans to Bhutan since the latter joined in 1982 amounted to US \$30 million. In 1987 and 1988 alone, the bank approved loans totaling more than US \$6.9 million to cover the modernization of industrial estates and to provide foreign currency for the Bhutan Development Finance Corporation. Asian Development Bank loans to Bhutan for 1990-93 were projected at US \$35 million, plus a grant of more than US\$4.85 million; the aid was for technical assistance.

In 1989 the World Food Programme approved a two-year US \$ 700,000 project to establish food reserves. The Food and Agriculture Organization of the UN sponsored a program to assist Bhutan in achieving food self-sufficiency by 1992. The major items which Bhutan exports are timber, fruits and fruit products, potato, cement, cardamom, sand and boulder, handicraft products, lime powder and rosin. The major items which Bhutan imports are coal, fertilizer explosives, engineering

goods, textiles, medicines steel sugar and edible oils. Bhutan is India's "friendliest neighbor". India's relations with Bhutan are age old. Both the countries since time immemorial have shared common culture and tradition. There is an open border between India and Bhutan. Thousands of Bhutanese visit India every year as pilgrims.

Only 1 percent or less of the work force was involved in industry and construction in the late 1980s, and industrial production and construction represented only 14.2 percent of GDP projected for 1991. Handicrafts, cement, food processing, wood milling, and distilling were the major industries. In the late 1980s, there about 400 small-scale cottage and industrial units. There also were two cement plants under the Penden Cement Authority; a joint venture (the government-sponsored Tashi Commercial Corporation in conjunction with the World Bank, Norway, and Kuwait), a Bhutan Carbide and Chemicals calcium carbide plant (near Phuntsholing), and factories for processing fruit, for manufacturing paper pulp, wood veneers, and particle board and for producing resin and turpentine. Additionally, there were three distilleries and a salt iodization plant. Other small industrial enterprises manufactured such consumer goods as soap, confectionaries, and furniture. Most of the larger industries, established since Bhutan's economic modernization began in the 1960s, were themselves modern and used a considerable amount of labor-saving technology. The largest industries employed no more than sixty or seventy workers. Many of the newly developing industries began making public stock offerings in the late 1980s.

### **Political Relations and Economic Cooperation**

Bhutan signed a political Treaty with independent India in 1949, much before it stepped out of its self-imposed isolation in early sixties. According to Article 2 of the Indo-Bhutan Treaty 1949 at least theoretically, Bhutan is required to consult India in the conduct of its external relations. Although, the basic framework of the bilateral relations may be the Treaty of Friendship and Cooperation of 1949. However, the Treaty which was signed in 1949 has never become an irritant factor in the traditional warm relationship between the two countries. There are frequent state visits between two countries. The Indian ministers and top army brass also keep visiting Bhutan, frequently. India is responsible for Bhutanese security. Indian Military Training Team (IMTRAT) is based in Bhutan to provide training to Bhutanese security forces.

Bhutan's economy is wholly dependent on India. It was the benevolent Nehru, who put Bhutan on the path of economic development. As a least developed country Bhutan depends on foreign aids for financing its developmental programmes and

establishment costs. India has been the largest donor of external aid to Bhutan and its main development partner. It was at the Indian initiatives that Bhutan launched its First Five Year Economic Development Plan in 1961. Bhutan's first and second Five Year Economic Development Plan (1962-67) were totally funded by India. India has committed US \$ 215 million for the Eighth Plan (1997-2002). India has contributed generously from the First to the current Eighth Five Year Plan (1997-2002).

### **Educational and Technical Cooperation**

Every year, the Government of India provides various scholarships (bilateral) to the Bhutanese students in the field of medicine, law, engineering, computer, science, humanities and commerce. Indian government scholarships are granted to around 50 Bhutanese students every year in various institutions in India. Besides, India provides specialist and technical expertise and services to Bhutan in various fields. Bhutan's only degree college, Sherubtse College is affiliated to Delhi University. Many Indian teachers are also posted at Sherubtse College. Besides, a large number of Bhutanese students attend schools and colleges in India on private expenses

### **India - Bhutan Trade Relations:**

As a landlocked country, India had been and is a major trading partner of Bhutan in her economic development and external trade. Before eighties, third country import and export were non-existent in Bhutan. Indian aid accounts for more than sixty percent in its fifth five-year economic development plan. In present study the trend of India's Trade with Bhutan has been discussed in two parts

- (a) India's Export to Bhutan
- (b) India's Import from Bhutan

#### **(a) India's Export to Bhutan:**

At present India is in a position to supply almost all the items which are required by Bhutan to fulfill its needs. No country of the region, except perhaps Nepal, has so healthy trade relation as Bhutan has with India. At present India is exporting the following major item to Bhutan

- 1 COFFEE
- 2 TEA
- 3 PULSES
- 4 RICE -BASMOTI
- 5 RICE
- 6 WHEAT
- 7 OTHER CEREALS

8 DAIRY PRODUCTS

9 SPICES

10 SUGAR

11 MARINE PRODUCTS

12 POULTRY PRODUCTS

13 COAL

In the present scenario India's export to Bhutan has not increased at a fast rate as it has accelerated in earlier years. Table no. 1 depicts the India's recent exports to Bhutan. As per table India's export to Bhutan reaches to Rs. 189 Cr. in year 2002-03 from Rs. 36 Cr. in the year 2001-02. Thus, the India's exports to Bhutan were gone to four times in the year 2002-03. Figure 1 also reflects the increased export with the help of green bar diagram during the year 2002-03 in which it has improved its height significantly large as compared with the 2001-02 bar. During the year 2003-04 India's export to Bhutan were gone to Rs. 399 Cr. from Rs. 189 Cr. in 2002-03, resulting again a significant increase of 111% on exports of 2002-03 to the Bhutan.

In the year 2004-05 India's exports to Bhutan were Rs. 380 Cr. as compared with the 2003-04 when it was Rs. 399 Cr. Thus, instead of increase, the India's exports to Bhutan were decreased @ 5% p.a on the 2003-04 exports. Figure 1 also reflects the decreased export with the help of green bar diagram during the year 2004-05 in which it has reduced its height to a little as compared with the 2003-04 bar.

Table 1 also brings out that India's export to Bhutan during the year 2005-06 were Rs. 439 Cr. which in the year 2004-05 were Rs. 380 Cr. Comparing both the values the conclusion comes that there had been an increase in the India's export to Bhutan and on computing this the increase is approx. 15% on the export of 2004-05 which means that in the present scenario the India's export to Bhutan is in growing stage.

**TABLE 1**

**INDIA'S EXPORT TO BHUTAN**

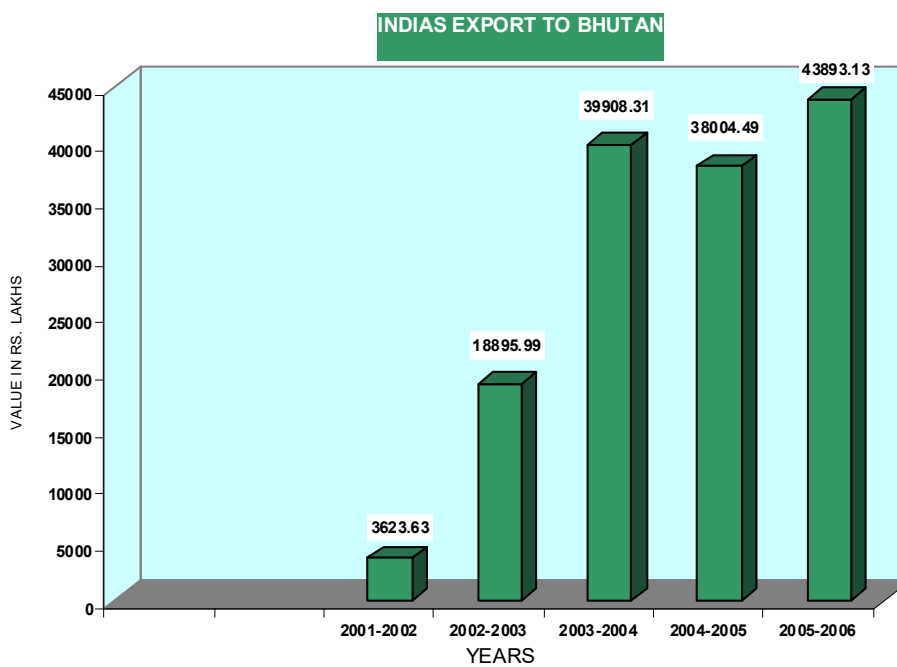
**TABLE 1**

**INDIA'S EXPORT TO BHUTAN**

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	3623.63	18895.99	39908.31	38004.49	43893.13

**FIGURE 1**

**INDIA'S EXPORTS TO BHUTAN (2001-2006)**



**1. Table for Computing the Value of Constants**

(Values in 000' Rs. Lakhs)

YEAR	Y (EXPORT VALUE) IN 000' Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X <sup>2</sup>	XY
2001-2002	3.62	-2	4	-7.24
2002-2003	18.89	-1	1	-18.89
2003-2004	39.91	0	0	00.00
2004-2005	38.00	+1	1	+38.00
2005-2006	43.89	+2	4	+87.78
N = 5	?Y = 144.31		? X <sup>2</sup> =10	?XY = 99.65

**2. Computation of the Value of Constants and Trend Value Equation**

(Values in 000' Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
a = ? Y/N	b = ? XY/X <sup>2</sup>	Y = a + bX
a = 144.31/5 = 28.86	b = 99.65 /10 = 9.96	Y = 28.86 + 9.96 X

**3. Forecasting the Trend Value of Total Exports to Bhutan for 2006-2007**

(Values in 000' Rs. Lakhs)

$$Y_{2006-2007} = a + b (+3)$$

$$Y_{2006-2007} = 28.86 + 9.96 (+3)$$

$$Y_{2006-2007} = 28.86 + 29.88$$

$$Y_{2006-2007} = 58.74$$

or say Rs. 58,740 Lakhs

So, from above we may say that the India's total Exports to Bhutan for the year 2006-2007 may reach to be Rs. 58,740 Lakhs (approx.).

**(b) India's Imports from Bhutan**

Despite the efforts of diversification, India has been the biggest market for Bhutan's products and imports. At present India is importing the following major items from Bhutan

1 PULSES

2 CEREAL

3 MILK AND CREAM

4 FRUITS & NUTS

5 SPICES

6 TEXTILES YARN, FABRICSS, MADEUP ARTICLES

7 VEGETABLE OILS

- 8 WOOD AND WOOD PRODUCTS
- 9 OTHER CRUDE MINERALS
- 10 INORGANIC CHEMICALS
- 11 ARTIFICIAL RESINS, PLASTIC MATERIALS
- 12 CEMENT
- 13 PIG IRON
- 14 PAPER BOARD & MANUFACTURES
- 15 IRON & STEEL

Table no. 2 depicts the India's recent imports from Bhutan. As per table India's import from Bhutan reaches to Rs. 155 Cr. in year 2002-03 from Rs. 114 Cr. in the year 2001-02. Thus this resulted in an increase of approx. 36% on 2001-02 imports from Bhutan. Figure 2 also reflects the increased import with the help of blue bar diagram during the year 2002-03 in which it has improved its height as compared with the 2001-02 bar.

During the year 2003-04 India's import from Bhutan were gone to Rs. 241 Cr. from Rs. 155 Cr. in 2002-03, Thus there was a surplus of 55% on the 2001-02 imports from the Bhutan. It is also evident from the figure 2 that the growth of India's import from Bhutan during the year 2003- 2004 has gone up. he year 2004-05 India's imports from Bhutan were Rs. 319 Cr. as compared with the 2003-04 when it was Rs. 241Cr. Thus, the imports of India from Bhutan during the year increased considerably. Comparing both the import values the increase was of 33% on the 2003-04 imports which is significant.

Table 2 also discloses that India's imports from Bhutan during the year 2005-06 were Rs. 393 Cr. which in the year 2004-05 were Rs. 319 Cr. Comparing both the values the conclusion comes that there had been a significant increase in the India's import from Bhutan and on computing this increase is approx. 23% on the import of 2004 from Bhutan. TABLE 2



## INDIA'S IMPORT FROM BHUTAN

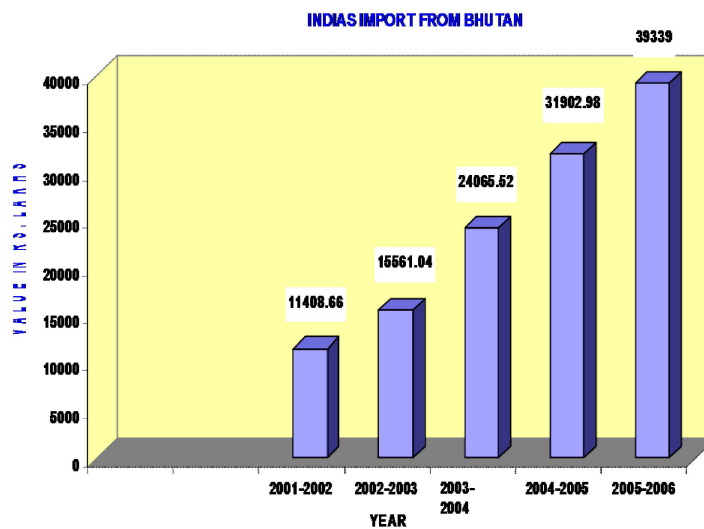
**TABLE 2**

**INDIA'S IMPORT FROM BHUTAN**

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	11408.66	15561.04	24065.52	31902.98	39339

**FIGURE 2**

**INDIA'S IMPORTS FROM BHUTAN (2001-2006)**



## TRENDS OF INDIA'S IMPORT FROM BHUTAN

Using Least Square Trend Value Equation:  $Y = a + bX$

Where

Y = Required Trend Value of Import from Bhutan.

X = Unit of time

a = Constant Value  $a = \frac{\sum Y}{N}$

b = Intercept  $b = \frac{\sum XY}{\sum X^2}$

1

**1. Table for Computing the Value of Constants**

(Values in 000 Rs. Lakhs)

YEAR	Y (IMPORT VALUE) IN 000 Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X <sup>2</sup>	XY
2001-2002	11.40	-2	4	-22.80
2002-2003	15.56	-1	1	-15.56
2003-2004	24.06	0	0	00.00
2004-2005	31.90	+1	1	+39.90
2005-2006	39.34	+2	4	+78.68
N = 5	∑Y = 122.26		∑X <sup>2</sup> =10	∑XY = 80.22

**2. Computation of the Value of Constants and Trend Value Equation**

(Values in 000 Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
$a = \sum Y/N$	$b = \sum XY/\sum X^2$	$Y = a + bX$
$a = 122.26/5 = 24.45$	$b = 80.22/10 = 8.02$	$Y = 24.45 + 8.02X$

3

2

(Values in 000 Rs. Lakhs)

$$Y_{2006-2007} = a + b (+3)$$

$$Y_{2006-2007} = 24.45 + 8.02(+3)$$

$$Y_{2006-2007} = 24.45 + 24.06$$

$$Y_{2006-2007} = 48.51$$

or say Rs. 48,510 Lakhs

So, from above we may say that the India's total imports from Bhutan for the year 2006-2007 may go to Rs. 48,510 Lakhs (approx.).

**Conclusion**

The major items which Bhutan exports are timber, fruits and fruit products, potato, cement, cardamom, sand and boulder, handicraft products, lime powder and rosin. The major items which Bhutan imports are coal, fertilizer explosives, engineering goods, textiles, medicines steel sugar and edible oils. Bhutan is India's "friendliest neighbor". India's relations with Bhutan are age old. Both the countries since time immemorial have shared common culture and tradition. There is an open border between India and Bhutan. Thousands of Bhutanese visit India every year as pilgrims. Bhutan enjoys complete free trade with India. A completely free trade regime exists between India and Bhutan. India is not only the major foreign aid contributor to Bhutan's economic development, but a mainstay for its economic survival. India

wholly financed the first two five-year economic development programmes. From above analysis we come to a conclusion that India has big opportunities for both i.e. export and import with Bhutan in the coming years as both the countries are trying to make the relations strong in each field.

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