

พลวัตความสัมพันธ์ทางเศรษฐกิจระหว่าง อินเดียและภูฏาน

The dynamics of the economic relationship between India and Bhutan

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บทคัดย่อ

ประเทศอินเดียและภูฏานมีความสัมพันธ์กันมานานมากกว่า 10 ปี ในช่วงระยะเวลาหลายปีที่ผ่านมา อินเดียและภูฏานมีความร่วมมือกันทางเศรษฐกิจในโครงการต่าง ๆ เป็นจำนวนมาก ยกตัวอย่างเช่น โครงการไฟฟ้าพลังงานน้ำ ซึ่งเป็นการทำงานร่วมกันระหว่างสองประเทศ เพื่อช่วยให้ความสัมพันธ์ทางเศรษฐกิจของทั้งสองประเทศแข็งแกร่งขึ้น งานวิจัยนี้มีวัตถุประสงค์เพื่อวิเคราะห์ความสัมพันธ์ทางเศรษฐกิจระหว่างอินเดียและภูฏาน และเพื่อวิเคราะห์ว่า ประเทศจีนในฐานะที่เป็นประเทศเพื่อนบ้านของทั้งอินเดียและภูฏาน ส่งผลกระทบต่อความสัมพันธ์ระหว่างอินเดียและภูฏานหรือไม่ งานวิจัยนี้ใช้วิธีวิจัยเชิงคุณภาพในการเก็บรวบรวมข้อมูล มีการสัมภาษณ์ผู้ให้ข้อมูลทั้งหมดสามคน ซึ่งทั้งสามคนนี้เป็นผู้ที่ทำงานให้กับรัฐบาลภูฏานมากกว่า 10 ปี งานวิจัยชิ้นนี้พบว่าอินเดียและภูฏานมีความสัมพันธ์ทางเศรษฐกิจเป็นอย่างดี เนื่องจากว่าอินเดียและภูฏานได้รับผลประโยชน์ทางเศรษฐกิจร่วมกัน โดยเฉพาะโครงการไฟฟ้าพลังงานน้ำซึ่งเป็นโครงการที่สำคัญที่สุดระหว่างทั้งสองประเทศ ในขณะเดียวกันทั้งสองประเทศก็มีความท้าทายที่จะต้องเผชิญร่วมกันคือ ความแตกต่างกันในเรื่อง

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ของผลิตภัณฑ์มวลรวมในประเทศ (Gross Domestic Product: GDP) อัตราเงินเฟ้อ และอัตราค่าไฟฟ้าพลังงานน้ำ โดยเฉพาะในเรื่องความแตกต่างเป็นอย่างมากของผลิตภัณฑ์มวลรวมในประเทศระหว่างอินเดียและภูฏาน ทำให้ภูฏานมองว่าเรื่องนี้ อาจจะส่งผลให้เกิดการขาดทุนทางการค้าได้ และถ้าหากทั้งสองประเทศไม่มีความสัมพันธ์ที่ดีต่อกันก็จะส่งผลกระทบต่อภูฏาน งานวิจัยนี้ยังพบว่าแม้ประเทศจีนจะไม่ได้มีผลกระทบใด ๆ ต่อความสัมพันธ์ของอินเดียและภูฏานถึงแม้ว่าจะอยู่ในฐานะของประเทศเพื่อนบ้านของทั้งสองประเทศ แต่อย่างไรก็ตามประเทศจีนก็ยังคงส่งผลกระทบต่อความสัมพันธ์ของประเทศอินเดียและภูฏาน อย่างเช่น ในปีค.ศ. 2013 ที่นายกรัฐมนตรีของภูฏาน มีการพบกับรัฐมนตรีของจีนอย่างไม่เป็นทางการ เพื่อพูดคุยถึงการสร้างความสัมพันธ์ทางการทูตของทั้งสองประเทศ เรื่องนี้ส่งผลให้อินเดียตัดการสนับสนุนน้ำมันและก๊าซให้กับรัฐบาลภูฏาน ดังนั้นจึงกล่าวได้ว่าอินเดียและภูฏานมีความสัมพันธ์ทางเศรษฐกิจที่ดีต่อกัน เพราะมีความไว้วางใจซึ่งกันและกัน และทั้งสองประเทศต่างก็ได้รับผลประโยชน์จากกันและกัน

คำสำคัญ: ความสัมพันธ์ระหว่างอินเดียและภูฏาน, การร่วมมือกันทางเศรษฐกิจ, ผลกระทบจากประเทศจีน, โครงการไฟฟ้าพลังงานน้ำ

Abstract

India and Bhutan have maintained their friendship for decades now. Over the years, India and Bhutan have cooperated in various economic cooperation such as hydro-power projects which has helped further strengthen the economic integration of the two countries. This paper aims to analyze the economic relationship between India and Bhutan and to analyze whether China as a neighbor of India and Bhutan has had any impact on the relationship between India-Bhutan relationship. Qualitative method was used to collect data. Approximately, three participants who have worked for the government of Bhutan for over ten years were interviewed. This research found that India and Bhutan have formed an economic relationship with mutual benefits with hydropower project being one of the most important projects between the two countries. The difference in the GDP of the two countries, inflation and the hydroelectricity tariff are some of the challenges faced. As the GDP between India and Bhutan is of big difference, it is seen as a challenge as Bhutan is concerned about trade deficit. If the relationship between India and Bhutan were to become unstable, it would affect Bhutan greatly. This research also found that while there is no big impact of China as their neighbor, there are some minor impacts which cannot be overlooked. The minor impact includes the fact that if Bhutan were to form diplomatic relationship with China in the future, it would affect the India-Bhutan relationship which was once felt by Bhutan in the past in 2013 when the then Prime Minister of Bhutan had some unofficial meetings with few Chinese officials which resulted in India cutting off subsidized oil and gas provided to Bhutan. India and Bhutan have formed various economic cooperations in attempt to minimize the impact of the challenges. Thus, it can be said that India and Bhutan have based off their relationship on mutual trust and respect and have found ways to mutually benefit from each other.

Keywords: India and Bhutan Relationship, Economic Cooperation, Chinese Impact, Hydro-Power Project

1. Introduction

India and Bhutan have had a five-decade friendship that has survived not only changes in India's administration but also bigger geopolitical occurrences. A treaty of friendship was signed between India and Bhutan on August 8, 1949, which pledged that they would have mutual respect for each other and would not interfere in each other's internal matters as both countries developed closer connections. In addition, free trade and extradition protocols were also established by the treaty. Bhutan's relations with India changed when it transitioned out of the monarchical regime. The Indo-Bhutan Friendship Treaty which was signed on 1949 was modified in 2007. While the original treaty stated that Bhutan would be guided in its foreign policy by India, the reform stated that the two countries would not allow their respective jurisdictions to be used for activities that are detrimental to the other's national security and interests. With the amendment, India and Bhutan's relations were liberated of colonial ties and the two countries acknowledged each other as sovereign states (Bhonsale, 2020).

Despite the fact that the Indo-Bhutan Treaty was signed in 1949, Bhutan remained isolated until the 1960s, when Chinese invasion overtook its nearest neighbor, Tibet (Choden, 2004). Bhutan strengthened its ties with India in response to predictions that it will be absorbed into Tibet by China. At the same time, India saw Nepal and Bhutan as critical partners in its 'Himalayan Frontier' defense strategy. In 1958, Prime Minister Jawaharlal Nehru visited Bhutan and reaffirmed India's support for the country's independence, later declaring that any action against Bhutan would be considered a war crime. (Nidup, 2015). Thus, it strengthened the relationship between India and Bhutan.

The economic relationship between India and Bhutan is an important topic because the grants and monetary aid provided by India helps Bhutan develop. Bhutan's significance to India comes in three forms which are strategic,

economic, and political. Firstly, Bhutan's strategic importance stems from the fact that it shares borders with four Indian states, allowing it to act as a buffer between India and China. As a result, the security of Bhutan's current borders is critical for India. Secondly, Bhutan is an outlet for Indian goods and a target for Indian investment in terms of economic significance. Bhutan is also a significant source of hydropower for India (Karishma, 2019). Bhutan-India economic cooperation is centered on India's support for the development of Bhutan's hydropower sector, which is one of the bilateral cooperation's main pillars. By assisting Bhutan, India's interests in easing its power deficit are served, and Bhutan, in turn, has the chance to maximize its national income through power exports to India. This win-win situation for both parties strengthens and prolongs the relationship between the two countries Thirdly when it comes to political significance, Bhutan needs to be politically stable because an unstable and embattled Bhutan might provide a safe harbor for anti-India activities and militant groups. This was evident during the 2003 military battle in Bhutan, which involved thousands of Indian insurgents who had sought refuge there. Bhutan's monarch then led his men into combat and drove the rebels out (Ramesh, 2003).



Figure 1 Location of Bhutan between India and China (World Atlas, 2021)

Source: From “Maps of Bhutan”, by World Atlas, 2021 (https://www.worldatlas.com/maps/bhutan?fbclid=IwAR38L_CTdJk1bEPEkc1F63_sX3MEZX4tSfUmLVxZ-TeOTJV_8BS00_afYps)

Moreover, Bhutan as of now has not had any formal diplomatic relation with China even though China has offered Bhutan to settle the border disputes bilaterally with Bhutan. China suggested a package deal in 1996, in which it would recognize Bhutanese sovereignty over the Pasamlung and Jakarlung valleys in exchange for Bhutan’s acknowledgment of Chinese sovereignty over the Doklam, Sinchulung, Dramana, and Shakhatoe areas in the western sector. Bhutan has so far dismissed this proposal. The Doklam plateau is an important factor because it is strategically placed on the India-Bhutan-Tibet trijunction on its northwestern side (Sarkar, 2012). Bhutan controls the Doklam Plateau,

which gives India access to the panoramic view of the Chumbi Valley. In the Chumbi Valley, India currently enjoys a significant terrain advantage over China (Ramachandran, 2020). This paper will look into whether China will have an impact on the economic relationship between India and Bhutan. For example, in the past during 2012, the former Prime Minister of Bhutan Jigme Y. Thinley had planned to form diplomatic relationship with China. Due to this, India withdrew all assistance on cooking gas and kerosene which was provided to Bhutan causing an increase in the prices of gas and kerosene. Thus, proving how prominent India is to Bhutan (Kumar, 2019).

Today, Bhutan and India still remain good friends. India is still helping with financial aid for Bhutan's development projects. At the same time, Bhutan is exporting electricity to India. India and Bhutan's economy are also closely linked as Bhutan's currency is pegged to India's currency. It is important to study the economic relationship between the two countries because it is difficult to see why India would grant so many aids to Bhutan because Bhutan has not much to offer. However, when the geo-political location of Bhutan is taken into consideration, Bhutan's significance to India becomes prominent. If Bhutan were to befriend China who is at its north, Bhutan could act as a buffer which would pose a threat to India's national security. Moreover, Bhutan is too reliant on India which could become a problem in the future as there is a great imbalance in the export-import numbers.

This research paper is divided into seven sections. The first section is an introduction to the paper which includes the theories and the current economic relationship between India and Bhutan. The second section is research objective followed by research methodology. The fourth section focuses on the research findings attempting to answer the research objectives with the help of the answers from the interview conducted by the researcher. Likewise, the fifth section is mainly discussion by the researcher on the current

situation between the two countries, Bhutan as a buffer state between India and China and recommendation to maintain and strengthen the economic relationship of India and Bhutan. The sixth and seventh sections are conclusion and recommendations respectively.

1.1 Theories

Liberalism theory can be applied to understand the trade relationship between Bhutan and India better. Liberals share the assumption that people are rational and understand their interest. Particularly in the economic realm, collaboration among states can maximize benefits without jeopardizing survival. If states agree to trade freely, rather than to create protectionist barriers to trade, all can be wealthier at the same time (Anien, 2012). The Indian government has been involved in Bhutan's planned development since the first five-year plan was announced in 1961, and it continues to be the primary development partner. With the signing of a Treaty between the Royal Government of Bhutan and the Government of India in 1949, free trade and commerce between the Indian and Bhutanese territories has been practiced among the two countries, however, the first official Trade and Commerce Agreement was signed in 1972. Since then, the treaty has been modified five times first in 1983, 1990, 1995, 2006 and in 2016 (Bimal et al., 2019).

The most significant point of the Free Trade Agreement are the regulations for free trade between India and Bhutan, as well as transit access for Bhutan to trade with other countries. The increase of trade between the two countries is also due to the free trade agreement, which allows free movement of trade into each other's jurisdiction without any import charges. Bhutan is also able to trade with the rest of the globe due to the FTA's transit rights. Bhutan has been able to build on these provisions by renewing the Agreement on a regular basis and adding new entrance and departure points for Bhutan's external

commerce in India. Bhutan's economic and political success over the previous decades has been reflected in the progressive revisions made to the scope of the Agreement. The FTA has been extremely beneficial to Bhutan's trade diversification efforts, not only with India but also with other trading partners (Bimal et al., 2019).

The present Trade, Commerce, and Transit Agreement between Bhutan's Royal Government and India's Government is effective until 2026. The Free Trade Agreement (FTA) is focused to amplify the long-standing ties between the two countries and to improve the bilateral trade and economic cooperation for mutual profit and progress (Royal Bhutan Embassy, 2021b). In 2020, Bhutan's total external trade with India was Rs¹. 94.89 billion (including electricity), accounting for 82 percent of the country's total trade, while the figure without electricity was Nu². 67.18 billion, accounting for 77 percent of the country's total trade (Embassy of India, 2021).

1.2 Current economic relationship of India and Bhutan

1.2.1 Indian Assistance to Bhutan's Five-Year Plans (FYP)

Bhutan launched a series of five-year development programs in 1961 to address poverty. India has been providing financial help to Bhutan's FYPs since then. India continues to be Bhutan's primary contributor for economic growth. Till date, Bhutan has completed eleven FYP where the first two five-year plans were wholly financed by India. To provide an example, the Indian government allocated Rs. 3400 crores in aid during the 10th FYP. Project Tied Assistance (PTA) of Rs. 2000 crore was allocated to fund 71 mutually approved projects in key socioeconomic areas such as agriculture, ICT, media, health, tertiary education, school education, scholarships, urban development,

¹Rs is the abbreviation of Rupees which is the Indian currency

²Nu is the abbreviation of Ngultrum which is the Bhutanese currency

judiciary, culture, constitutional offices, and media. In addition, during the 10th FYP, the Indian government contributed Rs. 25 crores to the establishment of the Bhutan Institute of Medical Sciences (Lok Sabha Secretariat, 2014).

Bhutan is now under its 12th Five-Year Plan, which began in 2018 and will end in 2023. Bhutan has received Rs.45 billion in financial aid from India as part of its 12th five-year plan. Modi, India's prime minister, said that hydropower cooperation with Bhutan is a crucial component of bilateral ties, and that the ongoing Mangdechhu hydropower project will be completed soon (Tshedup, 2021).

1.2.2 Hydroelectric power cooperation

The hydroelectric cooperation between India and Bhutan is an excellent example of mutually beneficial cooperation, as it provides India with clean electricity while also producing export cash for Bhutan and building bilateral economic ties. Several power project agreements have been successfully negotiated between the two countries (Royal Bhutan Embassy, 2021a). The India-Bhutan hydropower cooperation began after the Jaldhaka agreement was signed in 1961. The Jaldhaka project is located in West Bengal, on the Indian side of the Indo-Bhutan border. The power generated at the Jaldhaka hydroelectric facility was largely exported to Bhutan's south (Chaudhury, 2020). The Chukha Hydropower Project (CHP), with a capacity of 336 megawatts, was a pivotal event in Indo-Bhutan hydropower relations. Bhutan's first major power project, CHP, was wholly funded by the Indian government, with a 60% grant and a 40% loan at a 5% interest rate payable over a 15-year period following commissioning. CHP's overwhelming success and financial benefits paved the door for subsequent developments. The Indian government also provided a 60 percent subsidy and a 40 percent loan to the 1,020 Megawatts Tala Hydroelectric Project, one of the largest cooperative projects between India and Bhutan (Royal Bhutan Embassy, 2021a).

The two countries established the Hydroelectric Power Collaboration Agreement (HEP) in July 2006, which lays the groundwork for future hydropower cooperation. When the previous Prime Minister of India Dr. Manmohan Singh visited Bhutan in May 2008, the two nations signed the Protocol to the 2006 Agreement which was about the concerning collaboration in the Field of Hydroelectric Power. The agreement committed to enhance the capacity of hydropower plants from 5,000 MW to 10,000 MW by 2020 (Ranjan, 2018).

The two countries also entered a “Framework Inter-Governmental Agreement” in April 2014 to construct joint venture hydropower projects through their respective public sector undertakings. The Inter-Governmental Agreement laid the groundwork for the four HEPs of Kholongchhu, Punakha, Wangchu, and Chamkharchu, totaling 2120 MW, to be implemented on a Joint Venture-model by Public Sector Undertakings from India and Bhutan, pertaining to the implementation of the due process of assessment of their Detailed Project Reports (DPRs), including techno-economic viability. This Inter-Governmental Agreement would also aid in the expediting of these four projects’ start-up and enhance bilateral hydropower cooperation (Royal Bhutan Embassy, 2021a).

Bhutan has adequate supply of water, and hydropower is a significant part of the Bhutanese economy. Bhutan-India economic cooperation is centered on India’s support for the development of Bhutan’s hydropower sector, which is one of the main pillars of bilateral cooperation. Cooperation in the hydropower sector has a lot of potential, and both Bhutan and India see it as equally beneficial. By assisting Bhutan, India’s interests in easing its power deficit are served, and Bhutan, in turn, has the chance to maximize its national income through power exports to India. This win-win situation for both parties strengthens and prolongs the relationship between the two countries (Ranjan, 2018).

These are some of the advantages and disadvantages of the Hydro-electric power cooperation:

Advantages

1. India gets clean electricity easing the power shortage at a much cheaper rate than the market price
2. It generates export revenue for Bhutan
3. Strengthens the bilateral economic linkages
4. Increases job opportunities both for Bhutanese and Indians³.

Disadvantages

1. Bhutanese have claimed that India purchases inexpensive electricity from Bhutan's hydroelectric projects. For instance, in 2017, the tariff rate on hydroelectricity imported from the Tala hydroelectric power project was Rs. 1.80 per unit which is around USD0.03 per unit, although the local market price in India was around Rs.7 per unit.

2. Bhutan's loan from India grows by 10% per year, adding to the country's debt. This has become a concern to the Bhutan government as the completion of hydropower projects are often delayed due to unforeseen circumstances.

1.2.3 Currency pegged with each other

The Bhutanese currency, Ngultrum, is presently pegged to the Indian currency, Rupees. Maintaining the currency peg is obviously critical to the Bhutanese currency's strength. Bhutanese economy and trade have benefited from currency pegs for a variety of reasons, including instilling confidence in the Bhutanese currency, lowering transaction costs, and eliminating exchange rate uncertainty, and providing a key policy factor for maintaining domestic price stability (Galey, 2009).

³It increases job opportunities for Indians as well because as the hydro power projects are funded by the Indian government, most of the time these projects are joint ventured which increases job opportunities for Indians as well.

Moving away from the currency peg has implications for the Royal Monetary Authority of Bhutan's capability to practice independent monetary policy, which in turn restricts the use of exchange rates for imbalance adjustments. However, because India accounts for the majority of trade, removing the peg would make it impossible to maintain the exchange rate. Price stability would weaken as the cost of products and services would rise. Simply put, the Bhutanese ngultrum would lose value (Rajput, 2014). While Bhutan benefits from having its currency tied to India, India benefits from a rise in its economy as a result of having Bhutanese currency pegged to theirs. This is because India is Bhutan's main trading partner, with India accounting for over 80% of Bhutan's exports. As trading with India is easier for Bhutan, the peg lowers transaction costs, allowing Bhutanese income to flow into India. Furthermore, due to the particular bilateral relationship between the two countries, India consented to the currency peg (Galey, 2009).

1.2.4 Other Areas of Cooperation

The perks of Indo-Bhutan interactions are also evident in other sectors where there is a high level of interaction, such as in education and culture. The Indian government awards roughly fifty scholarships to Bhutanese students each year to pursue higher education in India. Although Bhutan has not always supported or agreed with India in international platforms, but it has continually assisted India's role on most of the major topics. The CTBT, the construction of a nuclear-weapons-free zone in South Asia, India's ambition to be a permanent member of the UN Security Council, India's candidacies for various international organizations, WTO discussions, and India's relevance in the success of SAARC are just a few of them (Rai, 2018).

2. Research objectives

1. To identify the current situation of economic relations between India and Bhutan.
2. To identify any impact on the economic relationship between India and Bhutan with Bhutan being the buffer state between India and China.
3. To propose recommendations on strengthening their relationship

3. Research Methodology

This part will explain the research methodology which is important to complete the research objectives and questions. It contains of the type of research, data collection, criteria of the participants and its limitation.

3.1 Data collection

This research uses qualitative method to describe and enhance the general qualitative questions, reinterpret findings and also to weigh explanations. The researcher chose to conduct interview to get better understanding of the relationship between India and Bhutan. Both primary and secondary resources were used in this research to answer all the research questions. The researcher also collected data by doing interviews. As the primary source, the researcher got important information through the interview and emails that were exchanged. The interview process was conducted with three participants. One person chose to do the interview through email while the interview for the other two was conducted through zoom meeting. Since the participant was busy, the researcher could only contact the participant twice via email. For secondary sources, the data collected for this paper was from the webpage of Ministry of Foreign Affairs of Bhutan, World Bank, Embassy of India, and other journal and news articles to analyze and collect information about the economic cooperation of India and Bhutan.

3.2 Participants

Three participants were interviewed for this research. The participants were chosen based on the main criteria that they worked with the government of Bhutan mainly in the department of finance, foreign affairs, and cabinet secretariat. Other criteria were that the participants had to have work experience for the government for at least 10 years because they would have plenty of knowledge about the cooperation between India and Bhutan. This criterion is important because if the interviewee has worked with government of Bhutan for at least 10 years, then the interviewee is certain to have work experience as well as knowledge on how the cooperation between India and Bhutan works. There are two males and one female who participated to answer the research questions. The interview questions are based on the research objectives and questions. The researcher conducted the interviews from 9th of January to February 29th, 2022. The detail information of participant can be found below at table 1. In addition, the name of all participants will be anonymous to protect their identity. Thus, the researcher will use participant a, b, and c in this research.

The first participant works for the Ministry of Foreign Affairs of Bhutan. She has been working at the Ministry of Foreign Affairs for almost 10 years now and is knowledgeable in the cooperation between India and Bhutan. The second participant is the former cabinet secretary of Bhutan. Having worked as a civil servant for almost 30 years, he was able to give the researcher more insights on how the economic cooperation between India and Bhutan were maintained. The last participant was the former finance secretary of Bhutan, so he was able to provide the researcher with extra information. Civil servants who have worked for the government for a long time was the researchers main target for the interview as they had been working with the government for years, they had ample of knowledge on the cooperation between India and Bhutan.

Table 1 Participants information

No	Participants	Gender	Age	Nationality	Position
1	A	Female	40	Bhutanese	Program Officer at Ministry of Foreign Affairs of Bhutan
2	B	Male	60	Bhutanese	Former cabinet secretary of Bhutan
3	C	Male	55	Bhutanese	Former finance secretary of Bhutan

3.3 Scope Limitation

Initially, the researcher had planned to interview six people. However, only three participants agreed to participate. The other three participants from the Indian Embassy of Bhutan and the Ministry of Economic Affairs could not be contacted because it was very difficult to contact all government or state agencies during COVID-19. Moreover, the researcher tried finding people who worked for the government of India, but it was difficult to get their contact information. The researcher was able to get the contact information of a person who worked for the government of India, but the researcher was not able to get any response. In addition, during the research, Bhutan was in lockdown which immobilized the researcher from going onsite to ask those in the respected field for an interview. The researcher tried to contact people who worked for the Government of Bhutan and Government of India, but the researcher was

not able to get response from most people. Additionally, the lockdown and covid situation made it all the more challenging to conduct interview. Due to the limited time, the researcher could not wait any longer and had to go on with the research paper with the response from the three participants.

4. Research Findings

This part will focus mainly on the responds from the interviewees. There are three subtopics divided into different paragraphs.

4.1 Economic relations between India and Bhutan

This section will be divided into two parts. The first part will describe about the economy impact of India and Bhutan on each other. This part mainly revolves around how any change in India's economy is felt by Bhutan, but how Bhutan's economy is too small to have any impact on India's economy as a whole.

The second part will present the challenges in the economic relationship between India and Bhutan. This part revolves around the challenges in the economic relation between the two countries. There are mainly three challenges which are 1) difference between the GDP of India and Bhutan, 2) Inflation and 3) Hydroelectricity tariff.

4.1.1 Economy impact on each other

All three participants when asked if the economy inflation of each country had any effect on the other one gave similar answers agreeing that any economy inflation in India is felt by Bhutan as a whole but changes in Bhutan's economy is not felt by India's whole economy because the economy of Bhutan is too small to make any difference to the Indian economy. For example, participant B reported, "Bhutan's economy is based on imports, and India is its largest trading partner, so any changes in the Indian economy will have a significant impact on Bhutan's overall economy". Participant B also provided

with an example where the inflation in the Indian economy has been felt by the Bhutanese economy. The most prominent area is the change in the oil prices. Whenever there is an increase or decrease in the oil price in India, the changes are applied in Bhutan as well. Participant C also reported that when the Indian economy declines, Bhutan's economy declines as well. Participant C explained that this is due to the free trade agreement between India and Bhutan and also because India is Bhutan's biggest trading partner. Additionally, as Bhutan's currency is pegged with India, any currency fluctuation in India's economy is also felt by Bhutan.

In regards of the pegging of the Bhutanese currency Ngultrum to Indian currency Rupees, it is an ideal policy for Bhutan. The free cross border flow of labor between the countries enables the two countries to smooth out unemployment problems and equalizes wages in different countries and regions. There are more advantages than disadvantages to Bhutan pegging its currency to India (Nayak, 2022).

Participant B further reported that however Bhutan's economy is too small to make any dent to the Indian economy as a whole. As Bhutan is mainly import driven country, any change in Bhutanese economy is insignificant to the Indian economy. Although, any change in Bhutan's economy has been felt by the immediate Indian towns adjoining Bhutan. Participant B reported

This was evident during the closure of the international border with India for the past two years due to the pandemic. As a district in Bhutan named Phuentsholing and a district in India Jaigaon share borders, the effect of the lockdown in Bhutan was felt by the people living in Jaigaon which caused an impact in their local economy.

Therefore, even though the economy changes in Bhutan is not felt by Indian economy as a whole, the immediate towns adjoining Bhutan do feel some effect of the changes in Bhutan. Participant B explained that as the people in Phuntsholing were the main purchaser of the goods in Jaigaon, their purchasing market declined due to the closed borders which caused an impact in their economy. Moreover, the people in Jaigaon usually came to Phuntsholing to work during daytime which also became impossible due to closed borders, declining the earning opportunities.

4.1.2 Challenges in the economic relationship between India and Bhutan

All three participants agreed that there were three significant challenges in the economic relationship between India and Bhutan. The first challenge is the difference between their GDP. Participant B reported

One of the most significant challenges is the difference in country size, population, and, most crucially, GDP. With a population of 1.3 billion people, India has a GDP of USD 2.7 trillion, while Bhutan only has a population of 0.7 million people and a GDP of USD 2.4 billion. There is little room for trade between India and Bhutan to grow. As a result, there isn't a lot of unused trade potential between the two countries. Trying to exploit any new trade potential for India's exports to and imports from Bhutan may result in an increase in trade deficit with India, which has been a source of concern for Bhutanese officials who worry that it could lead to a Balance of Payments⁴ crisis in the future.

⁴A Balance of Payment crisis is a situation when a country is not in a position to pay even for its basic imports. It becomes tough for it to meet its external debt obligations.

Participant B claimed that if the difference of the GDP between the two countries kept increasing, it could cause a problem to Bhutan in the future.

The Bhutanese economy is concerned about the trade deficit. Bhutanese residents understand the significance of the Indian market for their country's economic development, as well as the value of examining and analyzing trade transactions between the two countries. Bhutan is concerned about a large trade deficit that could jeopardize the economy in the future. Moreover, Bhutan's economic ties to India mean that any deterioration in relations between the two countries will have a severe impact on the Bhutanese economy (Passang, 2017).

The second challenge is inflation. Participant C reported that Inflation is one of the challenges as most of the goods come from India, the price changes in India is directly passed on to the Bhutanese Economy. This causes the Bhutanese economy to be unstable as any change in the Indian economy is immediately felt by Bhutan. Participant A reported that the port of entry was another challenge. She reported for all the import and export India is the port of entry and exit. Strikes and lockdown in India affects the trade flows to and from Bhutan which causes an impact on the Bhutanese economy.

The third challenge is the hydroelectricity tariff. Participant C reported that India has financed the construction of hydro-electric projects in Bhutan with the agreement to export surplus electricity to India. However, the electricity tariff is bilaterally negotiated and is much lower than the market prices.

4.2 Bhutan as a buffer state between India and China

One of the significant reasons why Bhutan is important for India is due to its strategic location between India and China. When asked if Bhutan as a buffer state between India and China has any effect on the economic relationship between India and Bhutan, all three participants reported that it had only a little impact. Participant B and C reported that the presence of China as

Bhutan's neighbor has had an impact on the economic relationship between India and Bhutan to a certain extent. Participant C further explained that

Bhutan shares border with China on the North side. Historically, there has been some informal barter trade links with autonomous region of Tibet of China. However, due to the difficult geographical terrain, high snowclad mountain, and lack of any form of transportation links there has not been any trade links between Bhutan and China. Indeed, Bhutan does not have any diplomatic relation with China. As such, although China is the largest economy in Asia, its presence as Bhutan's neighbor has very limited impact on the economic relation with India.

Participant B also agreed and reported that the economic relationship between India and Bhutan is embedded in the Treaty of Friendship, 1949 which gave birth to a formal relation between independent India and Bhutan. Bhutan is important for India as it figures into India's security interests because of its strategic location between the two Asian giants. Therefore, China's presence as Bhutan's neighbor does not have much of an impact on the relationship between India and Bhutan. However, Participant A reported that while it was true that China's presence as Bhutan's neighbor does not have much of an impact on India and Bhutan's economy, the little impact it has cannot be ignored.

Given the shaky state of Indo-China relations, Bhutan's strategic location is crucial to India's security. As a result, whatever course Indo-China relations take in the future, it will almost certainly have an impact on Indo-Bhutan relations. While it may not be realistic to expect restoration of Indo-China relations in the near future, it should not be ruled out in the long run. Bhutan must also consider the realities of its neighboring country, China. As a result, maintaining amicable relations with China without endangering Bhutan's own relations with India is a delicate problem (Ramachandran et al, 2018).

Participant A further provided with an example of an article to illustrate the little impact China has over the relationship between India and Bhutan. She reported that in 2013 when the then Prime Minister of Bhutan Jigme Y Thinley had meetings with Chinese officials and imported buses from China, the Indian Oil Corporation stopped supplying subsidized gas and kerosene to Bhutan after it had received a notification from the Indian government stating that it would not reimburse the funding of fuels supplied in Bhutan. Participant A stated that this incident highlighted Bhutan's dependency on India (Business Standard, 2013). Participant A also provided with an example of the Doklam issue in 2017 where there were two months of standoff between the Chinese and Indian troops at the disputed Doklam area. Doklam is a disputed area between China and Bhutan and due to its strategic location, the area is important to all three countries. The Indian troops came as an aid to their Bhutanese counterparts. Participant A claimed

It cannot be denied that due to Bhutan's location as the buffer state between India and China, it has strengthened the relationship between India and Bhutan. However, it can be a double-edged sword because in the future, if Bhutan forms any form of diplomatic relationship with China, it could affect India-Bhutan's bilateral relationship as well the economy of Bhutan.

Therefore, the participants agreed that Bhutan as a buffer state between India and China did not have much of an impact on the relationship between India and Bhutan but however participant A highlighted that the little impact it has should not be looked over. Thus, Bhutan as a buffer state between India and China has strengthened the relationship between India and Bhutan. However, it can be a double-edged sword for if in the future Bhutan plans to form diplomatic relationship with China, it could hamper its bilateral relationship with India.

4.3 Future perspective

All of the participants agreed on one future perspective which was that the economic relationship of India and Bhutan will keep on strengthening further in the future. Participant A reported that Bhutan-India relations is based on mutual trust, respect, and cooperation, and as long as it is continued in the same spirit, the ties between the two countries will keep growing.

Participant B also agreed and reported that India and Bhutan have a free trade agreement which provides a very liberal trading arrangement with India. India's support to Bhutan's hydro-power development is the hall mark of Bhutan and India's mutually beneficial economic venture. He then added that Bhutan and India's friendship has been time tested and proven over the last 7 decades and can be sustained in the future. Participant C reported

Bhutan and India share a special bilateral relationship. The friendship is based on trust and respect for one another despite the difference in size, economy, and population. We have common borders with shared interests. The relationship is deepening with the increased number of exchanges of high-level visits, development assistance and trade flows. As such, the good relationship will continue in the future.

Thus, all three participants agreed that due to their history and trust on each other, the relationship between India and Bhutan will be sustained and grow further in the coming years.

5. Discussion

In this section, the researcher will analyze the current situation of the economic relations between India and Bhutan and if there are any effects of Bhutan as the buffer state between China and India on the relationship between

India and Bhutan. Furthermore, recommendations to strengthen the relationship between India and Bhutan will also be given. The discussion is based on the research findings and secondary sources.

5.1 Current situation of economic relations between India and Bhutan

Today, India and Bhutan continue to maintain their economic relationship through diplomacy. The two countries continue to peacefully negotiate and implement policies which are to their best interests. For instance, the Prime Minister of India, Modi started a new initiative known as 'Bharat to Bhutan' which examines at the new and emerging areas of India-Bhutan diplomatic ties. To maintain the long-term relationship between India and Bhutan, the Indian government stressed the importance of capacity-building and decided to broaden and diversify cooperation in areas such as education, space research, information technology, digital payments, disaster management, and other areas (Sharma, 2020). Bhutan's devotion to India is due to the activities by the Indian government, which demonstrate their regard and value for Bhutan. Bhutan's neutral geopolitical standing, despite receiving offers from China over territorial disputes, demonstrates Bhutan's allegiance to India.

All three participants agreed that currently the relationship between India and Bhutan is growing steadily. India continues to remain Bhutan's top trading partner, both in terms of export and import. As per the Royal Government of Bhutan's official statistics, the total trade between India and Bhutan in 2020 was recorded as RS.94.89 billion. India accounted for 82% of Bhutan's overall trade (Royal Bhutan Embassy, 2021b). Liberalism theory can also be used to understand the trade relations between India and Bhutan. Both India and Bhutan understand and realize the economic benefits they gain through trade with each other thus they have established FTA which has improved and increased the trade between India and Bhutan.

However, Participant B pointed out that due to the rise in India's economic liberalization, Bhutan was losing its secured status in relation to trade with India. Even though the relationship between the two countries have been maintained steadily, Participant B reported

With India's economic liberalization on the rise, Bhutan is losing its secured status in relation to trade with India. With the change in India's tariff structure and subsidy policy revision, Bhutan risks losing out their Indian market share if they cannot be competitive. The effects of these have already been felt in Bhutan by the phasing subsidies and decreased budget assistance.

Nonetheless, Participant C reported that Bhutan lies at the heart of India's two principal foreign policies: neighborhood First and Act East. India places a special emphasis on its Neighborhood First Policy and its largely tension-free relationship with Bhutan. He stated, "India and Bhutan's relationship is still stable with their currencies being pegged together and with India being Bhutan's largest trading partner." Thus, the participants concluded that while there were some concerns like how Bhutan is losing its protected status in the relation to trade with India, due to the tight connection between the two countries, the relationship is still stable today.

Moreover, with Bhutan and India's currency still pegged together, it is easier for the two countries to carry out export and import businesses with low transaction costs without any hindrance of exchange rate which has helped to strengthen the relationship between India and Bhutan. In addition, due to the success of the past hydropower projects, both India and Bhutan agreed to additional projects which are still ongoing. These hydropower projects are one of the most successful cooperations between the two countries where they mutually benefit from each other. Due to the triumph of the economic coopera-

tions, both India and Bhutan are looking into other areas where they can form a cooperation (Nayak, 2022).

Additionally due to COVID, changes in the economy have been felt by both India and Bhutan. India's GDP fell by 24.4 percent from April to June 2020, whereas Bhutan's GDP fell from 178.56 billion to 171.51 billion in 2020. Bhutan's reliance on only one major commercial partner, India, has resulted in spillover effects from the neighboring country's inflation, recession, and political instability. In 2020, India was Bhutan's top trading partner, accounting for 82.6 percent of the country's overall commerce. Even in January 2022, trade dynamics with India have gotten problematic due to the lockdown in Bhutan's commercial hub, Phuntsholing. On the Indian side, the Alipurduar district of West Bengal serves as the border checkpoint, with Jaigaon serving as the crossing point. Normally, 600 to 700 vehicles pass over to each side every day, allowing for smooth mobility of people, but this has been halted in recent years, affecting trade (Nayak, 2022).

5.2 Bhutan as a buffer state between India and China

One of the key reasons why Bhutan is important to India is due to its strategic location between the two Asian giants, China, and India. The Chinese invasion of Tibet in 1950, as well as China's refusal to recognize India's border line, increased the relevance of Himalayan buffer states like Bhutan (Economic Times, 2021). Bhutan is significant to India because of its strategic placement between the two Asian powers, which plays into India's security interests. This has become even more obvious as a result of the tense condition of Indo-China ties, and it is critical for India that areas critical to its strategic interests remain free of foreign influence (Kumar, 2019).

Participant A reported that the Doklam issue in 2017 highlighted Bhutan's significance to India and its stance as a buffer state between China and India. She stated, "The Indian troops came to the aid of the Bhutanese troops not

only because of the friendly relations between India and Bhutan but mainly because it concerned the safety of their national interests as well.”

In 2017 there were two-month standoff between Chinese and Indian troops at the disputed Doklam area. As shown in Figure 2 below, the geographical location of Doklam makes it crucially important area as it is located between Tibet’s Chumbi valley to the North, Bhutan’s Haa valley to the East and India’s Sikkim to the West. The friction was caused in 2017 when Chinese troops attempted to build a road in the area, which Indian troops, in support of their Bhutanese peers, disapproved, which developed in a standoff. The Doklam region has a significant military advantage, and if it falls under Chinese control, both Bhutan and India’s security would be threatened (India Today, 2018).



Figure 2 A Geopolitical rivalry between India, China, and Bhutan (Senthilkumar, 2019)

Bhutan’s involvement in the Doklam conflict between India and China indicates the country’s tough stance and ability to sustain the status quo in the face of Chinese intrusions. This event illustrates its commitment to India’s security interests in an area where they are not equally strategic (Kumar, 2019). As a result, Bhutan’s geographic location and political attitude are crucial to India’s strategic interests, and the country’s special relationship with Bhutan must be protected. Participant A also reported that Bhutan is an important

aspect of India's foreign policy because it is the only neighboring country that is not affected by China, making it vital.

Thus, it is plausible to state that one of the reasons why the relationship between India and Bhutan has strengthened is due to Bhutan's strategic location. Bhutan as a buffer state between China and India does not have big of an impact on the economic relationship between India and Bhutan. This is because Bhutan and China never have any official diplomatic relationship until now. That is why there is not much of impact of China on Bhutan (Thinley, 2021).

However, while there may not be a big impact of China on India-Bhutan relations, the little impact that it has cannot be ignored. As reported by Participant A above, the effect of if Bhutan were ever to develop any diplomatic ties was felt when the then Prime Minister of Bhutan Jigme Y Thinley had unofficial meetings with Chinese officials and imported buses from China, the Indian Oil Corporation stopped supplying subsidized gas and kerosene to Bhutan after it had received a notification from the Indian government stating that it would not reimburse the funding of fuels supplied in Bhutan. Even though the Indian government did not mention that this action was due to the unofficial meetings with China, it is safe to say that it played a part in the making of the decision. The dependency of Bhutan on India was felt then due to the incident. Thus, while the impact may not be big, it still cannot be ignored (Kharka, 2018).

5.3 Proposing recommendations

India and Bhutan share a remarkable, long-standing friendship based on respect and genuine friendliness and understanding. In this section, there are three recommendations based on the interview conducted and literature review.

The first recommendation is to enhance bilateral trade which was recommended by Participant A. She mentioned that both sides should discuss

the regulatory and administrative criteria that must be met when exporting/importing any goods, so that delays in the trade process, particularly those connected to satisfying standards or regulatory requirements, can be minimized. At the same time Participant C recommended that to boost trade, both countries should expedite their trade regulations. New technology such as integration of computerized customs systems, electronic data sharing, automated risk management, automated border procedures, and other associated digital customs and trade facilitation projects could be used to accomplish this.

The second recommendation is that Bhutan should look in other areas to grow the country's revenue and not rely heavily on India and India should take steps to resurrect investment in Bhutan in a way that is advantageous to both sides recommended by Participant B. He reported that Bhutanese are concerned about the country's growing trade deficit with India, which they believe could lead to a future Balance of Payments crisis. Bhutan depends heavily on Indian investment and electricity and mineral exports to India to keep its balance of payments under check. However, Indian FDI into Bhutan has decreased dramatically in the previous three to four years so it is recommended that India take steps to resurrect investment in Bhutan.

The third recommendation is that India and Bhutan must try to maintain their diplomatic relation and counter China together as China is a concern for the both the countries. Participant C recommended this due to the tension in the border between China and Bhutan. As India and Bhutan already have diplomatic ties and a good relationship it would benefit both the countries both economically and security wise if they maintained the relationship.

6. Conclusion

To conclude, through this research paper it became clear that India and Bhutan have been maintaining their relationship for the past few decades through a diplomatic relationship. They have formed economic relationship

where they benefit mutually from it and moreover, their cooperation is based on mutual trust and respect for each other. Their cooperation over the hydro power electricity where India provides loans for Bhutan to build the Hydropower plants and Bhutan in return sells surplus electricity to India at a cheaper rate than the market rate is one of the most prominent economic cooperation between them. Moreover, India and Bhutan have Free Trade Agreements which makes it easier for the two countries to trade goods and services. In addition, with their currencies being pegged to each other, it makes it easier for the two countries to maintain and expand their economic cooperation. These factors have made it possible for India and Bhutan to strengthen and sustain their relationship.

There were mainly three recommendations recommended by the participants. The first recommendation was to enhance the bilateral trade between the two countries so that delays in trade process can be minimized. It was also recommended to expedite trade regulations using integration of computerized systems and trade facilitations. The second recommendation was to grow Bhutan's country revenue and not heavily rely on India. This was recommended due to the growing concerns over the balance of payment crisis in the future. The last recommendation was for Bhutan and India to maintain their diplomatic ties so that they can counter China as China is an issue of concern for both the countries.

Finally, it was understood through this research that while Bhutan as a buffer state did not have a big impact on the relationship between India and Bhutan, it did have little impact which has helped strengthen the relation between India and Bhutan. Due to its location, Bhutan has become important to India's security interests which has allowed the friendship between India and Bhutan to grow. However, as Bhutan's economy is greatly affected by India, if in the future Bhutan plans to form a diplomatic relationship with China, it could have a great impact on its relationship with India and have a great impact on the country's economy.

7. Recommendations

The following are some of the recommendations to strengthen the relationship between India and Bhutan.

1. As hydropower electricity projects are one of the successful cooperation between India and Bhutan, they should consider building storage dams to store water. Currently, the hydropower electricity dams do not store water which affects the production of energy in different seasons. Thus, if a dam where the water could be stored is built, the excess water in summer would not go to waste and there would be enough water to generate electricity in winter as well which would bring extra export revenue to Bhutan and electricity to India.

2. As the import-export rate is imbalanced for Bhutan, Bhutan should try to balance the import-export percentage.

3. India and Bhutan should maintain their friendship because for Bhutan, India is a great financial aid for their development and Bhutan is important for India's security interests therefore it would be wise to maintain the bilateral relationship.

4. It would be beneficial if the two countries could expand their trade and explore other forms of economic cooperation such as informational technology.

5. As the tariff that Bhutan sells the electricity to India is much cheaper than the market price while the loan interest for Bhutan is much higher, India should either decrease the loan interest or buy electricity for a bit of a higher price but cheaper than the market price.

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