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# ANALYTICAL STUDY OF INDIA-BHUTAN ECONOMIC AND HYDRO-ENERGY COOPERATION (1997–2010)

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**ABSTRACT**

*Bhutan, a strategically located landlocked country nestled between India and China, enjoys a unique historical distinction—having never been colonised by any major foreign power. A notable characteristic of Bhutan, distinguishing it from many other ancient states, is its abundant natural resources, particularly its rivers, which hold immense potential for hydroelectric power generation. Over the years, this sector has become the cornerstone of Bhutan's economic development. In parallel, India, with its growing energy demands, has become increasingly dependent on importing hydroelectricity from Bhutan. This paper aims to explore the evolution and impact of the economic and hydro-energy cooperation between India and Bhutan from 1997 to 2010.*

**KEYWORDS**: *Bhutan, India, Hydro-electricity, Economic Cooperation, Trade*

## INTRODUCTION

The relationship between India and Bhutan has evolved significantly, particularly since the colonial era. The bilateral framework began with the Treaty between British India and Bhutan, signed in 1910, which laid the foundations for political and economic interactions long before India's independence. Following independence in 1947, India assumed the role once held by Britain, continuing the formal relations between the two countries through the Indo-Bhutan Treaty of Friendship in 1949. This treaty, which has been subject to revisions over the decades, was further updated during the visit of His Majesty King Jigme Khesar Namgyel Wangchuck to India in 2007.

Despite entering into the 1949 treaty, Bhutan maintained a policy of isolationism until 1959, largely owing to its historical avoidance of colonialism and imperialism. The landmark visit of Prime Minister Jawaharlal Nehru in 1958 marked a pivotal shift in Bhutan's approach to international relations, prompting it to recognise the importance of engaging with the global community for its development. In the wake of this shift, Bhutan entered into discussions with India's Planning Commission to craft its first 'Five-Year Development Plan', and in 1959, India agreed to provide both technical and financial assistance for the construction of key infrastructure, including all-weather roads. This marked the beginning of more profound economic cooperation between the two nations. Furthermore, the economic and hydro-energy cooperation between India and Bhutan remains the bedrock of their bilateral relations, providing Bhutan with vital revenue streams from electricity exports while enabling India to secure a reliable source of renewable energy. This study examines the period between 1997 and 2010, a critical phase in India-Bhutan relations, to understand the dynamics of this cooperation and its broader implications for both nations.

### Emergence of Bilateral Relations

The economic cooperation between India and Bhutan began to take tangible form in the 1960s, following Nehru's 1958 visit. Over subsequent decades, India played a pivotal role in Bhutan's development, providing significant assistance across several sectors, including education, health, infrastructure, and agriculture. The country's economic trajectory was heavily shaped by Indian financial and technical support, particularly in the construction of critical infrastructure. India's contribution to Bhutan's early Five-Year Plans, including funding for the first two plans, significantly impacted the country's socio-economic landscape.

Prominent infrastructure projects funded by India during this period include the construction of Paro Airport, Bhutan Broadcasting Service, major highways, electricity distribution networks for Thimphu and Paro, the Indo-Bhutan Microwave Link, exploration of mineral resources, and hydropower projects such as Chukha and Kurichu. These efforts laid the groundwork for Bhutan's modernisation and integration into the regional economy. Further

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initiatives included the construction of railway links, the expansion of agricultural infrastructure, and the establishment of healthcare facilities, all of which contributed to Bhutan's growth.

**Economic and Hydro-Energy Cooperation (1997–2010)**
The period between 1997 and 2010 marked significant strides in the economic and hydro-energy cooperation between India and Bhutan. In Bhutan's Eighth Five-Year Plan (1997–2002), India contributed an impressive Rs 1,050 crore in development assistance, accounting for approximately 41% of Bhutan's total external aid during this period. Noteworthy projects completed during this phase included the construction of the Pasakha-Manitar Bypass Road, the renovation of the Punakha Dzong, and the establishment of the Eastern Grid Transmission Line, which significantly boosted Bhutan's energy infrastructure.

During the Ninth Five-Year Plan (2002–2008), India's contribution to Bhutan's development soared to Rs 2,610.14 crore, a sum that included Rs 907 crore for project-tied assistance, Rs 820 crore in programme grants, as well as various subsidies and refunds. Major achievements in this phase included the construction of a 350-bed JDWNR Hospital in Thimphu, a regional referral hospital in Mongar, ten new schools, the creation of 360 low-income housing units, and the double-laning of key roads, such as those connecting Thimphu-Phuentsholing and Paro-Chuzom.

For the Tenth Five-Year Plan (2008–2013), India committed a substantial Rs 3,400 crore. This encompassed Rs 2,000 crore for approximately 70 projects in critical socio-economic sectors, including agriculture, ICT, media, health, education, and infrastructure. An additional Rs 700 crore was allocated for programme grants, and Rs 700 crore was reserved for smaller development initiatives. Major projects included the construction of the Supreme Court building, strengthening constitutional offices such as the Royal Audit Authority and Election Commission, and expanding tertiary education institutions. Infrastructural development, particularly the construction of roads and exploration of natural resources, continued under the leadership of Indian agencies such as the Border Roads Organisation (BRO) and the Geological Survey of India (GSI).

**Bilateral Trade and Economic Cooperation**
India remains Bhutan's most significant trade partner, and the economic relationship between the two countries has deepened considerably over time. For instance, Bhutan's imports from India increased from Rs 12.80 billion in 2005 to Rs 23.3 billion in 2009, constituting 75.1% of Bhutan's total imports in 2005, which further increased to 80% by 2009. Similarly, Bhutan's exports to India grew from Rs 9.97 billion in 2005 to Rs 20.5 billion in 2009, representing 87.5% of Bhutan's total exports in 2005, which rose to 94% by 2009.

The India-Bhutan Trade and Commerce Agreement, extended for another ten years in 2005, continues to facilitate free trade between the two countries, including the duty-free transit of Bhutanese goods destined for third countries. Key access points in India—seaports such as Kolkata, Haldia, Mumbai, and Chennai, along with air routes (New Delhi, Chennai, Mumbai, and Kolkata) and land routes (Raxaul, Panitanki)—have been vital for Bhutan's trade with the outside world.

Bhutan's primary exports to India include hydroelectricity (generated by the Tala, Chukha, and Kurichu Hydroelectric Projects), base metals, minerals, vegetable oils, alcoholic beverages, cement, timber, fruit products, and raw silk. Conversely, India's exports to Bhutan include petroleum products, machinery, automobiles, spices, processed food, and chemicals.

**Hydro-Energy Cooperation**
The partnership in hydro-energy remains the cornerstone of Indo-Bhutan relations. In 2007, both nations signed an agreement to build the 1,095 MW Punatsangchhu-I Hydroelectric Project, marking a significant step in their energy cooperation. Bhutan has also entered into agreements for several other hydropower projects, including Punatsangchhu-II, Mangdechhu, Amochhu Reservoir, and KuriGongri. By 2020, India had committed to purchasing up to 10,000 MW of hydroelectric power from Bhutan, with numerous projects under development to meet this ambitious target.

The successful implementation of these projects has strengthened bilateral ties in the energy sector. In 2009 and 2010, both nations signed agreements to update Detailed Project Reports (DPRs) for various hydroelectric

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projects, such as the Amochhu Reservoir and Kholongchhu. Furthermore, agreements concerning the implementation of the Punatsangchhu-II and Mangdechhu projects were finalised during the South Asian Association for Regional Cooperation (SAARC) Summit in 2010, further underscoring the growing significance of energy cooperation between India and Bhutan.

## CONCLUSION

The election of Prime Minister Narendra Modi in 2014 heralded a new era in India-Bhutan relations. Modi's first foreign visit as Prime Minister was to Bhutan, underscoring the strategic importance of this bilateral relationship. Since then, high-level political exchanges have continued, further strengthening the cooperation between the two countries. In 2019, leaders from the BIMSTEC countries, including Bhutan, attended Modi's second swearing-in ceremony, symbolising the deepening of cooperation within the South Asian region.

These political engagements, coupled with sustained economic and hydro-energy cooperation, have solidified the enduring friendship between India and Bhutan, marking a new chapter in their bilateral ties in the 21st century.

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