



AN AGENDA FOR THE NEW GOVERNMENT **POLICY OPTIONS FOR INDIA IN BHUTAN**



Medha Bisht

Assistant Professor, South Asian University, New Delhi

Given that fifty percent of the population is young and economically Bhutan seems to be opening up, a new generation of Bhutanese youth seem to be emerging. The key to India-Bhutan relations, would depend on the engagement and experiences of this age group. How the 'new' Bhutan shapes up, is therefore a question of some reckoning and interest. Internal political structures, democratic institutions, role of the King however are key actors that will be steering the course for democratic Bhutan in the coming years.

If one was to gauge India-Bhutan relations and trace the evolution and pattern of bilateral relations between both countries, a three tiered analyses of polity, economy and security becomes essential.

These three yardsticks are most essentials they are the edifice of India-Bhutan relations. While there has been more continuity than change in each of these pillars, there are certain emerging patterns which need to be taken care of.

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INDIA AND BHUTAN: MAJOR ISSUES

While hydro -power cooperation, is the primary issue area which has been governing bilateral relations between Bhutan and India, it has had political repercussions. Not only bilaterally but primarily domestically. While economically, Bhutan's witnessed an impressive economic growth of more than 6 percent (average), for the last five years, it has nevertheless also experiences a severe rupee crunch syndrome, which has been an issue of public debate quite some time.

Ms Medha Bisht is Assistant Professor, Department of International Relations, South Asian University, New Delhi. This policy brief is part of an IPCS series on foreign policy titled 'An Agenda for the New Government'



Meanwhile, on the security front, silhouettes of a triad is emerging. The axes of this triad are China, Bhutan and India. This is particularly interesting because, China (though) silently has indeed made its inroads into Bhutan. The footprints of these inroads are not as much visible physically, as they are discursively, thus belonging to a more ordain perceptual category.

POLITICAL ISSUES

In the political relations between Bhutan and India, there has been more convergence rather than divergence of interests. While democracy has taken roots in Bhutan, the primary reason for its success has been strong institutions, which were strengthened over a period of time. When the fourth King institutionalized democracy in 2008, little had one expected that the first term of democratic experience will end in political defeat of DrukPhuensumTshogpa (DPT), a party donned by veteran politicians. DPT generated a controversy in Bhutan by initiating a debate on the land bill, Gross National Happiness, and hydro power projects. However, the reflection of these debates were not felt at the bilateral level. It was only during the second round of elections in Bhutan in the summer of 2013, that India was roped into the domestic debates and 'interference' by India was publicly discussed.

However, New Delhi has been following its policy of closely consulting the King on most matters of political importance. TseringTobgay's first visit was to New Delhi, after he was elected as the prime minister of Bhutan, during the second democratic elections. The thrust of the visit was primarily economic. While India-Bhutan agreed to take the power cooperation forward, with India committing to develop another 10,000 MW by 2020. During the visit India also promised an assistance package for Bhutan's 11th Five Year Plan for the period July 1, 2013 to June 30, 2018.

As has been agreed by both parties, India will contribute Rs 4500 crores towards Bhutan's 11th Plan, as well as Rs. 500 crores towards an Economic Stimulus Package (India-Bhutan Joint Press Statement 2013). While the credit line has been welcomed in Bhutan, the real challenge as TseringTobgay stated in one of the interviews was to make Bhutan self-reliant rather than self-sufficient (The Hindu 2013).

The fifth King visited India, in the first week of January 2014. While the bilateral visits between India and Bhutan have increased and are held in regular periods to maintain cordial relations, there is a need to deepen it at the people to people level. The prime minister's visit to FICCI, ASSOCHAM and CII during his New Delhi visit was perhaps steps towards this direction. Political relations, however are not confined to bilateral visits at the highest level. They however are all inclusive and are informed by multi-faceted interaction.

Given the nature of Bhutan's domestic political parties, India-Bhutan economic relations are particularly important. If one looks at the manifestos of various political parties, good governance is a key area of concern, and there is little on ideological divides. Since good-governance is the key area around which political parties have mobilized their constituencies, the India factor is certainly important and as domestic debates in Bhutan have revealed, India has

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been featured as a primary actor in Bhutan's economic development. How various constituencies emerge on the ground, on account of the 'trickle-down effect', are benefited from the Indian aid is therefore important.

ECONOMIC ISSUES

A great shift in Bhutanese economy is that it is on the verge of opening up. Recently, during the question hour session of the National Assembly, which was held on February 18, 2014, the issue of "ease of doing business" in Bhutan was raised (The Bhutanese 2014). While the interest to open up has been articulated in the domestic circles for the past few years, Bhutan meanwhile has been taking a gradualist approach. Since 2010, preparations have been underway in Bhutan to expand and liberalize investment policies. For instance the Foreign Direct Investment (FDI) Policy and the Economic Development Policy were released, where by achieving self-reliance was identified as the key goal.

In 2012, rules and regulations related to FDI were passed, which established the key criteria for doing business in Bhutan. While the roles of key committees and respective power of the department were established, coordination between different departments, infrastructure development, would be the key to facilitate and invite investment. Also a significant negative list was inserted, which includes (a) media and broadcasting (b) distribution services including wholesale, retail and micro trade (c) Mining for sale of minerals in primary or raw form (d) hotel 3 star and below (e) general health services amongst others (Ministry of Economic Affairs 2012).

In early 2013, the Economist described Bhutan as fifth fastest growing economy, with a GDP growth rate of 8.5 percent. However there is an over-reliance of the economy on the hydro sector. How this growth was adding to inclusive development has also been a cause of concern. Diversification of the economy to generate jobs which can absorb the youth of

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Bhutan has emerged as a single most area of concern. One of biggest challenge which has been posed to Bhutan is the rupee crunch issue. The rupee crunch can best be defined through the classic demand-supply logic—that is, the supply of rupees has not been able to keep pace with the demand for rupees. This is not something new. Liquidity crunch has been haunting Bhutan for the past few years, but it has managed it so far with Indian intervention. For instance, in March 2009, India extended a standby credit facility of Rs. 300 crore to help Bhutan overcome the rupee crunch. In 2011, this limit was increased to Rs. 600 crore. Similarly, in June 2012, in the wake of the rupee crunch crisis, India offered Bhutan a Rs. 10 billion credit line with an interest rate of 5 per cent per annum. However, these credit facilities are proving inadequate to cater for the continuing increase in rupee outflow and the resultant rupee crunch.

The reasons for the rupee outflow have been attributed to factors such as high capital expenditure, growth of Bhutan's private sector leading to an expansion of private loans, and inappropriate (cross border) trade practices adopted while importing and exporting goods to and from India. At the same time, those from Bhutan's business community in particular argue that the main reason for the rupee crunch is the nature of India's economic intervention, which is having the effect of making Bhutan' excessively dependent on 'auxiliary economy' (Bisht 2012).

Some of the reasons responsible for rupee crunch have been appropriately summed up by Tenzing Lamsang, the founder of the Bhutanese newspaper. He writes, the primary reason for the rupee crunch was that “the rupees for the (mega) projects are paid only after a few months and in the meantime Bhutan has to spend its limited rupees creating a shortage.”

He further writes, “the huge mega projects have also created a huge auxiliary demand in the economy whereby Bhutanese contractors and private individuals have rushed to buy heavy equipment for the projects further draining scarce rupee from the economy. The huge loans taken by various contractors and individuals for the equipment have also contributed to banks running low on credit.” He notes that “though the rupee and credit crisis in Bhutan have other reasons the construction of mega projects is becoming a bigger factor by the day in Bhutan’s Rupee and Credit crisis. The same rupee shortage deficit phenomena was seen when Tala project was under construction and the same is being repeated with the ongoing construction of Punatsangchu I and II and Mangdechu projects. The projects in short are leading to an artificial overheating of the economy during its long construction period and are also sucking the rupee and credit out of financial institutions to the detriment of other sectors of the economy (The Bhutanese 2013).” These words succinctly sum up the concern, which is at an incipient state in Bhutan.

Given that there is small business class which is emerging and debates like these are doing rounds in Thimpu, attention perhaps needs to be paid to this factor. While economic security has been an emerging issue area of concern in Bhutan, national security in recent years has also emerged a major area of Bhutan.

SECURITY ISSUES

The China-India-Bhutan triad has become the centre of many conversation. The roots go back to the much talked about Rio +20 summit at Brazil on June 21, 2012, when the then Bhutanese premier met Chinese premier Wen Jiabao, at the sidelines of the summit. The media picked up the conversations of Thinley and Wen.

While the former was noted as saying that China was ready to forge diplomatic relations with Bhutan, complete border demarcation at an early date and strength exchanges in various fields, the latter described the visit as of “great historic significance, as it marks the first meeting between the heads of the two government... Thinley was further quoted as saying, Bhutan firmly sticks to the one-China policy, and has strong desire to strengthen understanding of and friendship with China. Bhutan wishes to forge formal diplomatic ties with China as soon as possible, and is willing to settle border issues with China in a cooperative manner, enhance bilateral economic and trade cooperation...” (IPA Journal 2012). While the official mouth piece of Bhutan, the Kuensel, totally ignored the issue, a popular daily, the Bhutanese, neutralised the sensation being built around the controversy, by mentioning categorically, on the basis of a Press Release issued by the Prime Minister’s office, that the “local Chinese media had misreported that Bhutan and China will establish diplomatic ties.”

Even before, the dust settled on this episode, a controversy about certain tenders being qualified to procure Chinese buses brought the China factor to the fore. According to a media source, in July 2012, a tender was given to Global Traders and Gangjung (GT), which is

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a supplier of Chinese vehicles. Significantly, the company's owner is the Bhutanese Prime Minister's son-in-law. While there has been some controversy about the transparency of the tendering process, the mandated authority, Bhutan Post Corporation Limited (BPCL), publicly stated in a clarification letter that TATA city buses—imported from India by Samden Vehicles (SV)—had started giving problems in their first year of operation. Though SV challenged the final decision of BPCL, the episode was however symbolic of Bhutan's interest in Chinese goods and also was suggestive of China's influence on various stakeholders in Bhutan's domestic politics (Bisht 2012).

A month after on August 10, 2012, both countries met for the twentieth round of border talks. The talks were significant. Vice Foreign Minister Fu Ying, was quoted in the media, "China and Bhutan, linked by adjoining rivers and mountains as well as similar cultures, have maintained political engagement and witnessed steady growth of trade activities in recent years. The two neighbors have also deepened cross-cultural exchange and understanding and cooperated well in international affairs. China appreciates Bhutan's stance on the one-China policy and is willing to seek common prosperity with Bhutan." (Sina.com 2012) The underlying tenor of Sino-Bhutan talks was to build bridges of friendship and cooperation. Fu, in a letter published in the official daily stated, "We (China) are willing to work with Bhutan towards early establishment of diplomatic relations. The border dispute between the two countries does not cover a wide area. The two sides should speed up border talks in the spirit of mutual understanding and accommodation, with a view to arriving at a fair and reasonable and mutually acceptable solution. This will contribute to peace and stability in our border areas. We are ready to encourage Chinese businesses to expand their exports to Bhutan and welcome more people-to-people exchanges and tourism, which will help increase the mutual knowledge and friendship between our two

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people. We believe that Bhutan is well-placed to grasp the opportunity of the development of China and India and benefit from the great historical renaissance of Asia. Maximizing these opportunities will help Bhutan open up a new era of development." (Ying 2012)

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A year later, on June 2013, Bhutan News Service, carried an article, on the presence of three PLA camps inside Bhutanese territory since May 2013. The author also claimed that from May 25 to October 5, 2013, Chinese PLAs entered Bhutan and operated a military camp. Noting that until 2010, the area of Bhutan was 46,500 sq. km, since 2010, Chinese intrusion resulted in seizer of 8,229 sq. km from the northern belt of Bhutan, downsizing the country's area to 38,390 sq. km. (Bhutan News Service 2013)

Since the twenty-first boundary talks were held in the same month, last year, it was significant that the talks witnessed a shift from the disputed North-Western area, close to Siliguri corridor to central parts of Bhutan, which is the Jakarlung and Pasamlung valley. This shift and development, could be significant, as it raises question on whether some understanding has been reached in the

North-Western areas. These facts as they appeared in the media, forces the analyst to ask two simple questions:- Have Bhutan-China border negotiations already reached some political compromise, or is it that Bhutan is now surrendering slowly to Chinese claiming tactics on its North-Western border with China?

Given the contours of India-Bhutan –China border discourse, there are clues here, that there is a pattern in making. How the new government handles these sensitive issues is therefore a question of some reckoning.

II DOMESTIC POLITICS OF BHUTAN & OPTIONS FOR INDIA

Understanding Bhutan's key foreign policy developments will however be incomplete without taking into account its domestic developments. The 2013 elections were indeed an insightful eye-opener for understanding Bhutan's democratization process. A not much talked about factor in the 2013 elections in Bhutan is the role of the King. The unpredictable turn that the elections took after the first round perhaps offers a clue. Is monarchy just a symbolic institution in Bhutan, a detached player in the political affairs of Bhutan?

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outcome, one cannot miss the role of the monarchy. Bhutan is the top most priority for India which is overlooked by the foreign secretary of India himself. Given that the 'timing' of the decision was crucial and sensitive, India would have not overtly taken the principled stand it took, to revoke the subsidies on certain key items in Bhutan.

The domestic debates took place before the elections highlight the friction between the monarchy and the DPT. The DPT convention, which took place in Thimpu highlighted a few critical factors. One of the issues that came to the fore was allegations held against the Palace Secretariat and the Army, accusing them of a non-ethical role in Bhutan's politics. Since, the army is headed by the King himself, critical conclusions can be drawn from this. Interesting, while these issues have not been discussed much, there has been less political activity in Thimpu post 2013 elections.

The media has been less assertive. The critical approach it had taken against the government and the political news columns that had animated the political space in Bhutan, seems to be absent. Perhaps, sometime has been given to the ruling government, to prove its worth.

LEVERAGES AND STRENGTH

Leverages and Strengths are an important aspect of a country's foreign policy. While, both ideally should speak to each other, often it does not translate into reality. For instance, given the geographical location that Bhutan has with India, it can be used as a leverage. This has been the case and primarily given the tenor of Indo-Bhutan diplomacy, it will not be an exaggeration to state that 'diffused reciprocity' has played an important role, whereby trust has been created over time.

While South, has been the gateway for Bhutan to India, and given that the industrial belt lies in South Bhutan, interaction with

India has been facilitated by natural features. The economic importance of the railroad from Gyantse to Phari (in the sensitive Yatung county, where Chumbi valley is located) is an issue which requires attention. It is well known that Phari was a traditional trading hub for Bhutan, and is about an eight-hour walk from the Bhutan-China border (IPA Journal 2012). This as many have been arguing should be leveraged by Bhutan.

India need not take geography for granted. It is therefore needed that India is sensitive to the needs to the small business class that is emerging in Bhutan. It is required that India interact periodically with the Bhutan Chambers of Commerce and Industry. It is important that Indian policy makers hold separate meetings with the Bhutan Chambers of Commerce and Industry. Given that Bhutan is on its way to democratization, the number and variety of stakeholders in that country are increasing. The interaction base of Indian policy makers should likewise increase. There is also a need to focus on technological up-gradation. Indian companies should be mindful of not squeezing the space for their Bhutanese counterparts and technological up-gradation should also be kept in mind as investment progresses in various sectors. Many in Bhutan have also been arguing of importing very conventional development techniques from India, which should not be the case.

Trust factor is another element which has been an area of strength between both the countries. Efforts should specifically be made from the Indian side to sustain it. India perhaps needs to think of a middle way to solve the dilemma which revolves around the India-Bhutan-China triad. Rather than ignoring the issue, or maintaining a stale mate, out of the box solutions are needed, so that the border dispute between China and Bhutan does not emerge as a divider but a connector.

Public Diplomacy is the third strength which India should leverage. Keeping people at the centre is perhaps a starting point. Since India-

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Bhutan share a 699 km long border, interaction across borders should be institutionalized, through frequent border haats. Even while patrolling the area, good contacts with the locals is important. Further, a lot of Bhutanese students come to India for education. Scholarships should be encouraged. New Delhi should also make an effort to reach out to the people of Bhutan. As evident in the elections which were held last year, stakeholders are increasing in Bhutan. This is suggestive of new Bhutan and should be taken note of by New Delhi. A lackadaisical attitude on part of New Delhi could be detrimental to the relations of both countries in the long run.

CONCLUSION

Given this broad framework, where political, economic and security aspects are intricately related to each other, it would be appropriate to ask, is Bhutan –India trajectory moving to new pathways, or will it follow the Business-as-Usual approach, for the years to come. It can be argued that two dominant trends which need to be taken seriously by the Indian policy makers.

First, as stated earlier, New Delhi needs to inform its engagement with Bhutan from perceptions emerging from the ground. The number of stakeholders is increasing in Bhutan, and it is important to prop up foreign policy with consultations across sectors, particularly the emerging business community.

Second, New Delhi also needs to be wary that given its economic weight as Bhutan's largest development partner, it will inevitably be included in good governance debates. A prudent strategy is thus needed which demands a shift in focus - from New Delhi to the Bhutan's bordering areas.

Bilateral exchange at various levels with bordering areas of West-Bengal, Assam and Arunachal Pradesh should thus be expedited and monitored with cautious care. While cross border trade (informal) and border marts are often held, they need to be regularised, to promote a shared understanding amongst the people of India and Bhutan.

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