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Strategic Assessment

India-Bhutan Relations: Fostering the Friendship

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Executive Summary

The Doklam crisis is evidence that the regional security dynamic in the neighbourhood is being challenged. As Bhutan readies for its third National Assembly elections later this year, India must act to address Bhutanese concerns that are weakening the traditionally strong bilateral relationship. India could reduce the erosion of its influence in Bhutan by continuing to aid Bhutan's development, maintaining ties with the Bhutanese monarchy and political parties, supporting the educational aspirations of its youth, and displaying respect for Bhutanese community values.

Introduction

India's strong relations with Bhutan are being challenged by regional security dynamics. China is keen to establish formal diplomatic and economic relations with Bhutan and has offered to settle the Sino-Bhutanese territorial dispute on terms that could be acceptable to the Himalayan kingdom. Should Bhutan accept China's 'package deal,' which would require Bhutan to cede control over the Doklam plateau to China, it would have serious implications for India's national security. India needs to act robustly to address Bhutanese concerns that are weakening the traditionally strong India-Bhutan bilateral bond, as a strong relationship with India could reduce the chances of Bhutan succumbing to Chinese pressure.

It is imperative that India acts swiftly. Bhutan is scheduled to hold its third National Assembly elections later this year. The country's relations with India and China are expected to emerge as a major campaign issue and Bhutanese politicians could stir up anti-India sentiments. The possibility of China extending support to candidates to further its own interest cannot be ruled out.

Beijing is making inroads into Bhutan already; a small but growing number of Bhutanese are seeking trade and diplomatic ties with China. The recent crisis in Doklam, which was triggered by Chinese road building activity in this disputed territory in western Bhutan, has triggered alarm among the Bhutanese. A section of them are keen to settle the border dispute with China especially with the possibility of another crisis at Doklam looming. In addition to acting proactively to dispel Bhutanese concerns over their ties with India, New Delhi needs to avoid mistakes of the past.

This report begins with an outline of Bhutan's importance to India, followed by a brief overview of India's role in Bhutan and its ties with the country. The report then examines India's strengths and advantages in Bhutan but also draws attention to negative aspects of its approach to the country. Drawing attention to

China's rising presence in Bhutan, the report concludes with recommendations that India could implement to keep alive its strong and special relationship with Bhutan.

Bhutan's Significance to India

Bhutan's significance to India stems from its geographic location. Nestled in the Himalayas, it is sandwiched between India and China. Thus, it serves as a buffer between the two Asian giants. Bhutan's value as a buffer soared after China annexed Tibet in 1951. As the 2017 crisis in the Doklam region revealed, India will strongly oppose, even militarily, any Chinese attempt to assert control over Doklam. Securing Bhutan's present borders especially its western border is clearly important for India. Doklam in the hands of a hostile power would heighten the vulnerability of India's Siliguri Corridor, a narrow strip of land that links India to its Northeastern states. So vital is Doklam to India's defence that India has a permanent and sizeable military contingent and an army hospital in Haa district, where Doklam is located.



Figure 1 Doklam (also known as Donglang) is located close to the Siliguri Corridor (also known as Chicken's Neck), which has been a point of vulnerability for India. China, on the other hand, has a great military disadvantage in Chumbi Valley.

Image source: Wikimedia Commons

Bhutan has economic value to India as well. It provides a market for Indian commodities and a destination for Indian investment. India also sees Bhutan as a rich source of hydropower.

A politically stable Bhutan is important to India. An unstable and restive Bhutan would not only jeopardize India's investments in that country but also provide a safe haven for anti-India activities and anti-India militant groups.

India as a Net Security Provider for Bhutan

India and Bhutan enjoy a 'special' relationship, one that both describe as 'exemplary'.¹ Typically, the two have been mindful of the other's concerns; India of Bhutan's sovereignty and Bhutan of India's security concerns. India responded positively, albeit slowly, to Bhutan's desire to function as a fully sovereign state. In 2007, it amended the 1949 Treaty of Perpetual Peace and Friendship and did away with Bhutan being required "to be guided by the advice" of India in the conduct of its foreign policy or seek its "approval" on arms purchases. Indeed, the 2007 Treaty of Friendship brought into their relationship an element of equality. It requires both countries to not allow the use of their "territory for activities harmful to the national security and interest of the other."²

As for Bhutan, it has refrained from accepting the package deal that China offered it in 1996 to settle the border dispute. Under this deal, China is reportedly willing to give up claims on Jakurlung and Pasamlung Valleys in northwestern Bhutan in exchange for Bhutan relinquishing control over Doklam³. Accepting this deal would give Bhutan settled borders. Yet, in deference to India's security concerns, Thimphu has not accepted this deal as yet.

Strengths: Military and Economic Ties

India has strong military and economic ties with Bhutan. The Indian military "is virtually responsible for protecting Bhutan from external and internal threats" and to this end, the Eastern Command of the Indian Army and Air Force have integrated Bhutan's defence into their role and responsibilities. In addition, the Indian Military Training Team (IMTRAT) trains Bhutanese security personnel as well.⁴

India dominates Bhutan's economy. It is Bhutan's largest trade partner; around 79% of Bhutan's total imports are from India and India provides a market for 90% of its exports.⁵ Additionally, India is Bhutan's largest aid donor. Between 2000 and 2017, Bhutan received \$4.7 billion in aid from India, the lion's share of India's total foreign aid.⁶

India has also financed much of Bhutan's Five-Year Plans. The magnitude of its contribution can be gauged from the fact that the US\$750 million it provided for Bhutan's Eleventh Five-Year Plan (2013-18) was 68% of the total assistance that Bhutan received from external sources.⁷

India is also playing an important role in Bhutan's infrastructure development by building roads and hydro-power projects. Development of Bhutan's hydropower has not only provided the Bhutanese with electricity for domestic use but also surplus energy which India purchases. Bhutan's earnings from its export of electricity to India accounts for 40% of all the revenue it earns and 25% of its Gross Domestic Product.⁸

Fault Line: The Bhutanese Perception of India

There have been instances where India has meddled in Bhutan's internal affairs and even punished political parties and politicians for not toeing India's line. In 2012, Bhutan's Prime Minister Jigme Y Thinley met the then Chinese Prime Minister Wen Jiabao on the sidelines of the Rio+20 Summit in Rio de Janeiro.⁹ A year later, in the run-up to the second round of general elections in Bhutan, India withdrew fuel subsidies to Bhutan, which not only resulted in spiralling prices in Bhutan but also weakened the image of the ruling Druk Pheunshum Tshogpa (DPT).¹⁰ It culminated in the DPT's defeat and ouster from power.¹¹ The episode contributed to the Bhutanese perceiving India negatively.¹²

Increasingly, the Bhutanese have begun to view India's role in their economy as exploitative. Indian aid is being criticized for creating 'jobless growth' in Bhutan. Besides, some critics point out that much of this aid ultimately flows back to Indian coffers.¹³ There is a growing feeling in Bhutan that India's development of Bhutan's hydropower production is driven by self-interest as it is getting Bhutan's surplus power at relatively cheap rates.¹⁴ India's support of Bhutan's hydropower projects includes providing finance and technical support. The terms of finance are increasingly seen to be going against Bhutan. Previously, the grant-loan component of project costs was in the ratio of 60:40. Of late, that has been reversed with loans on high rates of interest comprising 60-70% of India's financial support.¹⁵

Looming Threat: The China Option

Negative perceptions of India could make the Bhutanese more willing to pull away from India's embrace. At a time when Beijing is wooing Bhutan, it could also make Thimphu more interested in exploring closer ties with Beijing.

Although Bhutan and China do not have official diplomatic and economic relations yet, China has launched a soft power offensive in the Himalayan kingdom. Beijing has extended scholarships to Bhutanese students to study in China and has sent artistes, acrobats and footballers to Bhutan. According to reports, Chinese tourist arrivals in Bhutan have grown significantly from 19 a decade ago to 9,399 (19% of total arrivals) in 2015.¹⁶

China's soft power offensive in Bhutan is beginning to have effect. Bhutanese interest in establishing diplomatic and economic relations with China is growing. Political commentators are stressing that a 'normal relationship' with China would benefit Bhutan in the long run as it would strengthen and secure its sovereignty.¹⁷ Besides, Bhutan's private sector is keen to benefit from Chinese investment.¹⁸ Importantly, access to the internet has enhanced public awareness of China's rapid economic growth, its Belt and Road Initiative, and the sleek infrastructure that Chinese investment and expertise is bringing to other South Asian countries. The Bhutanese, especially the youth, want to benefit from the prosperity that China promises. Indeed, those favouring economic ties with China argue that if this requires Bhutan to accept China's territorial package deal, then Thimphu should consider it seriously.

With its assiduous construction of trade and transport links in and across the Himalayas, China has begun to erode India's geographic advantage in Bhutan.¹⁹ As part of its expanding trade and transport network China has built road and railway lines in Tibet and is extending the Lhasa-Shigatse railway line up to Yatung. This will open up markets in Tibet and other parts of China.

India's Advantages

India has significant advantages that put it in a position of strength vis-a-vis China in Bhutan. Geography is one of them. The physical terrain to the north of Bhutan is treacherous; several mountains rise to a height of 7,000 metres and mountain passes are usually ice-bound throughout the year. In contrast, the terrain to Bhutan's south, i.e., towards India, slopes down. Consequently, travel and trade to and through India is easier than to and through Tibet and China. It is India that provides landlocked Bhutan with shorter, all-weather routes to the sea. Bhutan's trade with India and through it to third countries is therefore more economical than potential routes through China.

In addition, India's ties with the Bhutanese political and military elite and especially its monarchy have been strong.²⁰ Its role in the Bhutanese economy and infrastructure development as well as its extension of scholarships to Bhutanese students to study in India is appreciated. Importantly, India's image in

Bhutan is not sullied by history like China's. Many Bhutanese have not forgotten China's brutal suppression of the Tibetan uprising in 1959, its atrocities against their co-religionists in Tibet, and its systematic destruction of Tibetan Buddhist culture and beliefs over the decades.²¹ They also recall that during the 1950s, Chinese troops briefly occupied eight enclaves in western Bhutan.²² Besides, China's limited and largely symbolic support to Nepal during the 2015 blockade crisis did not go unnoticed in Bhutan.²³

The Road Ahead: Opportunities for India

This account of India's ties with Bhutan, and its strengths and weaknesses in engaging the country, provide useful pointers to what India could do to manage better the growing Chinese threat to its position and interests in Bhutan. While its strengths are opportunities on which it should focus and build deeper ties on, it must take note of the apprehensions of the Bhutanese with its rather overbearing style of dealing with their country.

- **Continue Foreign Aid:** Although Bhutan remains the largest recipient of Indian aid, the amount of aid in the form of grants and loans to the country has dropped over the last two years (see figure). Some analysts have called on the government "to discard the tradition of offering economic subsidies and negotiating project proposals with neighbouring capitals ... (and) focus instead on enabling agreements and let market forces leverage the existing economic and geographic complementarities."²⁴ However, this is not the right time for India to decrease aid to Bhutan as Chinese presence there is growing.

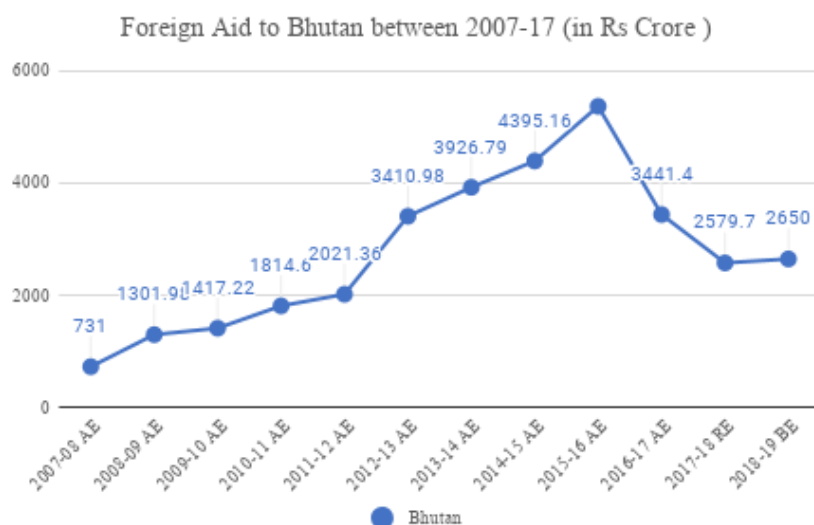


Figure 2 Source: Union Budget from years 2007-2018

- Rethink Terms of Financial Cooperation:** Besides focusing on the magnitude of aid to Bhutan, India must also strategise the allocation of aid better. It must act to address Bhutanese grievances over the hydropower projects. Increasing the loan component of the financial assistance to Bhutan and charging high rates of interest on loans is raising questions about India's motives. India must ensure that the terms of the loans are favourable to Bhutan. It is on the question of massive loans extended on high rates of interest that China's real intentions in extending aid, building infrastructure in India's neighbourhood is becoming obvious. India must draw Bhutanese public attention to how China's role in other countries is driving them into a debt trap. Therefore, it will have to ensure that its finance model for projects in Bhutan is different from the Chinese model in other South Asian countries. India must ensure that its projects in Bhutan are more inclusive and generate jobs for Bhutanese.
- Publicise Benefits:** India needs to step up efforts to publicise the benefits that accrue to Bhutan from the Indian projects. For instance, the India-Bhutan hydro-power co-operation brings benefits to both countries and all dams in Bhutan are small dams. The contribution of hydropower exports contribute to Bhutan's revenue and its GDP should be highlighted by India through the media.
- Respect Bhutanese Values:** India should demonstrate respect for Bhutanese values. The Bhutanese are an environment-conscious people. It is therefore important that India is not seen to disrespect their environment. It should begin implementing infrastructure projects only

after the Bhutanese government has conducted a comprehensive assessment of its implications for the environment. India should prioritize small dams as these are less damaging to the environment and displace less people. It was because of its apprehensions over the damage to environment due to potential heavy flow of traffic that Bhutan did not ratify the Bhutan-Bangladesh-India-Nepal Motor Vehicles Act (BBIN-MVA), a major sub-regional connectivity plan. Improving navigability of its rivers could be economically and environmentally more viable than roads and should be explored in the future.

- **Maintain Ties with the Bhutanese Monarchy:** Unlike their Nepali counterparts, Bhutan's monarchs have been strong proponents of close relations with India. Additionally, the Bhutanese royal family is hugely popular among the masses and people deeply revere the King, Jigme Khesar Namgyel Wangchuck. India should back Bhutan's constitutional monarchy and strengthen it by channeling its aid through this institution. This will help secure greater public support in Bhutan for India's activities in the country.
- **Keep out of Domestic Politics:** India should not be seen as meddling in Bhutan's politics and domestic affairs as the long-term cost of such trampling on Bhutan's sovereignty far outweighs any benefits that may accrue to India. It must bear this in mind in the run-up to Bhutan's 2018 National Assembly elections. India would do well to build strong ties with parties and politicians across the board and not take sides in Bhutan's electoral battles. It should reach out to all parties in Haa district as their position on Doklam is likely to count if Bhutan is faced with having to decide on China's package deal.
- **Emphasize Doklam's Value to Bhutan:** There is a perception among the Bhutanese that Doklam has little significance for their country and hence can be given away to China. However, Haa district is rich in pasture land and forests. Its value to a country that is largely mountainous is immeasurable. India must spread awareness on this fact.

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² *Ibid.*

³ Sino-Bhutan Boundary Negotiations: Complexities of the 'Package Deal', Medha Bisht, 19 January 2010, https://idsa.in/idsacomments/Sino-BhutanBoundaryNegotiations_mbisht_190110.

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