INDIA-BHUTAN TRADE (1949-1990)

I

Trade across the Himalayas

The Himalayas as the geopolitical frontier of India, attracted attention of the English East India Company for the first time in the third quarter of the eighteenth-century. The British established their power in Bengal after the battle of Plassey. During this time the British became aware of the importance of Nepal in the trans-Himalayan trade between India and Tibet. They sent an armed expedition under Captain Kinloch in 1767 to help the Newars. During this period the political relations of the Himalayan states of Ladakh, Sikkim, Bhutan were intimately involved with commercial relations. Alastair Lamb writes, "Trade across the Himalayas and trade between China and Tibet was an expression of politics as well as economics".1

In 1774 Warren Hastings sent George Bogle to Tibet as the head of a fact-finding mission. It was primarily a mission for commercial rather than diplomatic purpose. Bogle was asked to establish equal trade relation between Bengal and Tibet. He was directed to report on the market and resources of Tibet, on the marketability of English goods in Tibet, on the condition of roads between Bengal and Lhasa and the communication between Lhasa and the neighbouring countries. Warren Hastings entertained the hope for a Treaty of amity and commerce with Tibet.2

But the Tibetans were greatly suspicious of the British. Apart from a commercial Treaty concluded by Bogle in 1775 on his way back to India, with the Deb Raja of Bhutan to remove the Bhutanese obstructions to trade between India and Tibet, he achieved almost nothing in terms of immediate commercial gains. Again in 1776 and 1777, Hastings sent Hamilton to Bhutan to investigate the condition of trade there and also to keep in touch with Tibet. But achievement of Hamilton was insignificant.3

Again, Hastings appointed Bogle in April 1779 to lead a second mission to Tibet. But unfortunately this did not take place. Eventually the commercial Treaty of 1775 concluded with Bhutan by Bogle was of no effect. After the departure of Warren Hastings from India this policy was completely abandoned and the very history of his negotiation was lost into the limbo of the past.4

In 1815 some disputes occurred regarding the Bhutan frontier boundaries. A native official, Krisnakanta Bose was deputed to Bhutan darbar. This officer entered the country from the Assam side. He went from Goalpara to Bijnee, from there to Siddee and Cherrung and reached through the valley of Patehu-Matchu to Punakha. On his return journey he entered Bengal via Cooch Behar. Bose gave a pen picture of Bhutanese trade with trans-Himalayan and cis-Himalayan territories.5

Bootan produces abundance of tangun horses, blankets, walnuts, musk, chowries or cow tails, oranges and manjeet (madder) which the inhabitants sell at Rungpore and thence take back woollen cloth, pattus, indigo, sandal, red sandal, assafoetida, nutmegs, cloves nakh and coarse cotton cloths, of which they use a part in Bootan and send the rest to Lhassa, and from the latter country they import tea, silver, gold and embroidered silk goods. In Lhassa there is no rice produced and little grain of any kind, on which account rice, parched rice, wheat, and flour of dhensi are also exported from Bootan to that country. The tea the

Booteahs consume themselves; the greater part of the silk goods for clothing and hangings in their temples and with the silver they mix lead and coin into Narraince Rupees. The Booteahs also send the same sort of goods as they export to Rungpore to Nipal and Assam and to the former country they likewise export rock salt. From the low lands under the Hills and on the borders of Rungpore and Cooch Behar they import swine, cattle, pan and betel, tobacco, dried fish and coarse cotton cloth. Besides the Officers of Government and their servants, no person can trade with a foreign country, nor can any of the inhabitants sell tangun mares without the Deb Raja’s permission. All horses and blankets are monopolized at a low price by the officer in whose jurisdiction they are produced.

After the British annexation of Assam in 1826 India-Bhutan border witnessed repeated disputes. Within a decade after the annexation of Assam the Anglo-Bhutanese relations in the Assam Dooars became strained. In 1836 Captain Jenkins, Governor General’s agent for the north-east frontier, proposed that a British envoy should be dispatched to Bhutan with a view to realizing the following objectives: the reopening of Bhutan to Indian merchants, the opening of trade with Tibet through Bhutan and, if possible, occupation of strategic places on the Tibet-Bhutan border.

In 1838 Captain R. B. Pemberton was deputed to Bhutan. But his labours were fruitless. He, no doubt, collected important data on the internal government, foreign relations, society, natural resources, commerce and industry of this kingdom. In his report he recommended the annexation of Assam Dooars. In fact the Assam Dooars was annexed in 1841 on payment of an annual sum to Bhutan as compensation. In spite of all these efforts Anglo-Bhutanese relations continued to be disturbing and this ultimately led the second Anglo-Bhutanese War (1864–65).

On 20 July 1864 Ashley Eden submitted his report on the state of Bhutan to Colonel H. M. Durand, Secretary to the Government of India (Foreign Department). His observations on the commercial relations of Bhutan with the neighbouring territories deserve special mention.

There is perhaps no condition in which the deterioration has been greater in Bootan than in that of its foreign trade. In 1809, according to Lieutenant Rurherford, the trade between Bootan and Assam amounted to two lakhs of Rupees per annum, the lac, madder, silk, erendi cloth and dried fish of Assam being exchanged for woollens, gold-dust, horses, chowries, and silk. As Bootan, however, produces neither salt nor gold, it is clear that the trade as far as Bootan was concerned was mainly a carrying trade. Just before the Burmese invasion of Assam a Thibetan merchant brought down 70,000 Rupees worth of gold, and Hamilton speaks of a caravan sent every year by the Deb Raja to Lassa by which goods to the value of thirty to forty thousand Rupees, chiefly cloth, pearls and coral from Bengal, were exchanged for tea. Ralph Fitch's account of the trade between Bengal, Bootan and Thibet in 1583 has very often been quoted and it given at length by Captain Pemberton.

For many years there was a considerable trade to Rungpore, and our Government kept up regular accommodation at that Station for the Bootan traders; for some twenty years past it has almost entirely ceased and is probably now confined the purchase of a little tobacco and indigo. With Darjeeling, too, the Bootan trade is now nominal. With Thibet their trade is scarcely more import; in truth the Booteahs have now nothing to give in exchange for the commodities of other countries. They frequent the bazars of Phari in Thibet, but they are from their turbulent, quarrelsome, careless habits looked on with great disfavor by the Thibetans and they go there probably to thieve from the wealthy Thibetans rather than to trade. Under a good Government the state of things would be very different. The easiest road from Bengal into Thibet is through Bootan and the articles in chief demand in Thibet on its Northern Frontier namely, tobacco and indigo, are produced in great quantities in Rungpore, the District on its South Frontier. Thibetan traders will not however, trust themselves in Bootan and the people of these two countries, only nine days apart, with fair roads between them, are thus excluded from the mutual interchange of commodities by the barrier which the rapacity of the Booteah Chief affords.
The Treaty of Sinchula (1865) which terminated the war *inter alia*, provided for free trade with and through Bhutan in consequence of which hopes of trade with Tibet via Bhutan was revived. Article 9 of the Treaty laid down:

“There shall be free trade and commerce between the two Governments. No duties shall be levied on Bootanese goods imported into British Territories, nor shall the Bootan Government levy any duties on British goods imported into, or transported through, the Bootan territories. Bootanese subjects residing in British territories shall have equal justice with British subjects, and British subjects residing in Bootan shall have equal justice with the subjects of the Bootan Government”. But these hopes were shattered into pieces because Sikkim was considered the best route from India to Tibet. In July 1870 Colonel Haughton, the Commissioner of Cooch Behar, submitted his report on the extension of trade with Tibet and China in which he enumerated the following routes through which market of Central Asia could be approached from India (1) via Ladakh (2) via Nepal (3) via Darjeeling (4) via Buxa and Western Dooars (5) via Assam and Towang (6) via Bhamo and Burma. The route most used was that through Assam and Towang.9

In the past centuries Bhutan produced mainly for domestic consumption. In southern Bhutan coarse blankets and cotton clothes were the principal items of production. The soles of snow boots for the Bhutanese were manufactured with leather from the hides of buffaloes. Bowls were shaped from various woodcuts. A plant described as Daphne Papyrifera provided the materials for the small paper industry. The list of manufactures contained other articles such as swords, daggers and sheaths made of copper, brass or silver, iron spears, arrow heads, charm boxes and pan boxes,

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8. Aitchison: *A Collection of Treaties, Engagements, Sanads Relating to India and Neighbouring Countries*. Vol 1, Part-7, No. LXIII, 1892, p.191. It should be mentioned here that Article-8 of the Anglo-Sikkimese Treaty dated 28 March 1861 contained similar stipulation. It says:

“The Government of Sikkim from this date abolishes all restrictions on travellers and monopolies in trade between the British territories and Sikkim. There shall henceforth be a free reciprocal intercourse, and full liberty of commerce between the subjects to go into any part of Sikkim for the purpose of travel or trade, and the subjects of all countries shall be permitted to reside in and pass through Sikkim, and to expose their goods for sale at any place, and in any manner they may best suit their purpose without any interference what ever except as is hereinafter provided.” Aitchison, Vol 1, No. LVI, p.167.

cauldrons and agricultural implements. The cottage industries like weaving of clothes, gold and silver works, bamboo and wood crafts constitute the principal sources of income of the Bhutanese people. So the Government of Bhutan is very keen to develop these industries as major items of export trade.10

II

Basic structure of 1949 Treaty and 1972 Agreement.

The main structure of commercial relations between the two countries has been provided in Article V of the India-Bhutan Treaty of Friendship, 1949. The said Article states, “There shall as herefore, be free trade and commerce between the territories of the Government of India and the Government of Bhutan; and the Government of India agrees to grant the Government of Bhutan every facility for the carriage, by land and water, of its produce throughout the territory of the Government of India, including the right to use such forest road as may be specified by mutual Agreement from time to time.”

India and Bhutan signed another ten-year Agreement on 17 January 1972 to regulate the trade and commerce between the two countries (see Appendix No. 4). The Agreement, which provided for cooperation in the fields of commerce and industry, further strengthened the close ties between the two countries. The exports to India were cardamoms, potatoes, wheat, timber, oranges and apples. Other exports were ponies, mules, cattle, sheep, musk, tea, wax manufactured piece goods, yak's tails, hides, ivory, lac and rubber. The chief imports from India to Bhutan were silk, betel nuts and tobacco and other consumer goods and consumer durables and at times machinery and spares.

Recalling Article V of the 1949 Treaty, the 1972 trade Agreement reiterates free trade and commerce between the two countries. The Government of India agreed to

provide foreign exchange for import into Bhutan of essential items. In case of disputes regarding the subjects of the Agreement, the two countries will consult each other. However, the 'Royal Government of Bhutan also agreed to consult the Government of India in regard to its commercial, economic and trade relations with foreign countries'.

Exchange of views took place between the King of Bhutan and the Foreign Minister of India when the latter visited Thimpu in November 1977. This high level discussion led to the decision of providing adequate facilities by the Government of India for Bhutan's external trade for the latter's economic growth. Operations of certain Articles of 1972 Agreement were reviewed by the two countries. In “view of the special close and cordial relations subsisting between Bhutan and India and in order to facilitate and promote Bhutan’s foreign trade, with a view to increasing its foreign exchange earnings”, the two countries arrived at the following decisions:

First, both the governments accepted that the existing arrangement as laid down in 1972 Agreement in regard to official importation of goods by His Majesty the King and the Royal Government of Bhutan, would continue. Secondly, the “Royal government of Bhutan could import on official account from third countries goods of developmental nature and those meant for government use. The concerned authorities in India would, on receipt of the request with regard to these goods from the Royal Government of Bhutan, issue expeditiously necessary Customs Clearance Permits (CCP) and Custom Duty Exemption Certificates (CDEC). Thirdly, in normal course the Indian Customs officials would not examine the contents of imports consigned only for the King’s personal use. But the official imports for the Royal Government of Bhutan would be confined to a percentage examination. Fourthly, in case of perishable items like medicines, seeds if the CCP and CDEC are not obtainable due to inadequacy of time, the Indian authorities at the port of entry would clear these items on instructions from the concerned authorities of the Government of India, with the execution of a

bond by Bhutanese authorities that the normal formalities would be completed subsequently.

In the context of export the Royal Government authorised the creation of a government organization in Bhutan which would canalise its entire export trade. No export trade was permitted by the Government of Bhutan on the part of private parties. The Royal Government enjoyed the right to freely export her surplus commodities to third countries in accordance with simplified procedures. It was further decided that the diplomats of two countries would meet on fixed dates at the beginning of every year. The meeting would take place alternatively in their respective capitals to determine all goods of Bhutanese origin that would be available as exportable surplus during the following years. In determining such goods they would take into account (1) the total expected production of each such exportable items, (2) the likely consumption of such item within the territory of Bhutan and (3) other relevant factors. All such exports would normally be made through the port of Calcutta.

For the realisation of foreign exchange earnings of the Royal Government of Bhutan, on account of commodity exports, the existing procedures would continue to operate. The Royal Government of Bhutan shall have the right freely to operate the special account maintained with the State Bank of India, Calcutta, into which the foreign earnings from commodity exports would be credited.

III

1983 Agreement

In pursuance of the letters exchanged in August 1979, between Namgyal Wangchuck, Minister for Trade and Industry and Forests and J.R Hiremath, Ambassador Extraordinary and Plenipotentiary of India in Bhutan, delegation team of both the countries met at Thimpu from 9 - 11 February 1979. The agreed minutes of discussion between the two delegations comprised of (1) foreign currency accounts, (2) simplified export procedure and documentation, (3) trade routes to Bangladesh through India and
(4) assessment of the exportable surpluses of the Royal Government of Bhutan. These were incorporated in the 1983 Indo-Bhutan trade Agreement.

The Royal Government of Bhutan decides to open a current account in US dollars with the State Bank of India, Overseas Branch, Calcutta in the style of "Royal Government of Bhutan Foreign Currency Account". All foreign exchange earnings of the Kingdom in respect of commodity exports would be credited directly in this account in US dollars. The Royal Government can operate the foreign currency account freely or decide to transfer funds to anywhere at its discretion. The Royal Government with consultation with the Government of India can maintain the foreign currency account in any other currency. It was further decided that the Reserve Bank of India would authorise the State Bank of India to credit to the said Current Account all foreign exchange accrued with them in line of Bhutan's past commodity export in US dollars converted at the current market rate of exchange.

Both sides arrived at the simplified export procedure and documentation to apply to the exportable surpluses of Bhutan for export to third countries. In respect of the consignments exported under the agreed simplified procedure the check by the Indian Customs at the border check post or at the point of export from India would be minimum.

The Royal Government had requested India to permit the use of riverine route through Dhubri in Assam and the rail route through Radhikapur (India)/Biral (Bangladesh) for Bhutan's exports to Bangladesh. India agreed in principle the utilization of these routes but subject to discussion with the Government of Bangladesh and also to conditions on grounds permitting such movements.

After due deliberations both sides agreed that for the year 1979-80, Bhutan's exportable surpluses would be the items like sawn hardwood timber, sawn softwood timber, tea chest, gum resin, pencil slate, cardamom, dolomite, handloom and handicrafts. Bhutan would freely export only these commodities to the third countries. Both sides also agreed to cooperate with each other to prevent any possibility of unauthorised trade.

All the decisions arrived at through exchange of letters, high level discussions and the agreed minutes of discussion between the delegates of India and Bhutan were incorporated in the Agreement on Trade and Commerce between the Government of India and the Government of Bhutan signed on 27 December 1983 at Thimphu (see Appendix No. 5). This Agreement was valid for five years. The main feature of the new Agreement was that while preserving free trade between India and Bhutan it simplified procedures to facilitate Bhutan’s trade with third countries.

The Protocol of the Agreement on Trade and Commerce between the two countries mentioned the entry points in India and the import and export procedures. With reference to Article V which assures free exports and imports of the Royal Government to and from countries other than India, the procedure for such export and import was documented in the Protocol. The kingdom of Bhutan could use the following ten entry/exit points in India:

1. Jaigaon - (road route)
2. Chamurchi - (road route)
3. The road route at Ulta Pani
4. Deosiri - (road route)
5. Darranga - (road route)
6. Calcutta - (air and sea ports)
7. Haldia – (sea port)
8. Dhubri – (road route)
9. Gitaldha – (rail route)
10. Panitanki – (road route)

IV

1990 Trade Treaty

The 1983 Agreement on Trade and Commerce was due to expire on 26 December 1988. Both the governments suggested some modifications to be
incorporated in the new Agreement on trade and commerce. Both countries felt that the suggested modifications would require time to be examined. In order to continue trade on the basis of the existing Treaty the countries through exchange of letters decided to extend the 1983 Treaty on an ad-hoc basis for a period of six months till 26 June 1989. The temporary extension gave them adequate time to finalise the new Agreement. However after examining the modifications, changes were suggested by both the governments. Since the Royal Government and the Government of India were yet to discuss the proposal and arrive at a mutually acceptable draft, the existing Agreement on Trade and Commerce was further extended on an ad-hoc basis for another period of three months, that is, until 26 March 1990. The extension of time limits was mutually decided by the exchange of letters between A. N. Verma, the Commerce Secretary, Government of India and Dasho Om Pradhan, Deputy Minister, Ministry of Trade and Industries, Thimphu. Detailed discussions was held in New Delhi regarding renewal of Agreement on Trade and Commerce between Government of Bhutan on 8 and 9 February 1990. The Indian delegation was led by M. R. Sivaraman, Additional Secretary. The Bhutanese delegation was led by Lyonpo Om Pradhan, Minister for Trade and Industry. Changes were introduced in Clause IV in the Preamble of the Agreement and also in Articles III, IV, V, VIII and IX.

With reference to Article V of the Agreement 13 entry and exit points in India for imports into and exports from Bhutan for the duration of the Agreement were mentioned:

1. Jaigaon (road route)
2. Chamurchi (road route)
3. Ulta Pani (road route)
4. Deosiri (road route)
5. Darranga (road route)
6. Calcutta (air and sea ports)
7. Haldia (sea port)
8. Fulbari (road route)
9. Raxual (road/rail route)
10. Jogbani (road route)
11. Changrabandh (road route)
12. New Delhi (air route)
13. Gitaldha (rail route)

As regards Panitanki it was agreed that Government of India would consider it in due course. The Indian side noted the request of the Bhutanese side for additional routes like Pandu (river), Rangia and Harisingha (rail routes). Bhutan clarified that through Rangia and Harisingha rail routes, Bhutan would easily export its items from eastern Bhutan to India as well as Nepal. Without these two rail routes, it would not be feasible to utilize Raxual route. The Pandu riverine route was essential for bulk exports to Bangladesh as the earlier Dhubri point was not feasible due to lack of infrastructure and the shifting of river bed. Though the Indian side appreciated and agreed to consider the new demands on the Bhutanese side, the former explained the problems of the three routes of Rangia and Harisingha and Pandu. They informed Bhutan about the lack of customs infrastructure at Rangia and Harisingha and the inadequate staff to handle large volume of traffic in Pandu.

V

Import and export procedures

The Protocol contained some import procedure. It was agreed that the Royal Government of Bhutan would arrange to supply one copy each of import licences issued by the Bhutan Government to the Collector of Customs concerned within four weeks from the date of issue of the licences. Both sides also agreed on a simplified Bill of Entry for Bhutan for presentation by the importer or his agent at the concerned Indian customs house. Since the Royal Government permitted private parties to deal with goods imported from third countries, India government was quite apprehensive
about the deflection of those imports into India. In order to prevent that, the Indian side requested that bank guarantee be given by the importers for the value of the customs duty and other dues levied in India. The Royal Government was unwilling to provide bank guarantees for private parties, as it would be expensive for these parties. However, after discussion it was agreed that the undertaking by the importers should be supported by a guarantee from Royal Bhutan Customs Authorities in the form of certification. The text of the Agreement on trade and Commerce and Protocol between the two governments, were appended to the minutes prepared in the course of discussion between 8 - 9 February 1990.

In 1990 India and Bhutan renewed the Agreement on trade and commerce which remained valid till 1995. The free trading arrangement was continued as before by the Trade Agreement signed on 2 March 1990 (see Appendix No. 6). It was signed by Lyonpo Om Pradhan, Minister for Trade and Industry, Bhutan and Arun Kumar Nehru, Minister for Commerce and Tourism. While Article V envisages free export and import and the documentation in lieu thereof is detailed in the Protocol and appended to this Agreement subject to modification from time to time. It was decided that trade would continue to be transacted in Indian Rupees or Bhutanese Ngultrums. Both sides agreed to continue with the existing arrangements regarding exit and entry points in India for import and exports. However, with reference to Article V of the Agreement, the Protocol adds that the existing routes may be discontinued or new ones added by mutual Agreement. Secondly, all exports and imports of Bhutan to and from countries other than India shall be effectively monitored and supervised by the Government of Bhutan.

In the exchange of letters between Pushkar Johari, Ambassador of India to Bhutan, and Lyonpo Om Pradhan, Minister for Trade and Industry, Government of Bhutan, dated 16 December 1992 and 25 December 1992, the Government of India had accepted the proposal from Royal Bhutan for the replacement of the existing entry/exit point of Jogbani by the road route thorough Panitanki to facilitate trade between Bhutan and Nepal during the period of Agreement. Hence Jogbani in the Protocol was replaced by Panitanki. Bhutan for the first time permitted private parties also to enter into international trade.14

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VI

1995 Trade Treaty

Bhutan and India have extended the period of Trade and Commerce Agreement of 1990 from the period of five to ten years. Among the new items in the Protocol to the Agreement which was signed on 28 February 1995, the reciprocal sale of official lottery ticket in each country’s territories has been included in the definition of free trade.

Another change is the reduction of time from 90 days to 60 days for transit and customs facilities for the import of third country goods. Both sides agreed that the revised period is adequate for the formalities. The Agreement was signed by the Indian Ambassador to Bhutan Pushakar Johari and Minister for Trade and Industry, Government of Bhutan Lyonpo Om Pradhan.15 Mr Pradhan decided the new trade Agreement as a significant landmark in the relationship between the two countries. “His Majesty the King repeatedly told us in the government that the economic relations between India and Bhutan should always be on a long term basis and that we should view the economic relations between our two countries from a long term perspective”, said the Minister. “That is why I requested the government of India to consider 10 years rather than 5 years, and I am grateful to the Government of India for having accepted this request”.16 Ambassador Johari pointed out that His Majesty the King’s vision of a long term relationship between India and Bhutan was precisely the way India viewed the relationship. Despite the disparity in the size of the two countries, the relationship however is based on mutual trust, confidence and respect.

Like the previous trade and commerce Agreement the new Agreement also emphasises expansion of bilateral trade and collaboration in economic development. India is Bhutan’s largest trading partner and bilateral trade constitutes about 75% of the kingdom’s entire external trade.17

In the colonial period Bhutan was regarded as a gateway to Tibet, Central Asia and China. But no permanent and stable political arrangement was envisaged to strengthen the bond of relations between the two countries. In the post-1949 period a definite shift is noticeable in the policy formulation of the Government of India. Bhutan as a sovereign

independent Himalayan state is important not only as a neighbouring country but also as a never failing ally of India. Bhutan is close to India both geographically and politically. Moreover after the formation of SAARC (South Asian Association for Regional Cooperation) the relation between India and Bhutan has assumed a significant regional character. Here too Bhutan is important as a regional power. The nature of relationship between the two countries is both bilateral and regional. The role of India and Bhutan in the SAARC deserve more than a passing notice. But that is altogether a different story.