CHAPTER-6

INDIA-BHUTAN TRADE SINCE 1990

I

Exports and imports

It appears from records published by the Directorate of Commercial Intelligence, Ministry of Commerce, Government of India that India’s imports from Bhutan during the period 1990-1995 included natural gypsum, other coal, carbides of calcium, particle board or similar board of wood. During 1991-1992 such items included potato seeds fresh or chilled, marble and travertine crude or roughly trimmed, metal carbides, cutch (catechu) extracts and activated carbon. In 1992-1993 fresh items were added to India’s imports from Bhutan. These are quicklime, slaked lime, polyethylene, cardamom large, resins, sweet biscuits, granules and powder of marble. Such list during the period 1993-1994 included items like vegetables fresh or chilled, by-products from working of rice, printed ‘Beoks’; second hand or used motor cars. Several items were added to the list of India’s imports from Bhutan during 1994-1995. These are citrous fruit juice, soft drink concentrates, liquors, quartz powder, hydraulic cement, ferro-silicon products and aluminium wastes.

An idea of the nature of commercial transaction between India and Bhutan, in so far as India’s imports from Bhutan are concerned can be had from the graphical representations provided in the graphs given below.

India’s imports from Bhutan in five items such as electrical energy, calcium carbide, cement, particle board and mix fruits have been specifically chosen for this purpose. The period covered in these graphical representations extends from 1990 to 1997. The fluctuations in the volume of trade in these items have been clearly mentioned in Foreign Trade Statistics of Bhutan, published by Foreign Trade Statistics Unit, Central Statistical
Organization, Planning Commission, Royal Government of Bhutan, Thimpu. We get a clear and continuous picture of fluctuations mainly in these items (Figures : 1-5).

Figure : 1

![ELECTRICAL ENERGY](image1)

Figure : 2

![CALCIUM CARBIDE](image2)
Figure: 3

CEMENT

Figure: 4

PARTICLE BOARD
During the period from April 1990 to March 1995 India’s exports to Bhutan included a formidable list of items like synthetic organic products of a kind used as fluorescent brightening agents, hair oil, synthetic detergent, carbonaceous pastes for electronic furnace, flexible tubes, pipes and hoses having a minimum burst pressure of 27.6 MPA, sheets of cellulose acetate (Plasticized), boxes, cases, crates and similar articles of plastics, other fuel wood in log billet twig fagot, wooden frames for paintings, photographs, mirrors or similar objects, sheets, stainless steel plates, strips, cold rolled high speed steel in coils, beam channels, pillars and girders prepared for in structures, tubular steel poles for electrical transmission and distribution lines, reservoirs, tanks, vats etc. of iron or steel, liquefied petroleum gas, rudder equipment for ships and boats, aluminium conductors, accessories, attachments for machine tools, liquefied dielectric transformers having a power handling capacity more than 10,000 KVA and upto 50,000 KVA, insulated wires, other insulated cables, cords and flexes for telephone and telegraph purposes, specialized transport vehicles like ambulances, lorries, trucks, chassis with engineering mounted for passenger motor car, motorcycles, other mattress support and articles of bedding. In 1992-93 trade with India accounted for 82.8% of Bhutan’s exports and 60.1% of imports. In 1993-94 India was again the major trading partner of Bhutan accounting for 90% of its exports and 62% of its imports.\footnote{SAARC INFO Bank, (Mumbai, DSJ Communications Ltd.; 1996), p.78.} In fact no items have been listed for exchange between India and Bhutan under South Asia Preferential Trade Arrangement (SAPTA) because the existing free
trade Agreement between the two countries covers all products, said trade officials. More than 90% of Bhutan's trade is with India. For the purpose of graphical representation of items of India's exports to Bhutan, I have selected only four items such as cereals, petroleum products, iron and steel, and motor vehicles and parts (Figures 6-9).

Figure : 8

IRON AND STEEL

Figure : 9

MOTOR VEHICLES AND PARTS
The period covered extends from 1993 to 1997. The commercial data up to 1992 is meagre and there is no consistent continuity in the preparation and maintenance of commercial intelligence either in New Delhi or in Thimpu. But from 1993 onwards data with particular reference to above mentioned items have been consistently and continuously recorded by Foreign Trade Statistics Unit, Central Statistical Organization, Thimpu. The graphs that follow have been prepared on the basis of these records. Cereals include rice and wheat, petroleum products include petrol and diesel.

The Figures 10 & 11 showing Bhutan's Export and Import with Bangladesh has been incorporated in this chapter in order to get a bird's eye view of the comparative estimate of trade with India.

Figure : 10

![Graph: Export and Import with Bangladesh (1990-1997)]
The comparative study deserves special mention because of the fact that the trade relation between Bhutan and Bangladesh is also based on a Treaty named Agreement on Trade between The Royal Government of Bhutan and the Government of the Peoples Republic of Bangladesh, which became operative with effect from 8 September 1980. It is significant to note that export from Bangladesh to Bhutan is negligible from 1990-1997.

It appears from Figures 12 & 13 that the period 1994-1995 has been extremely crucial to the pattern of India-Bhutan trade.
Bhutan's export to India during this period has been remarkably high and diversified. The reasons are not far to seek. Both countries welcomed the wind of change initiated by what is known as globalization. The trend that set in was not merely state-to-state trade. Quite a considerable number of private enterprises took part in the trade transaction between the two countries and shared the fruits of globalization. Other reasons for increase of trade include better communication, availability of low cost Indian labour, and upward trend in sale of electricity and wood and wood products.

It may be added here that Figures 14-18 help us to understand the nature of trade transaction between the two countries since 1970s. Needless to say that all the Figures are self-explanatory.
Figure : 14

EXPORT AND IMPORT WITH INDIA (1970 -1997)

Figure : 15

BALANCE OF TRADE WITH INDIA (1970 - 1997)
Figure: 16
TOTAL EXPORT TO INDIA IN 1980s AND 1990s (IN NIL MILLIONS)

- 4,008.60 (18.30%)
- 17,884.76 (81.70%)

Figure: 17
TOTAL IMPORT FROM INDIA IN 1980s AND 1990s (IN NIL MILLIONS)

- 7,230.10 (29.24%)
- 17,501.44 (70.76%)
In Appendix No. 7, I have incorporated a bunch of documents entitled Bhutan Trade Statistics 1997 issued by Revenue and Customs Division, Ministry of Finance, Royal Government of Bhutan in September 1998. This is an invaluable document focusing on various aspects of Bhutan's trade relations with different countries including India.

II

Aspects of trade

Some of the problems confronting India-Bhutan trade relations have been highlighted by both Foreign Secretary and Trade Minister, Royal Government of Bhutan during an interview granted to me on 8 June 1999. The Foreign Secretary, Ugyen Tshering described the trade relations as something “quite extraordinary”. It was extraordinary in the sense that for a small country, for any country, statistic is something like a playground.

So what Bhutan as a country imports must be what a city elsewhere imports or a small town elsewhere imports. But if you just forget the size and scope and just look at the figures, it is quite high. It is that the 99.5%
export is going to one country and there is import coming from there. What is important for us is that we have been able to keep the balance of payments.

The other extraordinary things is that the trade especially from Bhutan side is going to be particularly complex because a major part of trade is going to be on non-saleable products like electricity, either you sell to one source or you do not sell. Because it is not like shoes that you can stack it and keep it in godown and sell it to whoever comes to buy. So in those aspects negotiation becomes more complex and the nature of the trade becomes much more complex.

The Trade and Industry Minister of Bhutan, Khandu Wangchuck during the interview dwelt on an altogether different issue. He pointed out, “trade has been going on but the point is that we did not see the need to put in the entire data collection system. But in the 80’s we started because there is a provision also of an excise duty which the Indian is liable to pay”. He argued that if goods going to Bhutan were exempted from excise duty then a lot of smuggling would take place. This would be the misuse of the open and free trade Agreement that prevail between the two countries.

No doubt there is a widespread belief that there is some sort of unaccounted trade going on between India and Bhutan. I wanted to ascertain the extent of unaccounted trade from the Deputy Chief of Mission, Embassy of India, Rajiv Misra. He expressed the view that “There is always, particularly in countries which share borders, where there is a lot of human traffic, there will always be some informal exports imports. Where people just stuff the goods in the bag and go inside another country. I think that kind of informal trade exists between India and Bhutan also. But I don’t think, its volume is very significant. You see because we extend to Indian goods sold in Bhutan exemption from Indian excise duty”.


Alexander Macdonald report

Under the Bhutan Trade Development Project, supported by European Union (EU), Alexander Macdonald, Freight Transport Consultant, visited Bhutan from 6 August to 10 September 1998 to examine the pattern of trade flows. He identified the principal constraints which inhibited export development in Bhutan and made proposals for necessary improvement in the transport system. He met the exporters, forwarding agents and transport operators of both India and Bhutan. He surveyed road and air transport facilities of the kingdom together with the relevant road rail, port and air facilities in India. To this end the expert’s schedule for a period from 22 August to 5 September 1998 involved travel by road and rail to Phuntsoling, West Bengal, Calcuta and Central and Eastern Bhutan. The interim report which is available in the Bhutan Export Promotion Centre analyses the recent trade flows, reviews the existing trade and transit Agreements with India and Bangladesh. It describes the relevant transport network in both Bhutan and India and the transport operators handling Bhutanese international trade. The first report concludes with a description of principal existing transport constraints.3

According to Thimpu, some constraints are faced in transacting trade. These are as follows:

(1) Lack of trade information
(2) Inadequate trade finance facilities
(3) Lack of productivity and capacity
(4) Limited value added production
(5) Inadequate packaging and labelling
(6) No cold-storage and supply chains
(7) High cost of transport
(8) Lack of sales and marketing

Bhutan Export Promotion Centre (BEPC) has decided to initiate National Export Development Strategy 1999-2000 to overcome the limitations. Given the production constraints in Bhutan, especially the lack of capacity, the focus of the National Export Development Strategy is to develop high value niche markets. Hence the BEPC attempts to assist exports of items such as high value horticulture, essential oils, wood and wood processing industries, handmade paper and paper products, handicrafts and processed food items to new areas other than India and Bangladesh. It also follows the objectives of the Royal Government of Bhutan’s International Trade Policy.4

The Ministry of Trade and Industry (MTI) plans to adopt a more open and liberal policy towards international trade in order to encourage and stimulate export growth. It highlights the key measures of the International Trade Policy which it intends to pursue in the period between 1999-2002. The Bhutanese market is small and the capacity to sustain growth is limited. At the same time the outside market represents a large potential market for Bhutan’s exports. Hence “gradual integration into the global trading system is a key objective of the Royal Government to promote economic growth.”5 Bhutan has a negative balance of trade over the past few years. In 1997 it amounted to Nu 703.76 millions. In trade with countries other than India, Bhutan faces greatest imbalances. As for instance in 1997, her trade deficit with these countries amounted to Nu 1292.12. Bhutan has a very narrow range of exports on which it has to depend. The top five of these export items are electricity, calcium carbide, ferro-silicon, port land cement and particle board which accounts for 65% of the total exports. To make its export sector less vulnerable to external shocks in the external markets, MTI has started to diversify its export base. To achieve these objectives the strategy of MTI is to create a conducive international trading environment to boost the private sectors’ trading efforts through the simplification of administrative procedures, deregulation of the import and export regime and creation of a number of incentives to encourage and support the exporters.

5. Ibid. p2.
The programme of activities to support and develop MTI's international trade policy to be initiated over the next three years in cooperation with other relevant government departments includes:

(1) Support and resources given to Bhutan Export Promotion Centre by April 1999 (MTI).

(2) Removal of all export taxes by June 1999 (MTI & Customs Department).

(3) Removal of Minimum Price mechanism by June 1999 (MTI).

(4) Tax and Duty Concessions for exports applied from June 1999 (MTI & Ministry of Finance).

(5) Review of tariff structure and application of three rates of 10%, 15% and 20% for raw materials, intermediate products and final products respectively by June 1999 (MTI & Customs Department).

(6) Introduction of export subsidies on Transport by June 1999 (MTI & Druk Air).

(7) Production and publication of new guidelines for Import licensing by September 1999 (MTI).

(8) Production and publication of new guidelines for Export licensing by September 1999 (MTI).

(9) Draft legislation on currency retention scheme by December 1999 (MTI, Royal Monetary Authority and Ministry of Finance).

(10) Creation of Secondary exchange market by December 1999 (MTI, Royal Monetary Authority and Ministry of Finance).

(11) Initiation of bilateral trade talks with Thailand by June 2000 (MTI).

(12) Transformation of the Industrial estates to an Export Processing Zone by June 2000 (MTI and Customs Department).

(13) Export finance and Insurance Fund reviewed and implemented by June 2000 (MTI, Royal Monetary Authority and Ministry of Finance).

(14) Reduction of tariff rate to 5%, 10% and 15% by December 2000 (MTI and Customs Department).
(15) Removal of all State Trading exporters (except hydro-electricity) by December 2000 (MTI and Customs Department).

(16) Reduction of tariff rates to 0%, 5% and 10% by December 2001.6

IV

Trade Development: Bhutanese point of view.

The Foreign Trade Statistics Unit of Central Statistical Organization (CSO), Planning Commission has been publishing regular reports since 1990. The Report from 1995-97 is 7th publication by Foreign Trade Statistics Unit of CSO, Planning Commission. From 1990 onwards trade statistics publications have been undertaken by Public Information Service, Division of Revenue and Customs, Ministry of Finance, Thimphu.

The primary source of data for the statistical calculation of foreign trade of Bhutan is also collected by the information provided by exporters and importers on Customs Declaration Forms. Major portion of Bhutan’s foreign trade is with India. Foreign trade with India is carried over through 24 customs checkposts along the India-Bhutan border. Trade transactions with the third world states are carried out through Calcutta seaport and Paro airport. Officials of the Department of Revenue and Customs man the checkposts and collect the information from the Customs Declaration forms submitted to them by exporters and the importers.

The Declaration Forms furnish the following information:

(1) Description of goods
(2) Quantity of goods
(3) Value of goods
(4) Whether the importer or exporter is government or private

Whether the transporters are nationals or non-nationals.

The declaration forms are forwarded by the customs checkposts to the Regional Revenue and Customs Office at Phuntsoling for the entry of data into the computer. It is clerically checked by the Central Statistical Organization. The CSO receives the individual records in the form of diskette supplied by the Regional Revenue and Customs Office. The CSO checks and amends the details of the data using computer programmes. Checks are based on quantity and value information and cross-check comparing the data with information available from other sources. Problems are referred back to the Revenue and Customs Department for resolution. Once all the amendments are made, final tables are produced by using computer tabulation programmes.

The overall value of export in 1997 is recorded at Nu 4274 millions, a 20.3% increase as compared to 1996. The total value of export to India is estimated at Nu 4042 million, which is an increase of 25.3% compared to 1996. Royal government document says that it was possible because of the increase in export of electricity to India. The export of electricity has increased from Nu 747 million in 1996 to Nu 1287 million in 1997, an increase of 72.3 per cent. Moreover, the export of cement portland had increased by 46.8%, partial board by 15.0% and calcium carbide by 2.4%. However the export of rum and ferro-silicon had declined by 9.2% and 1.6% respectively.

On the import side, the overall value of import in 1997 is recorded at Nu 4977 million, showing a 10.0% increase as compared to 1996. The total value of import from India is recorded at Nu 3,453 millions in 1997 and in 1996 Nu 2,896 millions. It was an increase of 19.2% as compared to 1996. This is attributed mainly to import of rice from India which was increased from Nu 208 millions in 1996 to Nu 215 millions in 1997, an increase of 3.4%. The import of diesel from India which increased from Nu 138 millions in 1996 to Nu 163 millions in 1997 showing 18.1 per cent. There has also been an increase of wood charcoal by 13.9% and iron and steel by 7.3% respectively. The import of other commodities, like other vegetable oil, n.e.s., industrial plant machinery and sugar declined by 22.4%, 29.9% and 23.0% respectively.

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Bhutan’s trading partners in general terms include countries in North America, South America, Europe, Asia, Pacific Islands, Africa and SAARC countries. Bhutan’s economy is closely linked with India. It has also started to diversify its products to different markets. Though economic links with other countries are limited, it receives significant amount of aid from external sources. It has enabled the kingdom to increase her imports from third countries. Since export to third countries is comparatively lower than its imports, Bhutan has to rely on the inflow of aid for financing her imports.9

Although agriculture still remains the main contributor to the GDP, the share of manufacturing, electricity and construction have been increasing. At the same time rapid expansion of domestic demand, fuelled by expansive fiscal and monetary policies, in the face of limited growth, resulted in the increase of current account deficit. Bhutan’s current account deficit with India is estimated to have widened by 23% in 1991/92 resulting in the rapid depletion of Indian rupee reserves. The external current account with respect to the third countries also experienced a deficit in 1991/92. The total production of the seven major industries (Army Welfare Project; Bhutan Board Products Limited; Bhutan Carbide and Chemical Ltd.; Bhutan Fruit Products Limited; Bhutan Polythene Company; Gedu Wood Manufacturing Corporation; Penden Cement Authority) amounted to Nu 868.1 million in 1991 as compared to only Nu 553.6 million in 1990. Of the total sales in 1991, 80.5% represents export to India; 2.4% export to third countries; and the rest for domestic consumption. At about 33% the Bhutan Carbide and Chemicals Ltd. contributed the most, followed by Penden Cement Authority 21% and Bhutan Board Products Ltd. 20%. During 1991-92, Chukha Hydel Project generated 1,554.37 million units of electricity. Out of this 87% or 1,350.08 million units were exported to India, generating revenues of Nu 360.95 million.

Balance of payment’s deficit with India became very acute in 1991-92. In order to augment the fast depleting Indian rupee reserves, the Royal Government had to resort to commercial borrowing of Rs. 286 million. The gross rupee reserves at the end of the fiscal year stood at Rs. 97.80 million. Merchandise exports have been estimated to have increased from Nu 1149.52 million during 1990-91 to Nu 1472.35 million

during 1991-92. Most of the increase had come from electricity, calcium carbide, wood products, food products, cardamom, potatoes etc. At the same time imports also increased by around 25% which has again resulted in trade deficit of Nu 489.38 million. Following the decrease in rupee balance the interest earnings on it also drastically declined. On the other hand service and transfer payments went up by 16 per cent. Combining this with the trade deficit the current balance during the year accounted a large deficit of Nu 659.90 million.¹⁰