

Business Line

Bhutan — a tiny, cold neighbour

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To keep the China shadow out, India should be warm and flexible.

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The tiny Himalayan kingdom of Bhutan known as the Land of the Thunder Dragon has achieved an important milestone — its second multi-party election.

This process has led to stresses and strains in its relationship with its giant neighbour India. It is time now to take a fresh look at India-Bhutan relations.

The visit of India's delegation led by the National Security Advisor and the impending visit of Bhutan's prime minister would help this process. Both sides need to approach the subject as collaborators.

Bhutan covers an area of about 38,000 sq. km (comparable with Haryana or Kerala) and has a population of 7,50,000 (comparable with Sikkim). As much as 76 per cent is Buddhist while 23 per cent is Hindu. This landlocked nation is sandwiched between giant neighbours India and China.

Bhutan transformed from a relatively isolated absolute monarchy to a modern constitutional monarchy with multi-party democracy in the 21st century.

The Indo-Bhutan treaty of 1949 giving India a key role in guiding Bhutan's external relations was modified in 2007, giving Bhutan full sovereignty. India has fully supported Bhutan's democratisation process and provides it substantial military and civilian assistance.

The elections in 2008, the first under the present, modern Constitution, resulted in a majority for the Peace and Prosperity Party (Druk Phuensum Tshogpa or DPT) which, with 45 out of 47 seats in the national assembly, garnered 67 per cent of the votes in an essentially two-party contest.

The government has steadily increased its foreign network base and Bhutan now has diplomatic relations with 52 countries and the European Union (up from 21 in 2008). It has diplomatic missions in India, Bangladesh, Thailand, Kuwait, and the UN in Geneva and New York.

However, only India and Bangladesh have embassies in Bhutan, while Thailand has a consulate office.

Chill in the air

Although the DPT manifesto says the cornerstone of Bhutan's foreign policy is the relationship with India and "above all, India is our most dependable and generous development partner", in recent months some issues have clouded the air.

These include the purchase of buses from China, the renegotiation of hydro power tariffs, budgetary support to Bhutan's government, and supply of subsidised LPG and kerosene.

Underlying all this is the question of Bhutan's relations with China with which it has an unresolved border dispute, and suspicions that Bhutan was playing the China card to extract more from India.

Earlier this year, the supply of subsidised LPG was stopped by Indian Oil Corporation, even as the budgetary support arrangements for Bhutan's government expired in June. This was perceived to be badly timed, given that the 2013 elections were being held.

In the second round of polling on July 13, the opposition People's Democratic Party (PDP) won 32 of the 47 seats in the Assembly with 55 per cent of the vote.

In the first round held on May 31, 2013, the ruling DPT received roughly 40 per cent of votes and the PDP approximately 30 per cent, with two other new parties sharing the remaining 30 per cent. Relations with India in the wake of the tensions became an electoral issue.

While India can take some comfort from the PDP leadership's intention to strengthen relations and resolve the outstanding issues, it must be noted that the PDP got only 33 per cent of the vote in a choice among four parties.

In view of this, it is important for India not to be seen as being too demanding and unreasonable. Both sides need to

reconcile their core interests as collaborators.

Hydel power potential

The subsidised LPG and kerosene supply allows scope for black marketers to pocket profits.

This is reflected in the rather large number of LPG connections in Bhutan and the presence of black markets near the border.

This can be eliminated by Bhutan simply introducing a targeted direct transfer scheme for the poor in Bhutan.

India should share its experience with the scheme and support its introduction in Bhutan. The scheme will also enable Bhutan's government to provide other benefits to the needy.

The issue of hydro power tariffs needs to be seen in the larger context. Some 30 GW (gigawatts) of hydro potential (so-called white gold) is available in Bhutan.

Only four major projects have been implemented with a total capacity of 1440 MW (megawatts), while three other projects with a capacity of 1330 MW are being implemented.

Plans are in place for 10 GW capacity to be created by 2020, most of which would be purchased by India. The projects are financed by a mix of loans and grants.

However, both governments should open up this sector to private and foreign investment as they do not have sufficient resources to achieve the ambitious targets set.

Differences have arisen over the tariffs for supply of power to India and its revision. As hydro power is largely capex intensive with low operational and fuel costs, the cost of power is largely linked to the cost of financing.

A solution should be found on the basis of the most common standard international industry practice for calculating costs of power as, for example, in World Bank-funded projects.

If necessary, independent expert advice can be sought. This will eliminate irritants and possible Bhutanese fears of exploitation.

Budgetary support to Bhutan's development plans is very important to that country but is a relatively small issue for India.

We cannot apply harsher standards on Bhutan's government than we are applying to our State and Central governments as regards transparency and accountability. This would be unfair.

On the other hand, our standard requirements of independent government audit can be reasonable, and could serve to improve the use of funds.

On the issue of Bhutan's sovereignty and relationship with China, the issue is more of perception than reality.

A stable and prosperous Bhutan, strongly committed to democracy, and linked to India by economic and cultural ties would create an impact on China.

Some elements within Bhutan may be tempted to play the China card, but it would be in India's interest to reduce such temptations by showing flexibility. It is time for a reboot in relations, after the crash earlier this year.

(The author is former ambassador to Cuba and Greece.)

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