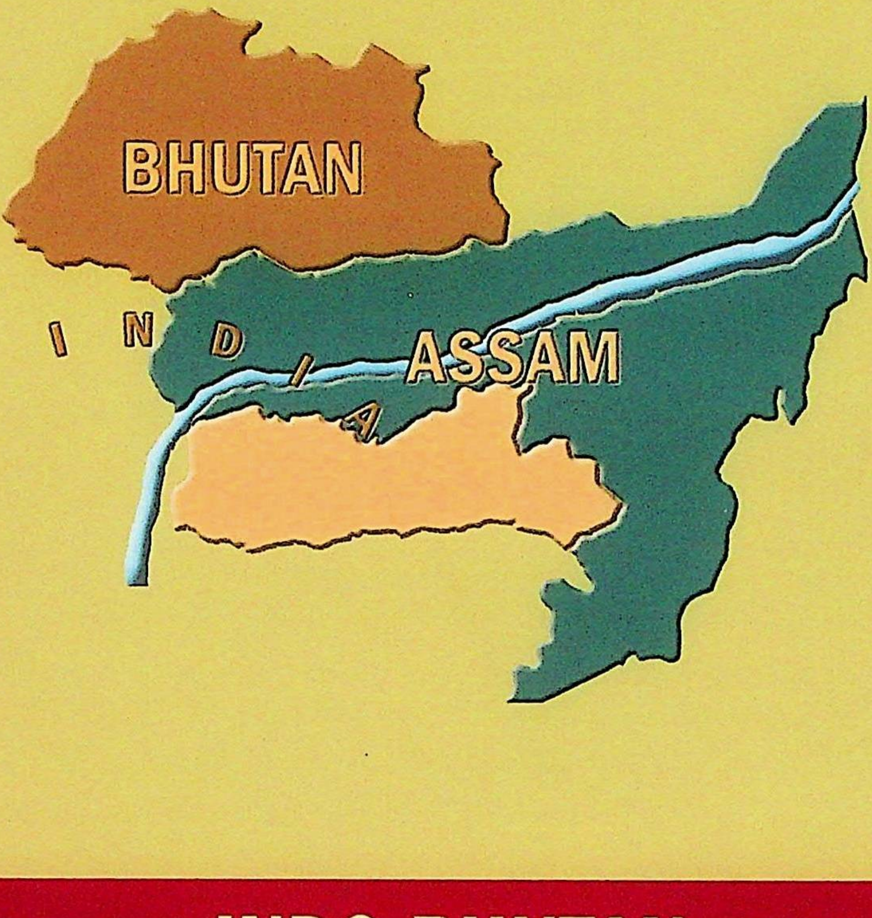

INDO-BHUTAN FREE BORDER TRADE

Realities and Prospects for the Economy of Assam of Northeast India

Suranjan Sarma

Indo-Bhutan Free Border Trade
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Aalibaat
Panbazar, Guwahati-1

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A realistic assessment of the trend and nature of the existing cross-border trade between India & Bhutan.

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In connection with the study, field survey was carried out in neighbouring areas of Indo-Bhutan international border on Indian side of Bagsa District of Assam (under BTAD).My sincere thanks go to all the government officials, the local businessmen and the local people of the areas under survey, who gave me full cooperation during the period of collection of primary data for the study.

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July 20, 2011, Guwahati Suranjan Sarma

Preface

This work is the outcome of the fellowship (honourary) awarded to me by the Centre for Northeast India, South and Southeast Asia Studies (CENISEAS) of OKD Institute of Social Change, Guwahati for the period January 2004 - December, 2005. The study was done with three objectives: First, to make a realistic assessment of the trend and nature of the existing cross-border trade between India and Bhutan. Secondly, to examine the possibility of construction of regional cooperation group for liberal cross-border trade between northeastern region of India (through Assam) and Bhutan. Thirdly, to explore the potential areas for enhanced trade in the region.

The first unit of the book starts with a theoretical discussion about the gains from trade that would come through regional/multilateral integration of the countries staged with different level of economic development. Analysing the trade policies announced by the Government of India it has been observed that the North-Eastern region of

India (especially Assam) bears tremendous opportunity of revival of its economy through liberal border trade with the neighbouring countries like Bangladesh, Bhutan, Myanmar etc., having common border with the north-east India. On the backdrop of theoretical knowledge, an analytical study of the economic conditions of the economy of Assam as well as Bhutan has been placed in the second unit. The Indo-Bhutan relations including historical, cultural and economic etc., have been placed in this unit. Bhutan's preparation for market integration with economies of rest of the world has been discussed in the third unit. The composition, direction and trend of Indo-Bhutan trade have been placed in the fourth unit. The fifth unit is the summary unit.

From the analysis it was found that the existing free trade between India and Bhutan has been prevailing in accordance to the Indo-Bhutan Treaty of Friendship, 1949, however in recent period the volume of trade and commerce between the two have not sprung up. Also the Government of India forwarded Bhutan assistance of about 26.88 percent of its plan outlay during whole plan period (1961 - 2013). India also financed a number of development projects of the kingdom of Bhutan. However, the present study indicates that the mutual benefit of such assistance to that country has not percolated to the border sharing areas of Assam neighbouring Bhutan. The villages neighbouring the border remained underdeveloped in infrastructure as well as other development indicators. It has been argued in the book that the guiding policy of the central plan authority of the Government of India in case of Assam probably changed to development paradigm in the decade of 1980s only. It is in the post-independence period due to erection of barriers and overemphasis on strategic/security consideration the border areas of the north-eastern region suffered from 'border-effect' as well as geo-economic isolation. Taking advantage of the poor infrastructure / backwardness of the areas, the militant groups had established their camps and shelter inside the territory of the Bhutan. As a result those areas have been militarized. Naturally trade and commerce in those areas decreased. The areas remained untouched by development projects run by the government. Therefore in the book it has been argued that in formulating the trade policies of the Government of India, a rethinking is needed so that the development of villages located nearby the Indo-Bhutan international border should be the prime agenda. For this the construction of regional economic cooperation group in the north-eastern India including Bhutan may be possible for mutual benefit of both Assam as well as Bhutan.

20-07-2011 Suranjan Sarma

Contents

LIST OF TABLES

Abbreviations

ADB: Asian Development Bank
ASEAN: Association of Southeast Asian Nations
BCG: Bacille Calmette Guerin
BIMSTEC: Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
EU: European Union
EPI: Expanded Programme of Immunization
ESAS: Eastern South Asia Sub-region
FTA: Free Trade Agreements
GATT: General Agreement on Tariffs and Trade
GNP: Gross National Happiness
MFN: Most Favoured Nation
MMR: Maternal Mortality Rate
NAFTA: North American Free Trade Agreement
NER: North Eastern Region
SAARC: South Asian Association for Regional Cooperation
SAFTA: South Asian Free Trade Association
SAGQ: South Asian Growth Quadrangle
SAPTA: South Asian Preferential Trade Agreement
SS: South-South
WTO: World Trade Organization

Indo-Bhutan Free Border Trade

Realities and Prospects for the Economy of Assam of North-East India

I

Free Trade and India's Policy Initiatives

I.1. On Behalf of Free Trade:

Trade can be thought of as an alternative production activity where, quantities of some commodities (exports) are transformed into quantities of other commodities (imports). Thus, the easiest way to think of trade is to extend production possibilities. As trade possibilities are just like production possibilities, therefore trade generally leads to a potential improvement for all the participating countries. Shutting down extra avenues of 'production' can never be a good thing and most of the time it is a bad thing. This is the case for unconditional free trade: a policy of unrestricted trade no matter what the rest of the world is doing (Ray, 2001:700).

Trade across countries which, are very different in their factor endowments (as the difference in factor endowments coupled with different production technologies across goods create differences in comparative advantages), does happen (Heckscher-Ohlin model). However, it is not necessarily the dominant form of trade in this world economy. Trade between countries with similar levels of development [eg., South - South] is possible as preferences vary systematically with income levels. Intra-industry trade is likely to occur among countries at similar levels of development with product varieties (of the same product) and in case of products that are produced under conditions of increasing returns (such as. two brands of aircrafts). Some economists are of the view that trade in similar commodities is more likely to lead to an actual Pareto improvement: there is no differential pressures on factors of production. However if there exists market imperfections/ market failure in the economy, in such situations the opening up to the free trade may lead the country to overall losses rather than gains. For instance, the exports of primary commodities may experience a long run fall in price (the Prebisch-Singer hypothesis). Thus trade interventions may be justified in the presence of market failures.

Haberler has pointed out some important beneficial effects that international trade can have on economic development: (1) Trade can lead to the full utilization of otherwise underemployed domestic resources. That is through trade, a developing nation can move from an inefficient production point inside its production frontier, with unutilized resources because of insufficient internal demand, to a point on its production frontier with trade; (2) by expanding the size of the market, trade makes possible division of labour and economies of scale. (3) International trade is the vehicle for the transmission of new ideas, new technologies. and new managerial and other skills. (4) Trade also stimulates and facilitates the international flow of capital from developed to developing nations. (5) In several large developing countries, such as, Brazil and India, the importation of new manufactured products has stimulated domestic production of these goods become feasible. Finally, (6) international trade is an excellent antimonopoly weapon because it stimulates greater efficiency by domestic producers to meet foreign competition (Haberler, 1964 quoted in Salvatore, 2003).

There is strong justification in favour of free trade notwithstanding, we live in a protectionist world. However, multilateral approach to lower trade barriers among the countries has already been initiated by the organizations such as GATT. At the same time a group of countries (such as the EU) have gone beyond GATT (by negotiating free-trade agreements among themselves) and set it back (by raising import barriers to the rest of the world). Waves of regional market integration have been coexisting with the multilateral approach. The notable examples are the EU, ASEAN and NAFTA etc.

Formation of regional integration group (like Custom Union, Free Trade Zone, or Economic Union etc.) through multilateral tariff reduction may have both welfare increasing effects (Trade Creation) and welfare reducing effects (Trade Diversion). These regional agreements (eg., a Custom Union) is more likely to lead to an increase in welfare if the partner countries are actually competitive but potentially complementary. The larger the cost differential between the countries of the union in goods they both produce, the greater is the scope for gains. The higher the initial tariffs between the union partners, the greater is the scope for an increase in welfare. The lower the tariffs to the outside world, the smaller are the losses on trade diversion. The larger the part of trade originally covered by trade between the union partners, the greater is the scope for gains from the union. The effect of trade diversion comes into play only when some but not all of the world's countries are involved in the tariff reduction.

Endogenous Growth theory starting with Romer (1986) and Lucas (1988) postulates that lowering trade barriers will speed up the rate of economic growth and development in the long run by (1) allowing developing nations to absorb the technology developed in advanced nations at a faster rate than with a lower degree of openness, (2) increasing the benefits that flow from research and development (R & D), (3) promoting larger economies of scale in production, (4) reducing price distortions and leading to a more efficient use of domestic resources across sectors, (5) encouraging greater specialization and more efficiency in the production of intermediate inputs, and (6) leading to the more rapid introduction of new products and services.

Theoretically the greatest gains from trade would come by integrating a developing country with a developed one [Heckscher-Ohlin concept]: conditions of production are so different across the countries that there should be plenty of gains from freeing trade across them. However, as Ray (2001) observed that due to political pressure groups, there is dearth of many such agreements across countries with different levels of development (NAFTA is an exception). On the other hand, if countries are at a similar level of development and are also rich enough so that there is large product variety in consumption or production, the gain from trade are likely to be equally distributed over different groups, thus reducing political pressure. Even then, the road to integration is far from smooth, as a study of EU indicates. In the case of countries which are similar, but poor, the possible gains from trade are very low, because product variety is not high.

Since 2003 the South Asian countries embarked on a new higher growth trajectory with an average rate of growth of over 8 percent sustained over five years making the region as one of the fastest growing in the world. This dynamism is broad-based and is accompanied by their more vigorous participation in the international trade. Recently, the direction of trade of South Asian countries is changing in favour of developing Asian countries. Emergence of Asian region as an increasingly important trade partner for the South Asian countries underlines the relevance of regional economic integration (RIS, 2008:29).

Negotiations on preferential trading policy and process of market integration in terms of intra-sub-regional trade were started among the south Asian countries also in the forms of SAARC - SAPTA - SAFTA etc. Similarly, Bangladesh, Bhutan, India and Nepal have created a growth quadrangle called South Asian Growth Quadrangle (SAGQ).

Except Afghanistan and Bhutan, rest of the South Asian countries, are at present members of the WTO. The trade in South Asia is conducted on most favoured nation (MFN) basis following regional

(SAFTA) and the bilateral trade agreements. Table - 1 shows that, except the trade between India and Bangladesh, or Bhutan & Nepal, bilateral trade agreements of remaining countries in South Asia offer mutual understanding on transit. The movement of goods and vehicles is controlled through national legislation and a series of bilateral transit and trade agreements- and, in certain cases, also 'ad-hoc' agreements deriving from intent between certain country pairs for mutual cooperation. An example of this mutual cooperation is the movement of Bhutanese goods through Indian Territory, which is governed by the stipulations contained in the 'Agreement on Trade and Commerce' between the two countries and an attached Protocol. Therefore, the present semi-transit arrangement in South Asia is nonetheless disappointing (RIS, 2008:101)

Table - 1: Trade and Transit Arrangement in South Asia

Agreement	Type	MFN Trade	MFN Transit	GATT Signatories
India-Bangladesh	Bilateral	Yes	No	Yes
India - Nepal	Bilateral	Yes	Yes	Yes
India - Bhutan	Bilateral	Yes	Yes	India - Member, Bhutan - Observer
India - Pakistan	Bilateral	No	No	Yes
Bangladesh - Nepal	Bilateral	Yes	Yes	Yes
Bangladesh - Bhutan	Bilateral	Yes	Yes	Bangladesh - Member, Bhutan - Observer
Bhutan - Nepal	Bilateral	Yes	No	Nepal - Member, Bhutan - Observer.
Pakistan - Afghanistan	Bilateral	Yes	Yes	Pakistan - Member, Afghanistan - Observer

Source: De, P., A.R. Khan, and S. Chaturvedi (2008) taken from RIS, 2008

I.2. India's Policy Initiatives On Behalf Of Market Integration:

The strategy towards a greater integration of the Indian economy with the rest of the world has been pursued since the late seventies. The liberalization process remained somewhat slow during the first half of the eighties and it gathered momentum during the second half of the decade. Two prominent Committee Reports had influenced in the policy changes - (1) The Report of the Committee on Import Export Policies (Chairman: P.C. Alexander, 1978); and (2) The Report of the Committee on Trade Policies (Chairman: Abid Hussain, 1984). The Alexander Committee recommended simplification of the import licensing procedure and provided a framework involving a shift in the emphasis from 'controls' to 'developments'. Following the recommendations of the Alexander Committee the emphasis of the policy efforts was to simplify the procedures governing India's foreign trade (for details refer Kapila, 2006-07).

The Abid Hussain Committee envisaged 'growth-led exports' rather than 'export-led growth' and stressed upon the need for harmonization of foreign trade policies with other economic policies arguing for a phased reduction of effective protection. In line with these recommendations, the policy was formulated with the aim of boosting exports and encouraging efficient import substitution. The trade policy changes in the post 1991 period sought to minimize the role of quantitative restrictions and subsequently reduce the tariff rates on the lines suggested by the Tax Reform Committee (Chairman: Raja C. Chelliah). Apart from unilateral measures, the liberalization of India's trade policies also reflects a multilateral commitment of the country to the World Trade Organization (WTO).

It is noteworthy that the problem areas on freeing international trade are yet to be resolved although the 15 year transitory phase of WTO has already ended. While tariff barriers have declined over the last 15 years, newer standard -related and procedural non-tariff barriers have been devised by the countries to protect the market.

I.3. North-East India and Look-East Policy Initiatives:

India's 'Look-East Policy' began in the early 1990s. India is now one of four summit level partners - along with China, Japan, and Korea - of the Association of South East Asian Nations (ASEAN). Trade between India and ASEAN countries is expanding significantly. India has signed free trade area (FTA) agreements with Thailand, and Singapore; there are plans to create a free trade area with Brunei, Indonesia and Malaysia by 2011 and with the remaining ASEAN countries - by 2016. There are a number of structures of sub-regional cooperation in place including the Mekong-Ganga Cooperation (MGC) and BIMST-EC (Bangladesh, India, Myanmar, Sri-Lanka and Thailand - Economic Cooperation). Outside of ASEAN, bilateral trade between India and China has improved significantly.

In the changed environment of regional economic integration and especially India's 'Look-East Policy' initiatives of 1990s held bright prospects for North-Eastern region of India comprising with the states Assam, Meghalaya, Manipur, Arunachal Pradesh, Nagaland, Mizoram and Tripura with about 8 percent of the country's geographical area and about 4 percent of population of the country. North-Eastern region which, shares all but 2 percent of its boundary with foreign countries including Bangladesh, Bhutan, Myanmar and China, the prospects of cross border trade began to be explored. M.P. Bezbaruah mentioned that the industrialization process that had started in the region during colonial period lost momentum in the post independence India as the region lost its attractiveness as a destination of investment due to factors such as hike in cost of transportation because of partition, increased risk perception and lack of political muscle power to influence decisions in the public sector led industrialization of the country under planning (Bezbaruah, 2004). "Though the causes of poverty are deep and complex", writes economist Shushil Khanna, "there is no doubt that the disruption of trade and commerce and communication due to partition of the country, as well as India's import substitution strategy of industrialization and gradual erection of barriers to international trade, have disrupted economies that till 60 years ago were well integrated and deprived the region of the gains from trade based on comparative advantage" (Khanna, 2002:3).

"Borders", in the words of Sanjib Barua tend to distort markets due to tariff and other rigidities. Producers avoid locating industries near a border since trade barriers limit the market for goods and the area that supplies inputs. It is more rationale to locate in an area that is closer to the core of the domestic market. The 'border effect' thus leads producers to locate industries away from international borders". (For instance, Barauni was supposed to be a better location than Guwahati for concentrating refining capacity). (Barua, 2004). Thus as border trade came under focus many in the Northeastern region of India started looking upon it as a way of freedom for the region, from the constraint of geographical isolation (See Verghese, 2001; Khanna, 2005; Bezbaruah, 2004). Liberal border trade with Bangladesh and Bhutan has assumed importance for building greater South-Asian regional cooperation. Trade between North-East India and Bangladesh assume importance as key in alleviating their predicament for opening up the least costly avenues for sea trade for these relatively less developed and remotely placed regions (Islam, 2003). Similarly trade with Myanmar has acquired significance in the context of India's look-east policy initiatives - i.e., building ties with booming and prosperous economies of South-East Asia and China through Myanmar. "Nor one would Claim", writes Sanjib Barua, "that integration of Northeast India's economy with Bangladesh, Bhutan or Myanmar would immediately produce effects like the relocation of industries taking place in Mexico or Canada as a result of market power of the US economy. But when a natural economic region is allowed to emerge without the constraints of national boundaries, the locational advantages and disadvantages are necessarily very different from those in a situation when border effects are in full force" (Barua, 2004). The S.P. Shukla Commission (1999) in their report forwarded an optimistic view -'the Northeast is no more burdensome peripheral somewhere out there, but is poised to resume its dynamic role as a bridge to the booming economies of South East Asia and China for mutual benefit.' Ghosh and De (2003) on the other hand in their study mentioned that poor infrastructure facilities is the major obstacle to probable intra-regional trade between bordering states of India and the South Asian countries and without adequate transportation facilities maximization of mutually beneficial trade can not take place.

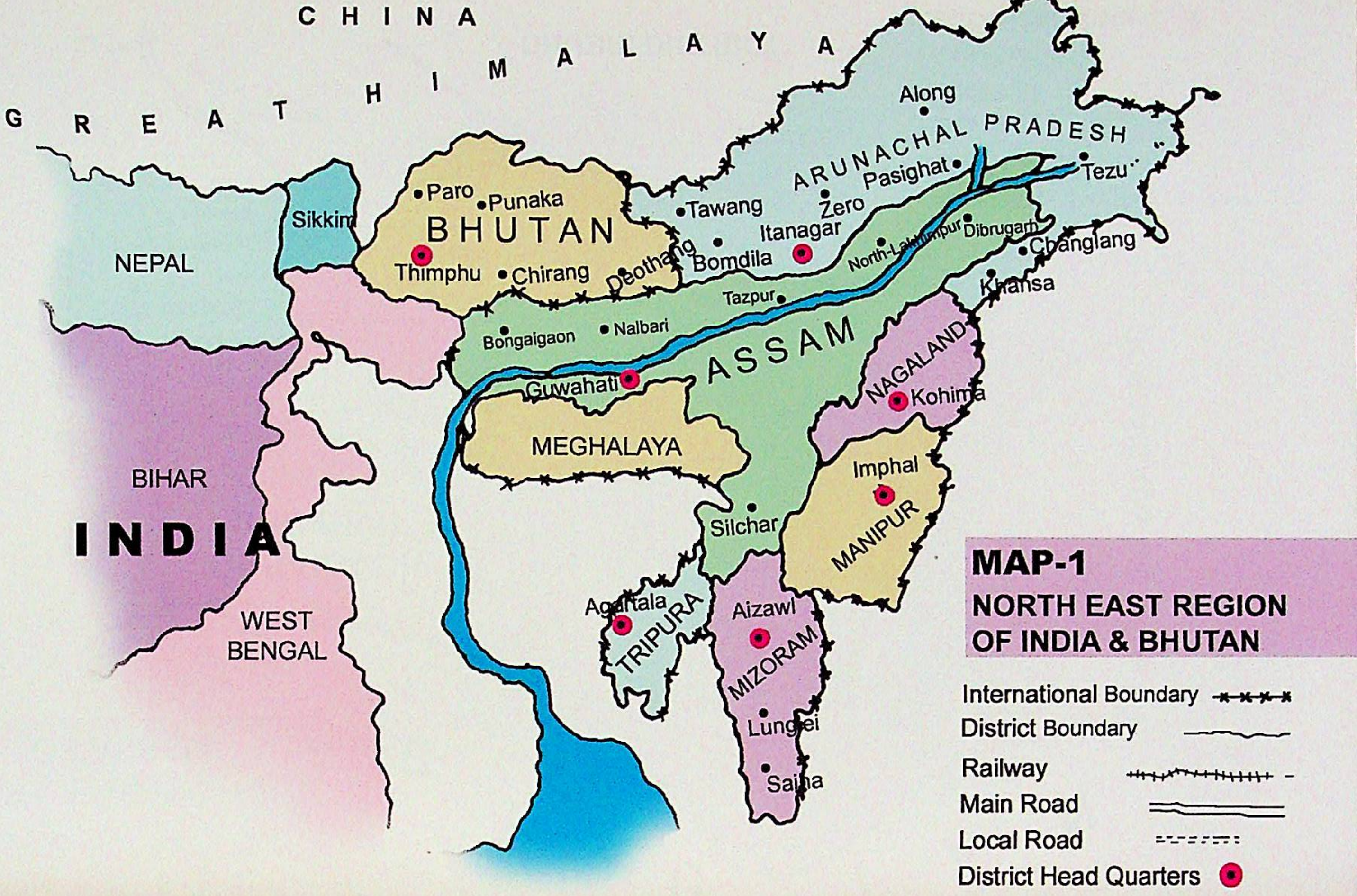
Analysing the recent trend in globalization and administrative reforms in Bhutan, Datta (2003) commented that due to the small size of the domestic economy and lack of substantial investment opportunities, the development of the economy of Bhutan can only be realized through foreign trade with the Eastern South Asia Sub-region (ESAS) comprising with India, Nepal, Bangladesh and Bhutan. Indeed, the logic behind cooperation in the ESAS through investments in power, hydro sector, road constructions, is to attract foreign capital from outside, diversify the production base and derive the comparative advantage in intra-regional trading system.

The North-Eastern region of India comprising seven states namely, Arunachal Pradesh, Assam, Manipur, Mizoram, Meghalaya, Nagaland and Tripura occupies an area of 2.55 lakh sq. km. (accounting for 8.06 percent of country's total area) accounting about 4 percent of the population of the country. The region is home to several ethnic groups and has over 200 of the 635 tribal groups in the country with a strong tradition of social and cultural identity. Richly endowed with natural resources, the region is identified as one of the world's biodiversity hotspots. The forest cover in the region constitutes 52 percent of its geographical area. This limits the availability of arable land and enhances the cost of delivering public services. The region is covered by the mighty Brahmaputra-Meghna river system and small rivulets and the floods and erosion of river banks have been an annual feature with enormous loss of life and livelihood. Two-thirds area of the region consists of hilly terrain. The region lags behind the rest of the country in several development indicators and the incidence of poverty in the region is high (North Eastern Council, 2007).

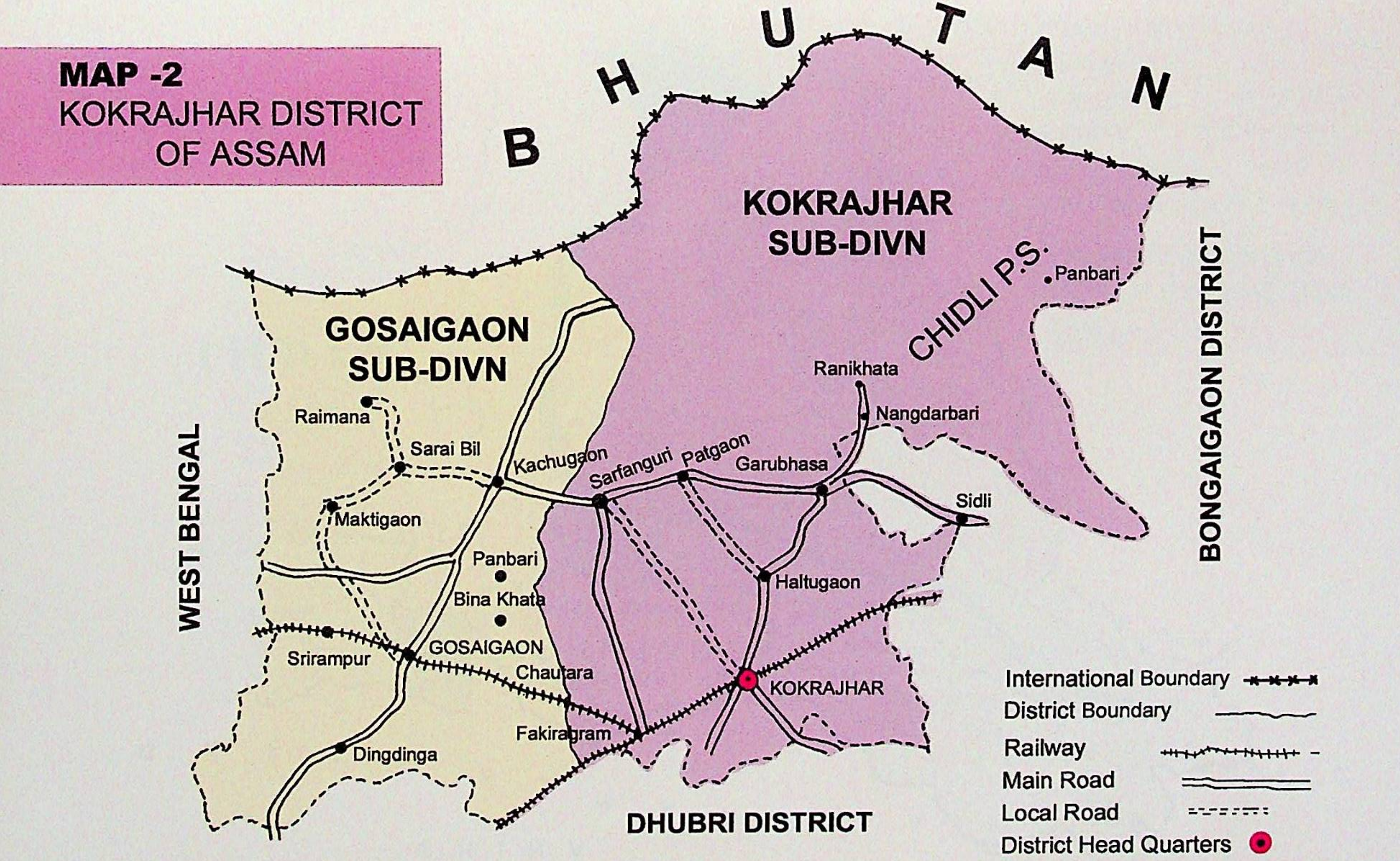
The Northeastern region and Bhutan share a common border of about 650 kms out of which 450 kms are with Assam. [Refer Map - 1]Geographically five districts of Assam viz., Kokrajhar, Bongaigaon, Barpeta, Nalbari and Udalguri share a common border with Bhutan's six districts viz., Samtse, Chhukha, Tsirang, Sarpang, Zhemgang, and Samdrup Jongkhar. Bhairabkunda, an entry point between Bhutan and Assam - Arunachachal border is connected with the neighbouring town Udalguri through a semi-pucca road. Similarly, border villages of Assam-Bhutan border viz., 'Saralpara' in Kokrajhar district and 'Mathanguri' (near Manas Sanctuary and Reserve forest) in Barpeta District and 'Subankhata' under Bagsa District of Assam are connected through Kuccha roads. Significantly, 'Darranga' an important entry point between Assam and Bhutan border under Bagsa (previously Nalbari) district is communicated through a black-topped road. The border areas suffer from both rail and road transport facilities. Although on the Bhutan side Samdrup Jankhar as a district head-quarter changed to a small town, on the Assam side 'Darranga' is one of the most backward village without having any lodging facility in the area. It is to be remembered that the distance of Darranga is only 100 kms from Guwahati, the capital city of Assam [Refer Maps*].

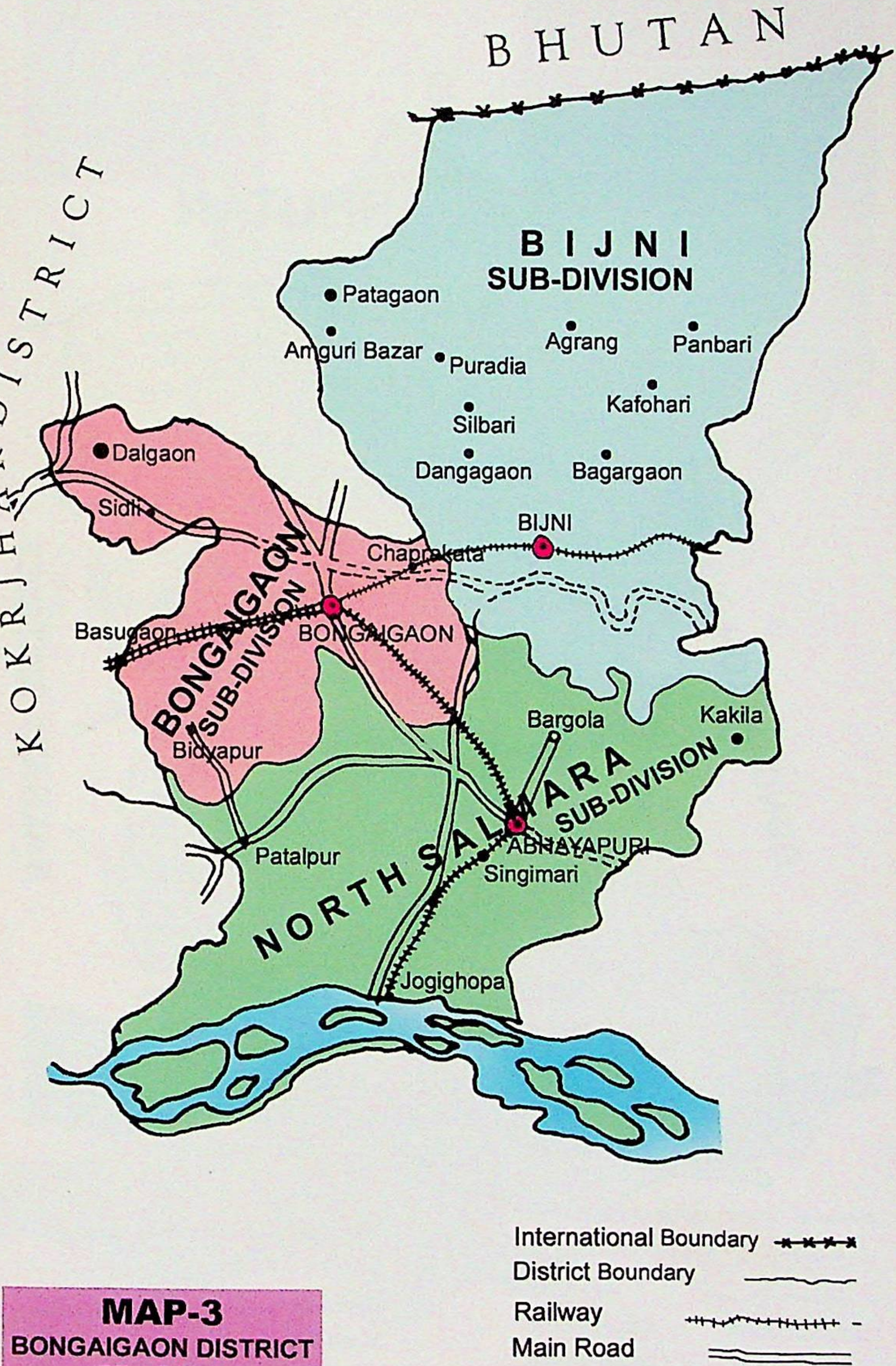
* Maps have been drawn (by hand) to give an idea about the transport & road facilities available in border districts of Assam of North-East India. Maps are not to the scale.

Maps



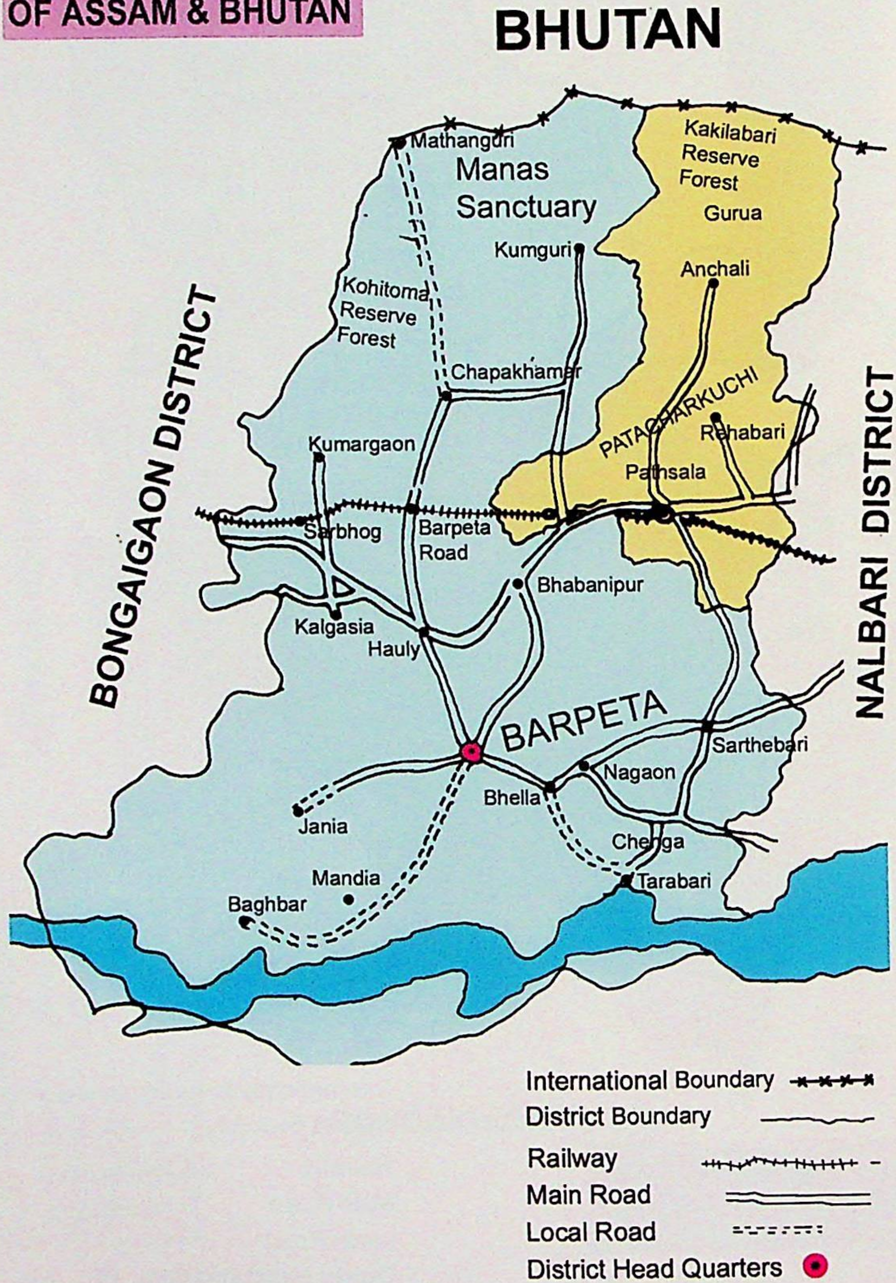
MAP-1
NORTH EAST REGION OF INDIA & BHUTAN


MAP -2
KOKRAJHAR DISTRICT
OF ASSAM
BHUTAN
KOKRAJHAR
SUB-DIVN
GOSAIGAON
SUB-DIVN
CHIDLI P.S.
Panbari
Ranikhata
Nangdarbari
Raimana
Sarai Bil
Kachugaon
Sarfanguri
Patgaon
Garubhasa
Sidli
Maktigaon
Panbari
Bina Khata
Haltugaon
Srirampur
GOSAIGAON
Chautara
KOKRAJHAR
Fakiragram
Dingdinga
WEST BENGAL
BONGAIGAON DISTRICT
DHUBRI DISTRICT
International Boundary
District Boundary
Railway
Main Road
Local Road
District Head Quarters

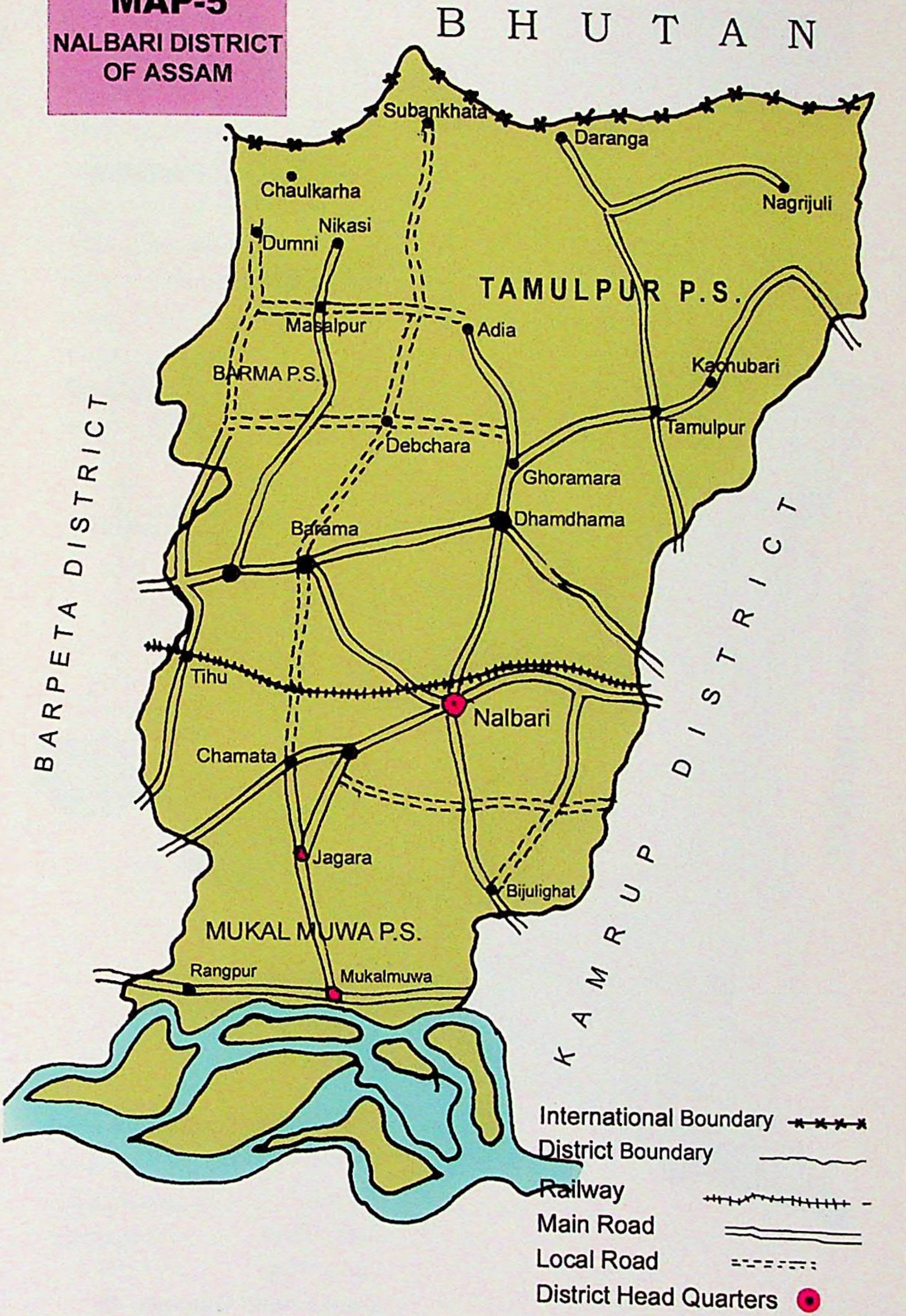


MAP-3
BONGAIGAON DISTRICT OF ASSAM

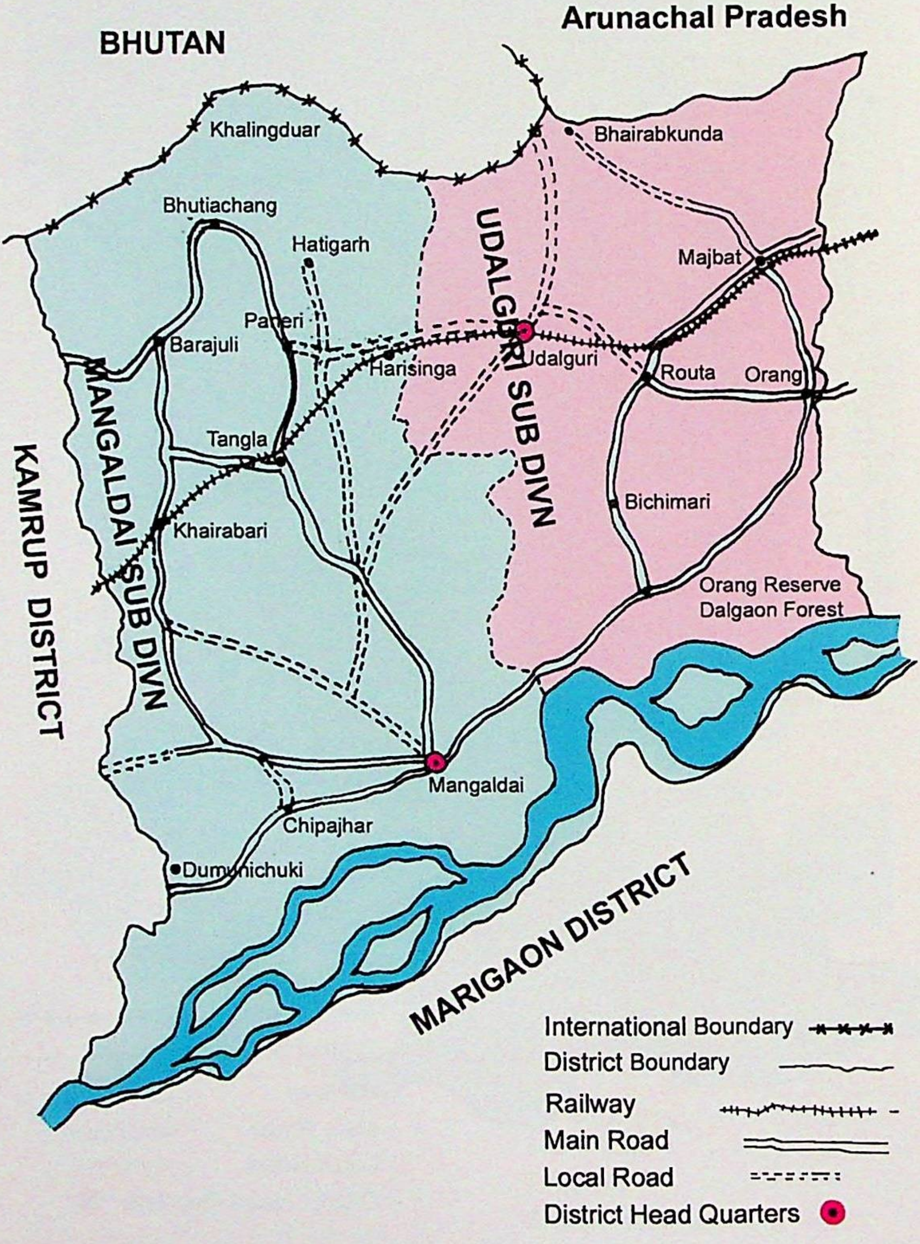
MAP-4
BARPETA DISTRICT OF ASSAM & BHUTAN



MAP-5
NALBARI DISTRICT OF ASSAM



MAP-6
DARRANG DISTRICT OF ASSAM



On the backdrop of theoretical knowledge it has been tried to explore possibilities of more liberalized trade through India's Northeastern region (especially Assam). An attempt to make a realistic assessment of the cross border trade between India and Bhutan has been taken on the following ground: (1) The economy of Bhutan still remaining unexplored; (2) Till now almost free commodity trade between India and Bhutan has been prevailing considering strategic rather than economic rationality; (3) Thirdly, to explore the potential areas for liberal border trade between Bhutan and North-East India for mutual benefit of both the countries as well as the villages neighbouring the Indo-Bhutan border.

II

Relations between Bhutan and 'Assam' of North-East India

II.1. Economic Conditions of Assam and Bhutan:

Economy of Assam: - Assam is by far the largest state in the Northeast. Assam accounts for about 2.4 percent of total geographical area of the country and 2.6 percent of India's population (26.6 million in 2001). The standard of living of the people in the North East region as measured by per capita gross state domestic product (GSDP) at Rs. 18,027/- in 2004-05, which is less than the all-state average of Rs. 25,968/- by 31 percent, although at the time of independence the per capita income in the undivided state of Assam was higher than the national average by 4 percent. Assam is predominantly an agricultural state with about 74 percent of the state's work force engaged in agriculture and other activities. Despite heavy dependence on the primary sector, only 35% of Assam's total income accrues to this sector. What's even more telling is that about 50% of Assam's income accrues to the tertiary sector. Therefore a little over 10% of Assam's GDP is from manufacturing. Over 87 % of Assam's population resides in rural areas. The density of population in Assam is 340 per square kilometer against a national average of 324. Assam is not only poorer, but also less literate (63.25%), high IMR (of 78), and ranks low in terms of HDI (0.348). Assam lags behind the most with a dismal growth rate in comparison to other states (Guruswamy & Abraham, 2005). Assam which was fifth highest in per capita income terms at the beginning of the planning era is now the second lowest after Bihar. The growth rate of Assam estimated for 2008-09 was 6.16 against India's 6.7 percent. Assam is one of the most poverty-stricken states with a little over 36% of its population living below the poverty line. The composition of the poor in Assam shows that rural poverty is getting mostly concentrated in non-agricultural labour and artisan households. Contrary to the average all India declining trend of the percentage of the very poor in rural as well as urban areas, Assam presents a different picture in the 1990s in reducing the incidence of the very poor. The incidence of the very poor increased in Assam between 1993-94 and 1999-2000 in both rural and urban areas despite a reduction in the percentage of the poor, implying worsening of inequality among the poor. In rural Assam, the percentages of stunted children among poor and percentage of chronically poor are 52.4 and 21.1 percents respectively. Although the percentage of stunted children among rural poor in Assam is lower than the all India averages, it is significantly high. However, the percentage of chronically poor children in Assam is higher than the all India average. Similarly, in urban Assam, the percentages of stunted children among poor and percentage of chronically poor are 49.1 and 3.8 percents respectively.[1]

In terms of social and economic infrastructures, be it per capita power consumption, credit deposit ratios, road and railway transport or whatever, Assam is far behind the rest of the country. For example, the surfaced road density (Km per 1000 sq Km) Assam has 148 against 424 in the country (in 2001). The per capita electricity supplied in Assam is 116 KW per person per year whereas the national average is 479. Only 26 percent of the households in Assam are having electricity compared to the national average of 60 percent. The credit deposit ratio in Assam hovers around 33 percent against a national average of about 55 percent.

To reach all-India level of per capita income in 2020 (estimated at about Rs. 78,000 at 2006-07 prices), the state of Assam will have to grow at 10.5 percent per capita per year. However, the present statistics of the economy of Assam depicts a dismal picture.

Economy of Bhutan:- The human development indicators places Bhutan in the category of Medium Human Developed countries. It was positioned at 131 in the ranking of UN's Human Development Index in 2009, better than India's (134). In recent period Bhutan has made remarkable progress in improving the levels of human development through significant investments in the social sector. The Government of Bhutan is investing 5.5 and 3.0 percents of its GDP on education and health sectors respectively. The Ninth Plan of Bhutan made provision for allocation for nearly a quarter of total budget resources on health and education sectors. Further, the Government has set up separate trust funds dedicated for health, education, and environment in order to protect these sectors. The Royal Government of Bhutan provide free education at all levels and has the provision of boarding and lodging facilities for the students from far flung areas. As a result the adult literacy rate which was 42.0 percent in the year 1998, increased to 69 percent (for male) and 49 percent (for female). Further, Bhutan has also made concerted efforts to provide health facilities to the rural people through an integrated system with national, regional, and district hospitals, followed by the Basic Health Units at the community level. As a result, the life expectancy at birth for Bhutan increased to 64.0 years in 2005 from 61.2 years for 1998. The population growth rate which was 2.5 in the year 2004-05 decreased to 1.3 in 2005-06. The Infant Mortality Rate (IMR) per 1000 live births which was 77 in the year 2000 decreased to 65 in 2006; the under - 5 mortality rate per 1000 population decreased to 70 (in 2006) from 100 (of 2000), which is less than the world average (70 in 2006). Also, Maternal Mortality Rate (MMR) per 100,000 live births was 440 in 2005 comparatively lower than India (450 in 2006). The maternal mortality ratio per 100,000 live-births in Bhutan which, was 1310 (1990-96) was alarmingly high (Research and Information System, 2001 & 2004). The considerable progress in reducing child mortality rates is largely achieved through the expansion of primary health care services and control of communicable diseases particularly TB and measles through successful immunization programme. As early as 1991, despite the lack of accessibility to children in remote areas, Bhutan was the first country in South Asia, which had achieved universal child immunization with 84 percent coverage of all infants vaccinated with the six antigens of Bacille Calmette Guerin (BCG), diphtheria, tetanus, pertussis, polio, and measles through the Expanded Programme of Immunization. All the EPI services were fully integrated into the general health services and delivered through the extensive health network of

Table-2: Indicators of Social sectors viz., Education & Health in Bhutan.

Indicators		Country		
		Bhutan	India	South Asia
Total Population (in Million)	2000	0.81	1014	
GNP per Capita	2000	820	1588	
Adult Literacy Rate (%) 2005	Male	69	73	70
	Female	49	48	45
Life Expectancy at Birth	2000	61.5	62.9	62.6
	2006	64	64.0	64.0
IMR per 1000 live Births	2000	77	68	72
	2006	65	57	62
Under-5 Mortality rate per 1000 live births	2000	100	94	100
	2006	70	76	83
MMR per 100,000 live Births	2000	420	540	566
	2006	440	450	500
One Year old fully Immunized [against TB, %]	2001	81	73	77
	2005	99	75	79
[against Measles, %]	2001	78	56	60
	2005	93	58	65

Source: UNDP (www.undp.org) and The World Bank (www.worldbank.org) hospitals and clinics. According to the recent EPI coverage evaluation survey, the nationwide immunization coverage has been retained at a very level at over 90 percent.

Although Bhutan was traditionally dominated by agriculture contributing 42.7% (in 1991) in GDP, due to development strategy pursued by the government in the decade of 1990s, a structural transformation has taken place in the country. As a result the share of agriculture came down steadily over the period 1991 - 2006. The share of agriculture in GDP declined from 42.7 percent (in 1991) to 22.3 percent in 2005. This loss of share in agriculture led to rising share in industry in case of Bhutan (from 16.8 to 28.3 percent).

II.2. Linkages between Assam and Bhutan - Historical and Cultural Ties:

Historically, the Northeast had extensive links with the neighbouring region of Tibet, Burma, Indo-China and Bhutan. It formed the southern trail of the Silk Road. However, as India became an important colony for Great Britain, barriers were erected between Bhutan and Assam, while traditional links with other countries acquired a strategic hue (Baruah, 2004). Baruah calls this disruption of old trade route as 'colonialism's most enduring negative legacy' (also quoted in Khanna, 2005).

The country Bhutan is roughly two hundred and twenty mile in length, and its breadth which varies considerably, averages ninety miles. It is bounded on the north by Tibet; on the south by Bengal, the state of Cooch Behar and Assam; on the west Bhutan adjoins the state Sikkim. The western or Bengal Dooars are for the most part now covered with the garden, but the Eastern or Assam Dooars are mostly still covered in virgin forest (Singha, 2001). There are three ethnic groups settled in north, east and south of Bhutan. The most important group is Bhutias of Mongolian origin whose ancestors came from Tibet and settled in northern central and western Bhutan. In eastern Bhutan there are people of Sharchops, originally from Assam and Arunachal

Pradesh of India. They are Indo-Mongoloid people and Bhuddhists by faith. Other ethnic group is Nepalese. The cultural ties between India and Bhutan are indeed very strong. Visits by Bhutanese people to places of Buddhist religious importance in India is a regular and continuing feature. Much of the elite in Bhutan have been educated in Indian schools and Universities. The political relations between the two countries are governed by Indo-Bhutanese Treaties. An Anglo-Bhutanese Treaty signed in 1910, placed Bhutan's foreign affairs under the supervision of the Government of British India. The Government of independent India replaced that Treaty in August 1949 by Indo-Bhutanese Treaty of Friendship. The Article 2 of the Treaty states that the Government of India undertakes to exercise no interference in the internal administration of Bhutan. On its part the Government of Bhutan agrees to seek the advice of Government of India with regard to her foreign affairs, but remains free to decide whether or not to accept such advice. The Treaty is a legacy of Bhutan's historical relations with British Colonial Raj in India (see Sengupta 2000, Singh, Singha, 1998).

II.3. Economic Relation of Bhutan with India:

Significantly, ever since 1960, the year Bhutan started planned economic development efforts India has been extending financial assistance to that country. India had totally financed first and second Five-Year-Plan of Bhutan. The total plan outlay of Bhutan from 1961 to 2013 is Rs. 31633.13 crores out of which India contributed Rs. 8503.04 crores representing 26.88 percent of total plan resources of Bhutan [Table -3].

India has also contributed to Bhutan's development outside the scope of the Five Year Plans. Some of the major projects in Bhutan carried out with Indian assistance in the past include 1020 MW Tala Hydroelectric Project, 336 MW Chukha Hydroelectric Project, 60 MW Kurichhu Hydroelectric Project, Penden Cement Plant, Paro Airport, Bhutan Broadcasting Station, Major Highways, Electricity Transmission and Distribution System, Indo-Bhutan Microwave Link, Exploration of Mineral Resources, Survey and Mapping, 350 bedded JDWNR Hospital in Thimphu, Regional Referral Hospital in Mongar, Phase I of double-laning of Thimphu-Phuentsholing road, double laning of Paro-Chuzom road, construction of 10 new schools, 306 low income housing units, Renovation of Semtokha Dzong, two Youth Centres, RENEW Centre, Human Resource Development, Telecommunications, projects in agriculture and allied sectors and feasibility studies for establishing rail linkages between border towns of India and Bhutan.

The most striking example of India's contribution to Bhutan's development in the 1980s is the - (i) very successful 336 mw Chukha Hydro Electric Project, and (ii) Panden Cement Plant. Chukha Hydro Electric Project of Rs. 247 crores was completed by India in October 1988 on a turnkey basis. Nearly 70 percent of generated power is supplied to India. Chukha Hydro Power Corporation (CHPC) presently earns around Rs. 140 crores per annum contributing nearly 60 percent of the revenue of Bhutan through sale of electricity to India. At a cost of Rs. 14.20 crores India gifted Panden Cement Plant (PCP) project (300 tpd) to the people of Bhutan in 1980. The surplus cement of this plant is exported to the neighbouring states of India. During VII FYP three major projects, which were Tala Hydro Electric Project, Kurichu Hydro Electric Project and Dungsum Cement Plant were taken up. Other important projects were Sankosh Multipurpose and Bunakha projects, Renovation of Punakha Dzong and Pasakha- Monitor Road. Following the bilateral agreement signed on March 5, 1996, Tala Hydroelectric Project (THEP) 1020 mw project on Wangchu river (Downstream of Chukha project) was launched. The project is funded by under the 'PLAN' funds of Government of India, with 60 percent grant and 40 percent loan repayable at 9 percent per annum. Kurichu Hydroelectric Project (KHEP) envisages 3 units of 15 mw each with provision for an additional 15mw unit. Government of India had earlier signed a bilateral agreement for implementation of this project. Dungsum Cement Plant (DCP) is a dry processing plant with an annual capacity of 0.5 million tons per year. As per the agreement on March 5, 1996, GOI provides Rs. 300 crore as funds for projects and Rs. 100 crores towards infrastructural facilities on the Indian side. Indian assistance to Bhutan for its VIII FYP has focused mainly on the developments of infrastructure involving the construction of roads, bridges, hospitals and creation of power generation capacity.

Table -3: Showing India's Contribution to Bhutan's Five-Year-Plans. [in Rs. crores]

Year	No. of FYP	Total Plan Outlay	India's Contribution	India's Contribution
1961-1966	I FYP	10.72	10.72	100
1966-1971	II FYP	20.22	20.22	100
1971-1976	III FYP	47.52	42.66	90
1976-1981	IV FYP	110.62	85.30	77
1981-1987	V FYP	444.05	134.00	30.2
1987-1992	VI FYP	950.00	400.00	42.1
1992-1997	VII FYP	2350.00	750.00	31.9
1997-2002	VIII FYP	4000.00	1050.00	26.0
2002-2008	IX FYP	8900.00	2610.14	29.33
2008-2013	X FYP	14800.00	3400.00	23.0

Source: www.google.com

Assistance to 10th Five Year Plan of the Royal Government of Bhutan (RGoB):

Government of India committed assistance worth Rs./ Nu. 3400 crores during the 10th FYP. This includes Project tied Assistance (Rs 2000 crore), Programme Grant (Rs 700 cr.) and the Small Development Projects (Rs 700 cr.).

Small Development Projects: The Government of India, under RGoB's 10th Five Year Plan (FYP), has allocated Rs. 700 crores for the Small Development Projects (SDPs) with the objective of implementing smaller, short-gestation and community-oriented projects in vital sectors of health, education, rural infrastructure (conference hall, farm roads, small bridges, etc), water supply, irrigation channels, Renewable Natural Resource (RNR) centres etc. It is expected that over 2000 such projects will be implemented all across 20 districts of Bhutan in five-year time. A Small Development Projects Committee (SDPC) comprising members from RGoB and Indian Embassy has been formed to oversee implementation of this scheme. The first lot of 441 projects worth over Rs/ Nu 130 crores covering all 20 districts of Bhutan have been identified. GOI has released 30% mobilization advance amounting to Rs. 39.39 crores for these projects.

II.4. Foreign Economic Relations of Bhutan:

Whereas Bhutan was once nearly totally dependent on India not only for its development assistance but also for its entire government revenue, it increasingly turned to various international organizations, such as the United Nations, the Colombo Plan, the World Bank, and the Asian Development Bank, for loans. Since the 1960s, Bhutan, through the Colombo Plan, has received aid from several countries in the form of farm machinery, motor vehicles, schoolbooks, and laboratory equipment, livestock, seeds, diary equipment, medicine, and refrigeration and irrigation systems. Participating countries included Japan, Australia, New Zealand, Britain, Austria, Switzerland, West Germany and Canada. The World Bank granted a US$9 million interest free loan to help with the development of a calcium carbide plant near Phuntsholing. As of 1990, total Asian Development Bank loans to Bhutan since the latter joined in 1982 amounted to US$ 30 million. In 1987 and 1988 alone, the bank approved loans totaling more than US$ 6.9 million to cover the modernization of industrial estates and to provide foreign currency for the Bhutan Development Finance Corporation, which in turn provided credit for agricultural projects and private sector businesses. Asian Development Bank loans to Bhutan for 1990-93 were projected at US$ 35 million, plus a grant of more than US$ 4.85 million; the aid was for technical assistance.

The sixth Development Plan saw increased involvement of aid both through UN auspices and the non-profit Swiss organization HELVETAS (Swiss Association for Technical Assistance). HELVETAS began providing funding to Bhutan in 1975 through contributions from association members and the Swiss government. In 1990, for example, HELVETAS contributed Nu32.8 million (69 percent of total foreign aid) to establish the Natural Resource Training Institute, a two-year technical training school. The Japanese government gave Nu74 million in grants for agricultural development and audio training equipment in 1990-91.

In 1989 the World Food Programme approved a two-year US$700,000 project to establish food reserves that would help Bhutan handle local emergencies and interruptions of food supplies. The Food and Agriculture Organization of the United Nations (FAO) sponsored a program to assist Bhutan in achieving food self-sufficiency by 1992. Another form of aid received by Bhutan was international and foreign volunteer programme. A UN volunteer program initiated in 1980 brought foreign specialists in to assist and advise in the areas of education, health, engineering, animal husbandry, agriculture and urban planning. By 1990 Japan, New Zealand, Britain, and Canada also were operating volunteer programs in Bhutan.

Foreign grants, however, are expected to cover most of the current account deficit. Bhutan will continue to receive large amounts of bilateral and multilateral aid, estimated at about 50% of the budget. In April the Danish government approved an assistance package of US$17 m for the drafting of legislation infrastructure work. The funds have been allocated to the Ministry of Trade and Industry, the National Environment Commission, the Ministry of Agriculture and the Ministry of Works and Human Settlement (The Economist Intelligence Unit, 2004) .

III

Bhutan: March towards Multilateralism

III.1. Initiatives of Bhutan for Democracy, Regionalism and Multilateralism:

Bhutan's transition to democracy began in 2001 when former King Jigme Singye Wangchuk handed over the powers of daily governance to a council of Ministers. In 2006 he abdicated the throne in favour of his son Jigme Khesar Namgyel. In the run-up to the National Assembly pools, two rounds of dummy elections were held in April and May, 2007 in which the Bhutanese voted for traditional values. However, for embracing democracy the first general elections to choose 47 candidates for Bhutan's National Assembly the lower house of Parliament will be held on March, 2008. Already, Bhutan elected 15 members of its National Council or Upper House of Parliament on December 31 of 2007.

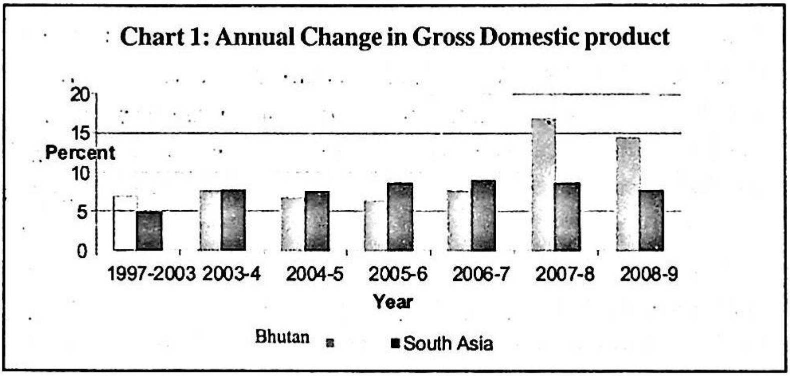
Bhutan, as an active member of SAARC now expects to benefit from increased cross-border trade following the launch of the South Asia Free-Trade (SAFTA). While attending the first SAARC summit in 1985, the then King stressed the importance of regional cooperation: 'The concept of regional cooperation has taken a concrete shape with the establishment of the South Asian Association for Regional Cooperation. It is a manifestation of our collective wisdom and political will to bring about meaningful regional cooperation in spite of differences in foreign policy and security perceptions. We have established a viable forum for regular consultation on all issues of mutual concern in pursuance of our common aim to promote peace, progress and prosperity.' Bhutan also joined the BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Co-operation) regional group on February 9th established in 1997. Bhutan has decided to join WTO and hopes to complete the process soon.

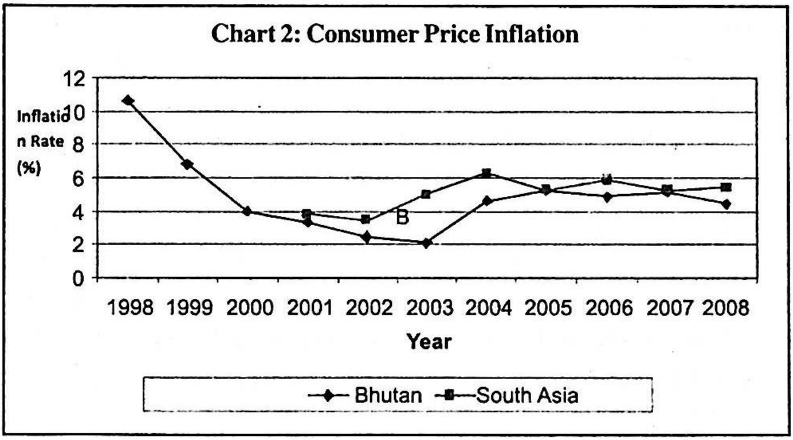
III.1.1. Preparation of Bhutan towards Multilateralism: Growth Performance of Bhutan:

Although Bhutan is one of the medium-developed countries, the economy of Bhutan achieved a robust growth rate of 7.0 percent on average during 1997-2003 and again it increased to 10.0 percent during 2003-08 which, is higher than South Asia average of 8.2 (2003 - 08). Bhutan's economy expanded by a substantial 17 percent in 2007-08, the best in the South Asia region, on the back of more than tripling of the hydroelectric power generation capacity with the commissioning of Tala hydropower project [Refer Appendix Table - A.1]. Bhutan is gearing itself up to exploit its hydroelectric potential with three more power projects that will help in sustaining growth in the medium term. The surplus power exported to India is helping Bhutan to run a healthy current account surplus of 10 percent of GDP. The power generation is providing opportunities for diversification of economic structure and expands the base of economic activity and employment generation. Construction sector is also booming. Integration with India insulated Bhutan from the adverse effect of slowdown of the global economy in 2001. Construction of hydropower plants and power exports to India remained the key factor in Bhutan's GDP growth in the recent years. The prudent macro economic management over the years also contributed towards rapid growth of the economy (Research and Information System, 2004 & 2008). Bhutan has been able to record remarkable success in stabilization of the economy and containing inflation. The inflation rate in Bhutan, which was 12.3 in 1991 declined to a meager 2.5 percent in 2002. However, the inflation rate again increased and hovered around 5 percent during the period 2004 - 2008. Notwithstanding, the rate was less than the South Asia average. From the statistics it appears that Bhutan along with other South Asian countries has been able to record remarkable success in stabilization of the economy and containing inflation [see Appendix Table -A.2].

Bhutan was traditionally been dominated by agriculture or primary sector. The focus of the development strategy pursued by the government over the past fifty years has been to industrialize the economy and reduce their dependence on agriculture. As a result of these policies the share of agriculture has come down steadily over the period. The sectoral composition of Agricultural production which was 42.7 percent of GDP in 1991 declined to 22.3 percent in the year 2005. The striking observation is that loss in the share of agriculture in Bhutan has led to rising share of industry (from 16.8 in 1991 to 28.3in 2006) [see Appendix Table -A.3].

Bhutan has achieved significant economic and social gains in recent decades. Inflation has been relatively stable, closely tracking price movements with India in view of the significant economic and financial links between the two countries, including a currency peg. The large inflow of foreign grants and rising electricity exports to India, have been reflected in the overall balance of payments and a significant build-up of foreign reserves. Bhutan's cautious approach to fiscal management is underpinned by efforts to meet current expenditure with domestic revenue, while financing capital expenditure with foreign grants and soft loans. Reflecting the sizeable accumulation of foreign assets, monetary expansion has averaged 35 percent in the fiscal years 2003 & 2004, well in excess of the growth of nominal GDP suggesting rapid monetization of the economy.





Source: National Statistical Bureau & RIS Data

III.1.2. Economic Reforms in Bhutan:

As a part of reform package the Bhutan Government has adopted a multi-pronged strategy : (a) Establishment of a strong responsive, accountable and credible civil service; (b) Decentralization of administration and greater involvement of people in the decision making process; (c) Privatisation and reduction of government involvement in industry, trade and business; (d) Integration of Bhutan with the international community through greater socio-economic interaction; and (e) Development of human resources aimed at providing manpower to all sectors of the economy, which can sustain and carry forward the growth process. To the Bhutanese, the promotion of gross national happiness (GNH) is more significant than that of gross domestic product (GDP) (Datta, 2003:212).

During 1990s a series of structural reform measures were initiated to enhance growth and increase private sector participation in economic activity. The privatization programme is progressing steadily; preparatory steps are being taken to formulate a framework for foreign investment; and the legal support for the financial system is being strengthened. The liberalization of financial and industrial policies to encourage private sector development is a major step to reduce public sector activities in the economy as well as to expand the tax base. A personal income tax is being introduced as a step to strengthen the tax structure and diversify government revenue, which continues to be heavily reliant on the production and exports of electricity. The monetary authorities are taking steps to increase the flexibility of financial institutions in setting their interest rates, to promote competition in the financial sector and, to encourage private investments. The government is gearing up for the necessary legislative and regulatory changes in a phased manner to comply with WTO requirements (see Datta, 2003).

In 2002 the Government adopted a liberal FDI policy, which allows foreign companies to own up to 70 percent of joint ventures, and specified a minimum investment of $1 million in manufacturing sector projects and $0.5 million in the case of service sector investment. Along with liberalizing the FDI policy regime in 2003 government announced various tax incentives with a view to promote export and generate additional employment opportunities. The trade regime has been strengthened by rationalization of import tariffs and export duties. To strengthen the financial system new prudential regulations have been introduced (Research and Information System, 2004). Removing quantitative restrictions, the Government introduced a comprehensive tariff structure, and the earlier system of levying 100% duty on any import for which exemptions have not been obtained, has been replaced by a simple system of tariff rates for different types of goods. Presently Bhutan is considering allowing 100 per cent FDI by Indian Companies in hydel power space, which is departure from 70 percent permitted in any sector at present (The Assam Tribune, 2008)

III.1.3. Present External Orientation of Bhutan and Trade Performance in Global Market:

The trade/GDP ratio can be considered as a measure of openness or trade integration. The trade/GDP ratio indicates the external orientation or trade dependency of the country with the world market. It is seen that South Asian countries are currently more globally integrated than they were in 1990. Despite growing trade-GDP ratio, the South Asian economies continued to remain least open relative to other groups of emerging and developing economies. The proportion of trade in GDP of SAARC region increased markedly from 15.1 per cent during the 1970s to 51.8 per cent in 2008 (Rajeev Jain & J. B. Singh taken from www.Google.com). However, the trade to GDP ratio of the region marks considerable variation in trade integration

Table-4: Trade Openness (Export & Import as percent of GDP) in SAARC Countries

Country	1960	1970	1980	1990	2000	2008
Afghanistan	11.2	21.7	-	-	-	87.0
Bangladesh	19.3	20.8	23.4	19.7	33.2	47.0
Bhutan	-	-	50.4	56.7	76.2	146.0
India	11.8	7.8	15.6	15.7	27.4	54.0
Maldives	-	-	-	-	161.1	-
Nepal	-	13.2	30.3	32.2	55.7	45.0
Pakistan	-	22.4	36.6	38.9	28.1	34.0

Source: World Development Indicators, World Bank.

among the countries of this region. While India has the lowest trade/ GDP ratio of the region, smaller economies like Bhutan, Nepal and Sri Lanka have much higher dependence on trade [Table - 4]. The Trade /GDP ratio for Bhutan which was 50.4 percent in 1980, increased to 146.0 percent in the year 2008.

Although the trade/GDP ratio increased significantly, trade performance of Bhutan at the global level is dismal in relative sense. The dismal picture of trade performance is clear from the fact that in the area of basic manufacture out of 184 countries in the world, the rank of Bhutan is 124 [see Appendix Table- A.4]. In terms of exports of basic manufacture till now Bhutan remains backward. Similarly, in terms of rate of per capita exports Bhutan ranks 121st. This reflects that the country is unable to produce enough for the world market. In terms of share in global market in basic manufactures Bhutan ranks 119th against the same for India are 34th. From these data it is evident that in world market, trade performance of Bhutan is not satisfactory. Notwithstanding the country shows increasing external orientation or trade dependency with the world market.

III.2. Trend in Growth Rates of Exports and Imports of Bhutan:

In the early 1990s (i.e., 1991-92), Bhutan had a negative export growth rate (-0.9%). However, export growth rate in Bhutan was on a revival path during the mid 1990s, though the average rate for the period was at 3.7 percent (during 1993-1995) [refer Appendix Table- A.5]. During the period 1997-2001, the average export growth rate of Bhutan was much lower (0.8 percent) than the average export growth rate of South Asian region (5.3 percent). The performance of South Asian countries in terms of trade growth has improved remarkably since 2002 in consonance with the recovery of the world trade from recession of 2000-01. The average growth rate of exports for the South Asian countries for 2002-08 at 19.3 percent reveals a substantial improvement over the average for the previous five years at 5.3 percent. The average rates of growth of world trade for the two periods were 11 and 3.4 percent, respectively. Hence, it is clear that South Asian region strengthened its position in the international division of labour during the period 2002-8 (RIS, 2008). Significantly, such dynamism in export growth was shared by Bhutan (from 0.8 to 33.2 percent) also [Refer Table-5].

Table-5: Comparative Export Growth Rates in Bhutan, India & south Asia

	South Asia	Bhutan	India
1997	4.8	1.7	4.5
1998	-1.1	12.1	-3.9
1999	4.4	-5.9	9.5
2000	17.0	9.1	19.6
2001	1.2	-12.9	0
2002	13.6	4.1	20.3
2003	20.8	8.9	24.1
2004	24.0	39.7	48.6
2005	21.0	34.5	32.1
2006	20.1	47.2	21.8
2007	16.2	64.5	23.1
2008	14.5	3.9	22.0
Average (1997-2001)	5.3	0.8	5.9
Average (2002-08)	19.3	33.2	28.3

Source: RIS based on ADB (2008).

In the early 1990s, South Asia's overall import growth at -1.0% reflects, to some extent, efforts to reduce imports by India in the wake of an unprecedented liquidity crisis faced in 1991. In the mid 1990s, imports in the region expanded at an average rate of 24.9 percent, which is higher than the average export growth at 18.9 percent during this period. Import growth rates have, however, declined in the late 1990s. Exceptionally in Bhutan the import growth rate have grown at around 14 percent after being expressed during the mid 1990s.

Table-6 indicates that the growth rates of exports have their resonance on the growth rates of imports in case of South Asia as a region. The average rate of growth of imports for the region dramatically jumped from 2.2 percent during 1997-2001 to 24.6 percent during 2002-08. However, the rate of import growth of Bhutan did not accelerate much from the previous period (i.e., from 20.2 to 20.4 percent). The statistics indicates that growth rate of exports of Bhutan during the period 2002-08 averaged at 33.2 percent against the growth rate of imports for the same at 20.4 percent. Therefore, the situation in respect of balance of trade for the Bhutan can be termed as comfortable.

Table-6: Comparative Import Growth Rates in Bhutan, India & south Asia

	South Asia	Bhutan	India
1997	3.3	58.1	4.6
1998	-8.5	3.7	-7.1
1999	10.9	19.2	16.5
2000	7.1	14.0	7.0
2001	-1.8	6.1	-2.8
2002	8.8	8.6	14.5
2003	22.8	1.6	24.1
2004	39.5	27.3	48.6
2005	30.2	75.5	32.0
2006	21.6	-5.6	26.2
2007	24.5	15.1	27.1
2008	20.4	19.5	19.2
Average (1997-2001)	2.2	20.2	3.6
Average (2002-08)	24.6	20.4	28.8

Source: RIS based on ADB (2008).

III.3. Present Trend in Direction of Trade of Bhutan:

Tables - 7 & 8 indicate the direction of trade of Bhutan with other countries. The trend of exports from Bhutan to other countries show that the percentage share from Bhutan to India increased steadily