from 86.39 percent in 1990 to 94.45 percent in 1999 [Table- 7]. From the year 2000 the share of exports to India shows a declining trend with a minimum of 77.2 percent in the year 2006 [Table - 8]. However, in case of Bangladesh, which was another major country for the exports of Bhutan, the share of exports decreased with year-to-year fluctuation from 10.46 percent in 1990 to 4.20 in 1999. Table - 8 shows that the share of exports to Bangladesh tends to decrease from 2004. From 2005 Bhutan's exports to the countries like Hongkong and Singapore etc., increased [Table - 8].

On the other hand, in case of imports to Bhutan from India, the percentage share decreased gradually from 82.31 percent in 1990 to 65.62 percent in 1998. In 1999 the share slightly increased to 74.61 percent [Table - 7]. From the year 2000 this share again increased with maximum 88.4 percent in 2004. However, from 2005, the share shows decreasing trend [Table - 8]. In the decade of 1990s Bhutan

Table- 7: Direction of Trade of Bhutan

Exports	**Share in Percent**									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
India	86.39	89.72	82.78	89.74	93.43	91.91	90.80	94.57	93.72	94.45
Bangladesh	10.46	7.12	14.05	9.65	6.13	6.00	7.36	4.20	4.37	4.20
Others	3.15	3.16	3.17	0.61	0.44	2.09	1.83	1.24	1.91	1.35
Total	100	100	100	100	100	100	100	100	100	100
IMPORTS										
India	82.31	84.48	60.08	70.29	71.31	72.22	64.00	69.38	65.62	74.61
Japan	5.16	4.81	16.80	13.13	13.80	11.31	13.31	16.91	7.44	3.32
Germany	1.60	1.20	0.80	1.58	2.13	1.94	1.48	0.91	1.31	-
U.S.	1.23	1.20	0.80	0.38	1.28	0.35	0.52	0.61	0.77	0.29
U.K.	0.61	1.20	18.56	2.64	2.70	1.58	0.90	0.39	0.60	0.40
Singapore	0.98	-	-	1.28	1.35	5.33	7.60	2.81	7.22	12.74
Others	8.11	7.10	2.96	10.70	7.43	7.27	12.19	8.99	17.04	8.65
Total	100	100	100	100	100	100	100	100	100	100

Source: Revenue & Customs, Royal Monetary Authority of Bhutan, 2001 established trade relation with the countries like Indonesia, Russian Federation, Singapore, South Korea, Japan, Malaysia, China, Germany, United States, United Kingdom, etc. The share of imports from Japan increased from 5.16 percent in 1990 to 16.91 percent in 1997. Similarly, the imports from Singapore significantly increased in the late 1990s. Table - 8 depicts that after the year 2004, Bhutan's imports significantly diverted to the countries like Indonesia, Russian Federation and Singapore etc.

Table- 8: Direction of Trade of Bhutan (Share in Percent)

Exports	**Share in Percent**							
	2000	2001	2002	2003	2004	2005	2006	2007
India	94.8	94.1	93.8	92.6	93.8	87.6	77.2	81.6
Hongkong	0.0	-	0.0	0.0	0.1	6.0	15.3	9.9
Singapore	0.0	0.0	0.0	0.0	0.0	0.6	3.1	2.5
Bangladesh	3.6	4.5	4.0	6.2	5.0	4.9	2.5	1.7
Thailand	0.0	0.1	0.0	0.0	0.0	0.3	1.5	3.9
Nepal	0.6	0.8	0.5	0.4	0.2	0.4	0.3	0.2
Others	0.9	0.5	1.6	0.7	0.8	0.2	0.1	0.3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
IMPORTS								
India	79.1	77.7	75.4	88.4	54.7	75.1	68.7	69.4
Indonesia	0.0	0.5	0.1	0.2	0.4	1.4	7.0	6.0
Russian Federation	0.0	0.0	0.0	0.0	0.0	1.0	4.8	3.4
Singapore	3.2	2.4	2.4	1.7	2.3	2.6	2.7	5.1
South Korea	1.6	0.8	0.8	1.1	2.7	1.5	2.4	3.0
Japan	3.9	6.9	3.3	1.7	3.2	3.8	2.1	2.1
Malaysia	0.1	0.4	0.4	0.2	0.4	1.0	1.9	0.9
China	0.9	0.2	0.7	0.3	1.1	1.1	1.5	1.9
Thailand	1.3	3.2	2.4	1.3	1.9	1.6	1.4	1.0
Germany	0.4	0.7	1.0	0.6	22.8	1.2	1.1	0.6
Others	9.5	7.1	13.5	4.4	10.6	9.8	6.8	6.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Revenue & Customs, Royal Monetary Authority of Bhutan, 2007-8.

IV

Potential and Present Trend in Trade between Bhutan and India

IV.1. Potential and Prospects of Trade between Bhutan and India:

Although the regional economic integration in South Asia is at an early stage, there are indications for a substantial potential for it to serve as an engine of growth and balanced regional development. The existing levels of intra-regional trade in South Asia are relatively low due to prevalence of substantial informal trade, lack of supply capacities among other countries (RIS, 2008). However, an analysis conducted at RIS identifying the potential of trade creation (due to price competitiveness) and trade diversion (through trade preferences offered by India or SAFTA liberalization) suggests a substantial potential of exports to India in view of India's growing import requirements from global sources. For instance, with free access to India's market, Bhutan can be a potentially competitive supplier for nearly US $3461768000 worth of India's imports. However, the existing supply capability of Bhutan is worth of US $ 6809 only [Table-9]. Significantly, in the year 2006, the existing trade between Bhutan (as importing country) and India (as exporting country) is worth of US $120 Million. On the other hand, the RIS study found a potential trade worth of US $ 845.95 Million. Thus, 85.80 percent of the trade potential between Bhutan and India is still remaining to be realized [Table-10].

Table-9: Export Potentials of Bhutan in India, 2004 (US $ '000)

Sl.No.	Section Description	Potential	Realizable
1.	Live Animals and Animal Products	0	0
2	Vegetable Products	35566	179
3.	Animal or Vegetable Fats & Oils	547034	23
4.	Prepared Foodstuffs, Beverages etc.	28049	302
5.	Mineral Products	1943397	75
6.	Products of Chemicals	27475	1059
7.	Plastics and Articles thereof	26513	46
8	Raw Hides & Skins, Leather, etc.	0	0
9.	Wood & Article of Wood	327861	489
10	Pulp of Wood or of other Fibres	13683	30
11.	Textile & Textile Articles	36520	941
12.	Footwear, Headgear, and Umbrella	1728	11
13.	Articles of Stone, Plaster, Cement	0	0
14.	Natural or cultured pearls, Jewellery	0	0
15.	Base Metals & Articles of Base Metal	305071	3606
16.	Machinery & mechanical Appliances	168871	48
17.	Vehicles, Aircraft, and Vessels	0	0
18.	Optical, Photograph, & Cinematography	0	0
19.	Arms & Ammunition	0	0
20.	Miscellaneous Manufactured Articles	0	0
21.	Works of Art Collectors' Pieces	0	0
	Total	3461768	6809

Table-10: Potential of Trade between India and Bhutan, 2006

Exporting Country	Importing Country	Existing Trade (US $ Million)	Potential Trade (US $ Million)	Trade Potential to be realized (%)
India	Bhutan	120	845.95	85.80
Intra South-Asia		10475.40	39799.10	73.68

IV.2. Present Trend in Indo-Bhutan Cross-Border Trade:

There is free trade regime between India and Bhutan and we do not have custom posts on our side of the border. The Indian Trade and

Commerce Agreement which was renewed in March 1995 remained effective for a 10-year period from 1995 to March 2005. However, the Government of Bhutan may impose non-tariff restrictions on the entry into Bhutan of certain goods of indian origin as may be necessary for the protection of industries. Such restrictions however, will not be stricter than those applied to goods of third country origin. Simply to say, although the cross border trade between Bhutan and India is barrier less, it is neither under any regional integration approach nor under any multilateral agreement[1]. The free trade was one of the results of political and economic dependence of the Kingdom of Bhutan on India.

Official Trade of Bhutan with India:

The following will be exit/entry points in India for the inputs into and exports from Bhutan for the duration of the Agreement:

1. Joigaon	(Road Route)
2. Chamurchi	(Road Route)
3. Ulta Pani	(Road Route)
4. Hathisar (Gaylengphug)	(Road Route)
5. Darranga	(Road Route)
6. Calcutta	(Air & Sea Port Route)
7. Haldia	(Sea Port)
8. Dhubri	(Riverine Route)
9. Raxual	(Road/rail Route)
10. Panitanki	(Road Route)
11. Changrabandh	(Road Route)
12. New Delhi	(Air Route)

Major items of exports from Bhutan to India are - (1) Electricity, (2) Mineral Products (Natural Silica, Magnesium Carbonate, Gypsum, Limestone, Coal, Ferrosilicon), (3) Products of Chemical Industries, (4) Base Metal and Base Metal Products, (5) Wood & Wood Products (decorative Plywood, fibre Board etc.), (6) Cardamoms, fruit juices etc. And major items of imports to Bhutan from India are - (1) Wheat & Rice, Cane Sugar, soft Drinks etc., (2) Alcoholic Beverages, (3) Petroleum Products, (4) Allopathic Medicine, (5) Litho & Offset Papers, (6) Bricks & glasses, (7) Pipes, iron and steel, (8) LPG Cylinder, (9) Towers for Transmission Lines etc.

The trend in direction of trade with India showed that in the later part of 1990s although the percentage volume of exports from Bhutan to India increased, but the percentage of imports decreased as Bhutan established trade relation with countries like Japan, US, UK, Singapore etc. The export- import data [Table- 11] between the two countries since 1990 in Indian currency shows that up to 1995 in case of official trade Bhutan had negative trade balance with India. However, from 1996-97 to 2001-02 data depicts a positive trade balance in favour of Bhutan. In the year 2002-03, value of imports to Bhutan from India again became larger than the value of exports.

The statistics available from the Department of Revenue & Customs, Royal Government of Bhutan in Bhutan Currency (in Ngultrum) up to the year 2007 show the similar trend in balance of

Table- 11: Statistics of the Imports-Exports between Bhutan & India (Rs. In Million)

Year	Exports from Bhutan to India	Imports to Bhutan From India	Trade Balance
1990-91	112.957	125.492	- 12.535
1991-92	146.513	181.414	- 34.901
1992-93	152.218	208.262	- 56.408
1993-94	178.598	206.590	- 27.992
1994-95	208.800	275.000	- 66.203
1995-96	248.918	285.641	- 36.723
1996-97	322.000	289.000	+ 33.000
1997-98	404.000	345.000	+ 59.000
1998-99	418.000	362.000	+ 56.000
2001-02	1140.866	362.363	+ 778.50
2002-03	1254.039	1889.599	-635.56

Source: Statistics of the Foreign Trade of India by Countries, Ministry of Commerce & Industry, GOI.

trade [Table- 12 and 13]. The analysis of the composition of Bhutan's trade with India indicates that the major item of Bhutan's export to India is 'hydropower'. The share of 'hydropower' export in total export of Bhutan increased from 30 percent in 1993 to 43 percent in 1999 and then again increased to 44.2 percent in 2007. Although up to 1997, 'products of chemical industries' occupied the second position in Bhutan's total export to India, however, from 1998 exports of mineral products occupied this position, which accounted for 16.7 percent and 14.8 percent in 1998 and 1999 respectively. After 2002, the export of 'Base Metal and Articles of Base Metal' from Bhutan to India increased significantly occupying the second position of export materials and in 2007 the percentage share in Total became 27.7. Significantly, share of exports of wood products decreased from 18 percent in 1993 to 6.3 percent in 1999 and again slashed to 1.3 percent in 2007. However, from the year 2005 'Animal or Vegetable Fats & Oils' became a major item of exports from Bhutan to India.

As regards the composition of Bhutan's imports from India during 1993-2007, the major item was 'mineral products' (petroleum products) which accounted for 14.6 percent in 1993 and 17 percent in 1998 and this share increased to 25.1 percent in 2007. During the period from 1993 to 2007 share of imports of 'machinery and mechanical appliances (automobile products)' occupied a significant position. The imports of 'Pearl and Precious Metal' to Bhutan from India in the year 2007 abruptly jumped to 17.6 percent of total imports.

The composition of trade with India depicts that Bhutan's value of imports from India increased steadily from Nu1930.33 million in 1993 to Nu18, 012.0 million in 2007. On the other hand, value of exports, which was Nu1785.98 Million jumped to Nu22, 723.7 Million in 2007. Thus in the early 1990s, although Bhutan's balance of trade with India was negative from the middle of 1990s it tends to be positive. However, after 2000-01, Bhutan's Balance of Payments with India is remaining negative with only exception of the year 2006-07 [Chart 4].

Table- 12: Composition of Bhutan's Trade with India (Exports) Millions of Ngultrums

Items	1993	1996	1997	1998	1999	Share Of Export in 1999 in %
1.Animal Products	0.01	1.22	0.42	0.10	0.70	0.0
2.Vegetables, fruits, nuts, tea & spices	139.72	237.04	297.43	271.81	261.83	5.6
3.Vegetables fats and oils	0.01	0.06	0.00	0.19		0.0
4.Prepared foodstaffs	135.78	206.82	198.35	214.45	222.13	4.7
5.Mineral products	267.67	364.15	425.90	700.62	695.37	14.8
6.Electricity	537.3	747.56	1334.44	1338.74	2018.36	43.0
7.Plastics and rubber products	6.17	31.79	14.40	16.57	12.73	0.3
8. Raw hides and skins	1.74	3.09	3.08	2.04	2.34	0.0
9.Wood and wood products	328.68	475.50	579.92	440.51	297.47	6.3
10.Woodpulp products	0.17	1.77	0.20	0.08	0.10	0.0
11.Textiles	0.16	0.45	2.05	0.74	1.44	0.0
12.Footwear, headgear, clothing accessories	0.01	0.00	0.00	0.01		0.0
13.Stone, cement and asbestos products	1.70	5.36	6.72	6.54	6.26	0.1
14.Baser metal & base metal products	0.88	508.39	498.99	474.36	533.19	11.4
15.Machinery & mechanical equipment	0.29	24.03	36.85	11.45	6.49	0.1
16.Transport equipment	0.02	0.36	0.30	0.24	0.84	0.0
17.Optical, photographic equipment	0.00	0.01	0.00	0.15		0.0
18.Miscellaneous manufacturing articles	0.13	54.57	68.63	82.40	66.23	1.4
19.Products of chemical industries	365.55	562.30	574.27	614.43	565.75	12.1
20.Works of arts, antiques and special transactions	0.00	0.00	0.00	0.00	0.00	0.0
Total	1785.98	3226.98	4041.93	4175.63	4691.23	100.0

Source of Table 12 : Department of Revenue & Customs, Royal Government of Bhutan.

Table- 12.1: Composition of Bhutan's Trade with India (Exports) Millions of Ngultrums

Export Category	2002	2003	2004	2005	2006	2007	Share Of Export In Total In % (2007)
1.Animal Products	4.4	4.2	2.6	2.4	10.8	13.4	0.1
2.Vegetables, fruits,Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	391.1	257.0	286.4	243.3	276.7	307.1	1.4
2.1 Potatoes	100.6	72.4	113.1	120.1	138.5	149.9	0.7
3.Animal & Vegetables fats and oils	-	-	0.0	224.5	1,448.3	1,875.3	8.3
3.1. Palm Oil	-	-	-	194.8	1,380.5	481.6	2.1
4.Processed Foods & Beverages	208.5	391.3	407.8	389.2	413.9	368.0	1.6
5.Mineral products inc. oils & Fuels	534.4	587.6	674.1	983.5	1,587.1	1,809.1	8.0
6. Electricity	2,347.4	2,603.5	2,711.7	3,439.9	4,982.0	10,034.3	44.2
7.Products of chemical & allied industries	667.6	630.0	712.5	714.0	587.0	783.3	3.4
8.Plastics and rubber products	84.0	199.3	270.8	292.6	246.6	275.7	1.2
9.Wood and wood pulp products	176.8	215.1	281.6	314.7	257.7	305.6	1.3
10.Textiles, Footwear & Hats/ Headgear	13.2	112.8	536.5	787.2	476.4	444.9	2.0
11.Stone, cement and asbestos products	22.5	18.0	24.5	14.7	24.9	113.1	0.5

12.Base metal and base metal products	627.9	882.3	1,736.6	2,491.1	4,098.2	6,302.2	27.7
13.Machinery & mechanical equipment	39.2	4.4	73.0	34.0	51.8	60.0	0.3
14.Transport Vehicle & Aircraft and Engine & Parts	3.2	0.2	15.4	16.3	0.6	-	-
15.Optical, photographic, Cinematographic & Measuring equipment	4.4	2.1	1.1	-	0.3	0.6	0.0
16. Handicrafts, works of Art, Collectors' Pieces & Personal Effects	0.0	-	0.3	-	0.2	0.0	0.0
17. Miscellaneous manufacturing Products	12.4	18.0	26.6	22.4	25.5	31.1	0.1
Total	5,137.0	5,925.9	7,761.6	9,969.8	14,488.0	22,723.7	100.0

Source: Department of Revenue & Customs, Royal Government of Bhutan

Table-13: Composition of Bhutan's Trade with India (Imports) Millions of Ngultrums

Items	1993	1996	1997	1998	1999	Share Of Export In 1999 In %
1.Animal Products	54.16	89.90	122.90	119.10	171.85	2.9
2.Cereals, vegetables, fruits	254.96	403.30	412.74	458.10	697.43	11.9
3.Vegetables fats and oils	78.49	134.44	127.58	151.12	161.59	2.8
4.Prepared foodstaffs	154.59	213.07	261.19	306.61	388.64	6.7
5.Mineral products	283.46	462.22	626.03	612.82	840.45	14.4
6.Products of chemical industries	179.91	235.51	235.56	224.44	318.34	5.5

7. Plastics and rubber products	83.37	111.82	100.17	112.95	177.57	3.0
8. Raw hides and skins	3.23	3.87	3.93	2.37	4.29	0.1
9. Wood and wood products	40.98	157.71	164.54	108.51	110.57	1.9
10. Woodpulp products	59.80	81.40	93.99	72.86	117.59	2.0
11. Textiles	80.58	106.94	120.57	146.61	157.05	2.7
12. Footwear, headgear, clothing accessories	28.91	42.43	50.85	16.37	44.56	0.8
13. Stone, cement and asbestos products	83.79	112.19	83.12	111.29	86.70	1.5
14. Precious metal products	0.10	0.22	0.29	0.15	0.18	0.0
15. Base metal and base metal products	202.42	251.39	270.95	256.12	767.52	13.1
16. Machinery & mechanical equipment	204.35	298.89	359.78	520.77	1094.38	18.7
17. Transport equipment	132.41	136.13	340.96	296.66	579.11	9.9
18. Optical, photographic equipment	14.67	25.42	41.10	59.45	63.75	1.1
19. Miscellaneous manufacturing articles	22.04	28.37	36.87	45.63	63.70	1.1
20. Works of arts, antiques and special transactions	0.11	0.95	0.38	0.02	0.01	0.0
Total	1930.33	2896.17	3453.60	3620.95	5845.28	100.0

Source: Department of Revenue & Customs, Royal Government of Bhutan

Table-13.1: Composition of Bhutan's Trade with India (Imports) Millions of Nguitrums

Import Category	2002	2003	2004	2005	2006	2007	Share Of Import In Total In % (2007)
1.Animal Products	317.6	368.6	436.2	567.8	629.3	682.5	4.5
2. Vegetables, fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	607.5	745.2	645.9	725.1	839.6	976.7	6.5
3.Animal & Vegetables fats and oils	220.9	174.5	165.3	230.1	311.8	365.2	2.4
4.Processed Foods & Beverages	545.8	573.9	624.5	752.3	765.7	763.1	5.1
5.Mineral products inc. oils & Fuels	1,434.7	1,860.5	2,121.0	2,746.4	3,221.0	3,790.4	25.1
6.Products of chemical industries	456.2	562.5	665.2	596.2	679.1	626.8	4.2
7.Plastics and rubber products	179.5	261.6	372.0	368.2	458.5	473.8	3.1
8.Wood and wood products	96.5	100.5	123.6	120.0	119.0	561.5	3.7
9.Woodpulp products	144.6	179.9	216.7	233.1	257.3	251.0	1.7
10.Textiles, Footwear & Hats/ Headgear	244.0	222.4	230.9	224.1	239.8	317.4	2.1
11.Stone, cement and asbestos products	133.5	155.5	183.3	191.2	260.3	129.5	0.9
12.Precious metal products	0.4	0.4	18.1	162.4	40.6	2,660.9	17.6

13.Base metal and base metal products	928.3	1,441.8	1,965.4	2,507.4	2,002.8	2,270.3	15.0
14.Machinery & mechanical equipment	1,528.1	2,784.7	1,669.0	2,322.1	2,272.4	2,270.3	15.0
15.Transport Vehicle & Aircraft and Engine & Parts	562.6	559.8	573.2	550.3	639.0	1,060.1	7.0
16.Optical, photographic, Cinematographic & Measuring equipment	95.7	201.0	69.3	385.8	185.8	101.9	0.7
17. Handicrafts, works of Art, Collectors' Pieces & Personal Effects	0.5	0.4	0.1	0.5	0.0	0.1	0.0
18. Miscellaneous manufacturing Products	84.8	66.9	114.3	111.9	132.0	143.0	0.9
Total	**7,581.3**	**10,260.1**	**10,193.9**	**12,795.1**	**13,053.9**	**18,012.0**	**100.0**

Source: Department of Revenue & Customs, Royal Government of Bhutan

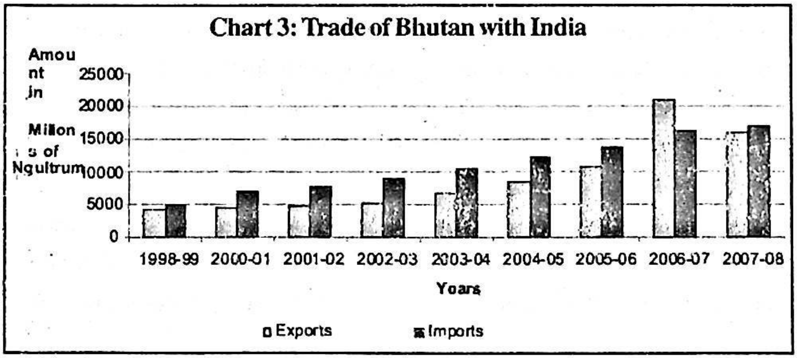
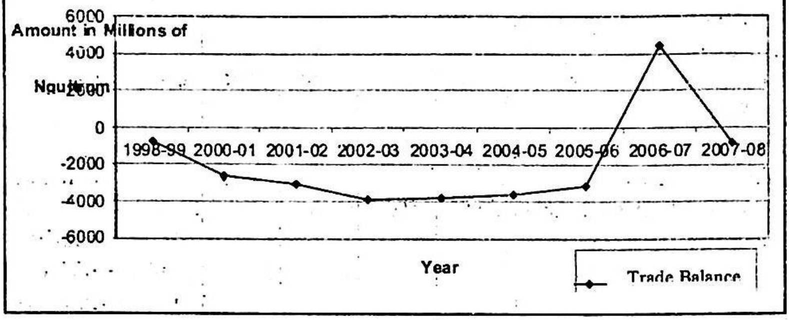


Chart 4: Trade Balance of Bhutan with India



Rao et. Al. (1997) tried to estimate the volume of unofficial/ informal trade with Bhutan for the year 1993-94. Unofficial trade during the year was of the order of $33 million, almost all of which was exports to Bhutan (Appendix Table- A.6). Official trade in that year was only a third of unofficial trade. It can be seen that while India had a trade surplus with Bhutan on the official account it had a trade surplus of a much larger magnitude on the unofficial trade account. The major products exported unofficially to Bhutan (via Assam) are: yarn, rice (medium), sugar, aluminum goods, and clothes. Similarly, India's informal imports from Bhutan (via Assam) are: Alcoholic Beverages, kerosene, footwear, and electric goods. It was noticeable that the composition of unofficial exports and imports is different from the composition of official flows. Therefore, the inclusion of informal flows into the mainstream flows may greatly expand the volumes of border trade. Rao (1997) also opined that unofficial trading with Bhutan is carried on primarily through two border points in Assam. These two points (routes) are Gelephu and Samdrup Jankhar - both are border towns on Bhutan sides within one kilometer from Assam - Bhutan border. There is another small place known as Bhairabkunda at the junction of Assam Bhutan Arunachal Pradesh border but no informal trade practically take place at that point.

V

Realities and Prospects of Free Border Trade

V.1. Realities of Indo-Bhutan Cross-Border Trade and Prospects of Establishing Regional Integration with India's NER (via Assam):

The analysis of the composition of Bhutan's trade with India indicates that the major item of Bhutan's export to India is 'hydropower'. The share of hydropower export in total export of Bhutan increased from 30 percent in 1993 to 44.2 percent in 2007. Two distinct trends are noticeable in cross-border trade between Bhutan and India. Up to the year 1995-96, Bhutan had negative trade balance with India. However, from 1996-97 imports from India to Bhutan comparatively decreased showing positive trend. However, after 2000-01, Bhutan's Balance of Payments with India is remaining negative with only exception of the year 2006-07. The positive trade balance is simply due to Bhutan's increasing trade relations with the countries like Indonesia, Russian Federation, Hongkong, Japan, and Singapore etc. Remarkably, in the 1990s Bhutan has leaned west in case of grants/ aids as well as foreign trade. Bhutan has increasingly turned to various international agencies such as World Bank and the Asian Development

Bank etc., for loan. Along-with this, the imports from western countries also increased. In terms of quantum, India's exports to Bhutan are still very negligible. The percentage share of India's total export (in 1997-98) that has gone to Bhutan as per a rough estimate comes around below 0.02 percent (Das, 2000). Statistics of the Foreign Trade of India by countries shows that India's export to Bhutan in March 2002 was of the value of Rs. 3623.63 Lakhs, which is around 0.014 percent of total world exports of India. In March 2003 this share became 0.06 percent only. Due to poor economic conditions the market is still unable to create demand.

Although Rao et al. (1997) tried to estimate the volume of informal trade between Bhutan and India through two entry points via Assam, however, our field study reveals that practically there is no effective custom point at Assam-Bhutan border. The Revenue & Custom offices posted on the Indian sides of the border is practically non-functioning. They keep only the records of export-imports of commodities of Bhutan to a third country via India. However, the officials those were available in the office of Revenue & Customs (during the month of July, 2005) complained that many a time the Royal Bhutan Army escorts the trucks of tradable commodities to the third country without stopping at the custom points. As there are no effective custom posts on the Indian side, so our field study indicates that differentiation between official and unofficial /informal trade between India and Bhutan is meaningless. However, our field study reveals that instead of central government officials (or, state government officials), the trade and commerce between India and Bhutan via Assam are totally controlled by autonomous executive council of Bodo Territorial Council (BTC). Interestingly those persons engaged in controlling the trade neither are officials of formally employed by executive council of BTAD/ BTC, nor representatives of Cambers of Commerce. It is one type of contracts of the local political leaders neighbouring the area. Notwithstanding that, the field study depicts that local citizens with the support of the members of

BTC executive council are taking initiatives for enhancing the cross-border trade between Kingdom of Bhutan and India.

From the analysis of the data about the trend and direction of Indo-Bhutan trade it is clear that although the cross-border trade between the two countries is barrier-less however, the volume of trade has not sprung up. Although the trade between Bhutan and India is barrier less, it is not one of the forms of 'economic union'[2]. Free trade and Commerce between the territories of India and Bhutan was established in accordance with Article 5 of Indo-Bhutan Treaty of 1949. Free access was given to the Government of Bhutan along with other facilities for the carriage by land and water of its produce through the territory of India. The Indo-Bhutan Treaty (1949) was considered significant from diplomatic and strategic/ security importance. The then king of Bhutan was in favour of receiving defense of the country from India instead of communist China (China also offered Bhutan to support the country's defense). In 1961, the then Prime Minister of India, Pandit Nehru declared in the parliament that India had agreed to assume full responsibility in regard to defense of Bhutan. Nehru proceeded to state that an act of aggression on Bhutan would amount to a direct aggression on India. This statement had a popular backing in Bhutan. Thus, the free trade and commerce between the two countries was the legacy of the Treaty of Friendship of 1949. The kingdom of Bhutan was never considered as an economic power for enhanced trade and commerce. Even from economic point of view such as comparative advantage, Bhutan cannot be considered as favourable and prospective trade partner of India.

Significantly in recent period Bhutan has geared its economy towards regionalism as well as multilateralism along with transition of its economy towards democracy [Refer Section - III.1]. However Bhutan Nepal ties have been experiencing ups and downs due to the unrest in southern Bhutan. The relations between Bhutan and Nepal have been strained since late 1990, when unrest among the Bhutanese of Nepali origin (Lhotshampas) in the south of the country exploded into a violent movement. On the Bhutanese side, officials sometimes failed to convince the Lhotshampas of the need to evolve a national culture and character unique to Bhutan. As for the Nepalese, they played into the hands of extremist and demagogic elements among Nepalese politicians, who certainly harbour wider political ambitions (Sengupta, 2000: 144). Even in December 22nd of 2003 refugees attacked the Bhutanese officials who were members of the joint verification team (JVT) in eastern Nepal. The JVT was verifying the national status of Bhutanese refugees in Nepal. For a while, these elements succeeded, through violence, in creating a gulf between the Nepali and the Bhutanese governments. On the other hand, Bhutan established fairly intimate relation and economic cooperation with western countries as well as with Bangladesh over and above India. For economic development of Bhutan the regional cooperation among India, Bhutan and Bangladesh is a necessary one as, both Bhutan and Bangladesh have borders separated by India [See Map - 1] and transportation of goods between Bhutan and Bangladesh is also to be facilitated through India's Northeastern region. In 1988, according to a Memorandum of Understanding between India and Bangladesh, a 119 km road which runs through India, between Burimari of Bangladesh and Phuntsholling of Bhutan, was opened for traffic. It was expected that the 30 year treaty signed between Bangladesh and India in December 1996 will further expand trade between Bhutan and Bangladesh, as the latter permits transit through its territory to north-east India and allows widening of road links between Bhutan and Bangladesh (Sen Gupta, 2000).

It has been observed that although the Government of India extended 26.88 percent of total plan resources of Bhutan up to the year 2008 and also supported its tenth plan (2008-13) with a financial package of Rs. 3400.00 crores, the benefits of Indo-Bhutan economic cooperation have not been percolated to the poor people of the neighbouring villages of the border. The Planning Commission of India gave Bhutan all the assistance necessary for drafting of the first Five-

Year Development Plan. The Government of India financed wholly the first two five-year plans of Bhutan. India also sponsored Bhutan's membership of the Colombo Plan in 1965 and since then Bhutan has got aid from the organization [See section - II.3]. India had sponsored a number of developmental projects of Bhutan. Whatever may be reason behind, it might be strategic however, such type of assistance without economic rationality, was even questionable by some section of the Bhutanese elite. For instance, arguing on behalf of Bhutan's development with active support from India, in his address to the National Assembly of Bhutan at its 35th Session of October, 1971, His Majesty King of Bhutan Jigme Dorji Wangchuk mentioned that "There was some who had got hold of the misconception that we had sold Bhutan to the Indians and even several officers and Members of National Assembly were entertaining such doubts as I had been coordinating all national activities with the guidance of Indians". At the same time people of the North-east India neighbouring the Bhutan border felt economic negligence from the Government of India, and it is none but one of the Ministers of Central Government of India, Mr. Jairam Ramesh (2005) was in favour of the opinion that guiding policy of the government of India towards Assam as well as North Eastern region of India changed to 'development paradigm' in 1980s only. "Overstress on security/strategic consideration" writes Sarma (2005), "rather than a development perspective in development efforts by the central planning authority is one of the binding constraints on the development of Assam as well as North Eastern region". One of its studies NCAER (1999) found that villages of bordering states of India are far below India-average in transportation and communication services. The low level of prevailing infrastructure in the northeastern region is evident from the CMIE index of infrastructure also[3].The Northeast India and especially Assam shares 450 kms of its boundary with Bhutan. Assam, the largest state of northeast India due to the British colonialism and the partition of India suffered from 'Border Effect'[4]. Disrupting the old trade roots barriers were erected between

Bhutan and Assam. Baruah (2004) calls this disruption of old trade roots as 'colonialism's most enduring negative legacy.' Taking advantage of the underdevelopment of the border areas, the militant groups including United Liberation Front of Assam (ULFA) and National Democratic Front of Bodoland (NDFB) etc., rooted their camps in the south off the Bhutan: Although in December 2003, the Royal Bhutan Army flushed out the militants from 30 camps and 35 outposts established by the militants along the 720 km Indian-Bhutanese border, the political situation neighbouring the border areas remained tense and as a result trade and commerce between the two countries decreased. The border areas became militarized. The pace of implementation of development projects became slow. Thus, with all the hindrances, for mutual benefit of Bhutan and Northeast India (through Assam) a rethinking on the Indo-Bhutan trade relations is needed. In this new line of reasoning mutual trust and recognition to the sentiments of the local people attaching the localities neighbouring the border areas of both the countries should be the prime agenda. For the purpose the recent wave of regionalism in terms of SAARC - SAFTA and India's 'Look East' policy initiatives of 1990s is bearing tremendous scope in terms of constructing regional integration group[5] among India, Bhutan and Bangladesh through North-east India.

Exploration of some new avenues for enhanced and liberal trade between Bhutan and Assam is a need for construction of regional integration group.

Theoretically both northeast India and Bhutan are rich with enormous hydropower potential. Certainly, in both the areas such resource potentials are remaining untapped. However, Bhutan earns about 60 percent of its revenue from exports of hydropower. The share of hydropower export in total exports of Bhutan is higher than 40 percent. The investment needed for utilization of this resource cannot be termed as lumpy. For example, Chukha Hydro Electric Project of 336 mw was completed in October 1988 at the investment of Rs. 247 crores that earns around Rs. 140 crores per annum through sale of electricity to India. Similarly, Tala Hydro Electric Project (THEP) of 1020 mw estimates Rs. 2816 crores at 1998 price levels and Kurichu Hydroelectric Project (KHEP) of 65 mw was constructed at the investment of Rs. 273.01 crores (in September 1995). On the other hand, utilization of hydropower resources in northeastern states involves huge lumpy investment that is beyond the capacity of the northeastern states (Sarma, 2005). For example, the NHPC has estimated the financial involvement at Rs. 1,00,000 crores for power production capacity of 25,000 mw. Assuming the same average cost per mw, it would involve another Rs. 1,28,000 crores at 2003 prices if the remaining part of the estimated hydropower potential were to be utilized. It adds up to an investment of Rs. 228,000 crores for full utilization of power potential of the region. It is also true that construction of mega dams is not feasible in North Eastern region because of the fact that it is highly seismic zone [former President of India A.P.J. Abdul Kalam, 2011]. It can be mentioned that India has provided assistance to Bhutan to setting up three hydro power projects - Chukha, Tala and Kurichhu. Surplus power of about 1400 MW from these projects is being sold to India. Also India had agreed to offtake at least 5000 MW power from Bhutan by 2020 under an agreement signed between the two countries. Therefore, Government of India should involve North-East India (Especially Assam) in utilization of hydro power potential of Bhutan.

Considering the market of northeast India, trade and joint venture is possible in case of establishing fruit processing unit in Assam. Both Bhutan and Assam produce huge quantities of fruits like oranges, pineapples, jackfruits etc. Also cheap labour in the areas neighbouring the border are abundant. Initiatives in this sector may give a boost to the rural sector (one beautiful example initiated under private sector in Bangladesh is 'PRAN' for production of Lichi juice drinks which is successful in capturing the market of India including northeast).

Another potential area is Biotechnology where Bhutan and India can make joint venture. Bhutan has an estimated 300 species of plants and animals, which are of immense value for medicinal purposes in forming nearly 200 different traditional medicines but is still struggling for strengthening technologically advanced facility for ex-citu conservation.

However from the experience of our field study we hope that new avenues will automatically come out once free movement of factors of endowments become possible. For instance, organizations of local citizens worked hard to restore normalcy in the villages neighbouring the Indo-Bhutan border after the military operation against the extremists of northeast in 2003. Markets were reopened at the auspices of the forum of local citizens. Even the long-standing problem of water sharing and relaxation of water tax (that to be given to Government of Bhutan) has been solved at the patronage of citizen's forum in 2004. Significantly, 90 percent people of bordering villages collect their drinking water from the dongs and rivers in addition to irrigation purpose. The poor people had to pay water tax to the Royal Government of Bhutan for the use of water flowing down from the Bhutan hills through different rivers.

Therefore, the guiding policy of the Government of India towards northeastern region of India has to be changed considering the interdependence of liberal border trade and economic development of a region.

Notes:

1. The incidence of poverty in Assam is about 40 percent in comparison to the 26 percent for India (2001 census). The composition of the poor in Assam shows that rural poverty is getting mostly concentrated in non-agricultural labour and artisan households.

Table- N.1: Percentage Distribution of Persons living Below Poverty Line by Occupation Groups - State of Assam and India, 1993-94 and 1999-2000.

State	Year	Artisans	Agricul-tural Labour	Non-Agricul-tural Labour	Self-employed in Agriculture	Others	Total
Assam	1993-94	9.6	28.7	15.6	60.2	6.0	100.0
	1999-2000	15.2	27.8	20.6	28.6	7.8	100.0
India	1993-94	11.2	40.7	8.4	33.2	6.5	100.0
	1999-2000	12.3	46.8	7.6	28.1	5.3	100.0

Source: Computed by Radhakrishna & Ray from NSS 50th & 55th Rounds data on Households Consumer Expenditure

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.

Table-N. 2: Incidence of Chronic Poverty - State of Assam and India (Rural)

	1993-94			
State	Extremely poor	Very poor	Moderately poor	Poor (BPL)
Assam	0.7	12.3	33.0	45.3
All-India	2.0	14.7	22.1	36.8

	1999-2000			
State	Extremely poor	Very poor	Moderately poor	Poor (BPL)
Assam	1.9	14.8	25.4	40.2
All-India	0.8	8.2	18.3	26.5

Source: Computed by Radhakrishna & Ray from NSS 50th & 55th Rounds data on Households Consumer Expenditure

Notes: Poor: Persons whose per capita total expenditure is less than 50% of state specific poverty line.

Very poor: All those persons whose per capita total expenditure is less than 75% of the state specific poverty line.

Moderately poor: Persons whose per capita expenditure lies between 75% and 100% of the state specific poverty line.

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.

2. Economic Union: This represents a very advanced stage of economic cooperation where the participating countries not only have no trade barriers within them and common trade barriers for non-member countries but also they seek to co-ordinate a common economic and social policy for their region. They promote freedom of movement of factors of production. Capital and Human power mobility are increased. A fully developed economic union requires a great deal of political unity. An example of an economic union is the European Economic Community (EEC).

3. North East: Backwardness of Infrastructure: Following findings of NCAER (1999) indicates villages of bordering states of India are still far below India-average in transportation and communication services. The low level of prevailing infrastructure in the North Eastern region is evident from the CMIE index of infrastructure development which reveals that in terms of overall infrastructure, Assam and Manipur happen to be the two most developed states in the region with indices close to the Indian average of hundred. However, all the North Eastern states fell far behind the developed states such as West Bengal and Punjab.

Table-N.3: Transport & Communication Facilities Available in Villages of Northeastern States

Villages of	Transportation			Communication	
	Connected with Pucca road (%)	Bus stop Within 2 kms (%)	Railway Station Within 5 kms (%)	Post Office Within 2 Kms (%)	Telephone Within 2 kms (%)
North Eastern States	21.20	63.60	15.20	63.60	28.80
Rest Indian States	85.30 (Kerala)	94.70 (Kerala)	62.80 (Orissa)	94.70 (Kerala & Orissa)	85.50 (Tamilnadu)
India Average	36.80	64.50	22.40	70.20	50.90

Source: NCEAR (1999).

4. **Border Effect**: The border effect leads producers to locate industries away from international borders.

5. **The regional cooperation group** is of course only an agreement to give the required impetus to the development of some basic industries of the countries of the group, as there is no lowering

of tariff or custom duties. However, **Free Trade Area** is a regime where the countries have mutually decided to remove tariff barriers for promoting trade within the region.

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Appendix Tables

Appendix Table A.1: Growth Rates of GDP in South Asian Countries

	Annual Averages								
	1994 -1997	1997-2003	2003-04	2004-05	2005 -06	2006 -07	2007 -08	2008-09	2003-08
Bangladesh	4.6	5.2	5.3	6.3	6.0	6.6	6.5	6.0	6.1
Bhutan	6.3	7.0	7.6	6.8	6.5	7.8	17.0	14.4	10.0
India	7.7	5.1	8.5	7.5	9.4	9.6	9.0	8.2	8.7
Maldives	7.6	7.2	8.5	9.5	-4.5	19.1	6.6	8.0	7.9
Nepal	5.6	4.0	3.0	3.5	2.3	3.1	2.3	3.8	3.0
Pakistan	5.3	2.7	4.7	7.5	8.6	6.6	7.0	6.3	6.8
Sri Lanka	4.8	4.0	6.0	5.4	6.0	7.7	6.7	6.0	6.3
South Asia	7.1	4.8	7.8	7.4	8.7	9.0	8.6	7.8	8.2

Source: RIS based on ADB and IMF data

Table - A.2: Inflation Rate CPI (percent p.a.)

	Annual Averages							
Country Year	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia
1991	8.3	12.3	13.8	14.7	9.8	12.7	12.2	
1992	4.6	16.0	11.8	16.8	21.1	10.6	11.4	
1993	2.7	11.2	6.4	20.2	8.8	9.9	11.7	
1994	3.3	7.0	10.2	3.4	9.0	11.2	8.4	
1995	8.9	9.5	10.2	5.5	7.6	13.1	7.7	
1996	6.7	8.8	9.0	6.2	8.1	10.7	15.9	
1997	2.5	6.5	7.2	7.5	8.1	11.8	9.6	
1998	5.4	10.6	13.2	-1.4	8.3	7.8	9.4	
1999	11.7	6.8	4.7	3.0	11.4	5.7	4.7	
2000	4.1	4.0	4.0	-1.2	3.5	3.6	6.2	
2001	2.0	3.4	3.7	0.7	2.4	3.1	14.2	3.8
2002	3.3	2.5	4.4	0.9	3.0	3.3	9.6	3.5
2003	5.7	2.1	3.8	-2.9	5.7	2.9	6.3	5.0
2004	9.2	4.6	3.8	6.4	2.8	7.4	7.6	6.3
2005	7.0	5.3	4.2	3.3	6.8	9.1	11.6	5.3
2006	7.2	4.9	5.4	3.5	8.0	7.9	9.6	5.9
2007	7.2	5.2	4.4	7.4	6.4	7.8	20.2	5.3
2008p	9.0	4.5	4.5	6.0	7.0	8.0	16.2	5.5

Appendix Table A.3: Sectoral Composition of Production in South Asia (as % of GDP)

	Annual Averages								
	Agriculture			Industry			Services		
	1991	2002	2006	1991	2002	2006	1991	2002	2006
South Asia	30.7	24.6	19.6	25.6	26.3	24.7	43.5	49.1	55.5
Bangladesh	29.5	21.9	20.0	21.1	25.5	28.0	46.5	52.6	52.0
Bhutan	42.7	33.9	22.3*	16.8	37.4	28.3	35.7	31.6	49.4
India	28.4	25.0	18.0	23.8	25.9	28.0	38.0	49.2	55.0
Maldives	20.6	9.5	9.1	12.0	15.5	12.1	70.2	75.0	78.9
Nepal	46.0	40.6	34.0	16.9	21.8	16.0	33.6	40.8	49.0
Pakistan	22.9	24.2	19.0	22.6	22.4	27.0	43.4	53.4	53.0
Sri Lanka	24.2	20.1	16.0	23.2	26.3	24.7	53.2		56.0

*2005 figures

Source: RIS based on ADB, Asian Development Outlook, 2003 & World Development Indicators 2003 & 2008

Appendix Table A.4: Trade Performance Index in Basic Manufactures in South Asian Countries

Indicators	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
Relative Rankings among 184 countries	122	124	129		124	129
Trend in Exports	18	123	53	70	26	105
Average annual change in per capita Exports	105	121	80	25	54	99
Share in World market	83	119	34	121	95	93

Product Diversi-fication	81	123	24	90	81	94
Product spread (concentration)	71	124	19	103	86	81
Market Diversi-fication	53	122	32	44	62	71
Market spread (concentration)	62	122	14	88	45	74

Source: RIS based on Market Analysis Section, International Trade Centre, UNCTAD/WTO.

Appendix Table A.5: Growth and Instability in South Asian Trade Flows

	Export Growth (in percent)				Import Growth (in percent)			
	1991-2000	1991-92	1993-95	1996-2000	1991-2000	1991-92	1993-95	1997-2000
South Asia	10.3	6.6	18.9	6.5	10.2	-1.0	24.9	6.2
Bangladesh	14.5	14.2	21.0	10.7	7.9	3.5	19.2	5.6
BHUTAN	6.3	-0.9	3.7	10.8	9.8	-0.2	9.8	13.9
India	9.6	1.1	19.6	7.0	9.6	-7.1	23.7	7.8
Maldives	7.1	6.0	12.3	4.4	11.4	17.7	12.2	8.5
Nepal	16.5	34.5	4.0	16.9	9.9	7.8	19.5	5.0
Pakistan	5.6	17.2	5.0	1.3	3.2	10.2	5.1	-1.0
Sri Lanka	11.6	14.4	15.7	8.0	11.5	18.0	14.9	6.9

Source: RIS, New Delhi

Appendix Table A.6: Unofficial Exports to Bhutan (via Assam)

Item	Value (US$ million)	Share (%)
1.Food and Live Animals	14.29	45.6
2.Chemical and Chemical Product	0.05	0.1
3.Manufactured Goods	0.76	2.4
4. Glass and Glass Products	0.13	0.4
5. Non Ferrous Metals	2.78	8.9
6. Electronic Goods	1.18	3.8
7. Garments	2.6	8.3
8. Yarn	9.56	30.5
	31.35	100.0

Unofficial Imports from Bhutan (via Assam) through Gelephu & Samdrupjankar

Item	Value (US$ million)	Share (%)
1. Beverages	1.05	85.68
2. Electronic Goods	0.06	5.24
3. Manufactured Goods	0.05	4.02
4. Food and Live Animals	0.03	2.23
5. Petroleum Products	0.03	2.83
	1.23	100.0

Source: Rao et al. (1997)

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