

Chapter - 2

Political Scenario in Bhutan

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The East India Company's relationship with Bhutan may be traced back to the conflict between the Princely state of Cooch Behar and Bhutan in 1772 where the Deb Raja of Bhutan defeated King Khagendra Narayan of Cooch Behar. The latter's army commander Nazir Deo re-attacked Bhutan¹ on behalf of the Prince and subsequently won the battle with the help of British soldiers. The relation between Bhutan and British India became imminent when the Deb Raja solicited the mediation of Panchen Lama of Tibet and fell back to the British power. This relationship, however, opened up a new vista to British imperialism from the last quarter of the eighteenth century onwards. While the East India Company's desire to promote its trade in the Himalayan kingdoms, especially Tibet, was one of the reasons to this end, the other reason might be its design to consolidate its empire in this subcontinent against the expansion of the Russian and Chinese imperialism. Various political events like wars and peace-treaties followed as the Company administration in Bengal sought to realize these objectives. In the ultimate analysis, these political events shaped the trade relation of Bhutan with its neighbouring countries. The present chapter seeks to bring out these causations between various political events and trade relation of Bhutan during the previous centuries.

Section 2.1 of this chapter documents various political events that led to the evolution of Bhutanese trade during the eighteenth-nineteenth centuries. Section 2.2 however, traces out various political events that were intended to obstruct the expansion of Russian and Chinese imperialism. Section 2.3 contains a brief conclusion.

¹ Deb, Bhutan and India, p.74.

2.1. Major political events prior to 1900

The East India Company always operated on the motive of trade and for the promotion of British goods in overseas markets. These basic objectives of the Company explained its growing interest on Bhutan from the second half of the eighteenth century onwards. Moreover, as Bengal's route to Tibet through Nepal had already been closed by that period² the Company was eager to find out an alternative trade route to Tibet and China via Bhutan. The relationship with Bhutan could enable the Company to access the markets in the Himalayan kingdoms for their goods. A letter of Warren Hastings, then Governor General of East India Company, to the Court of Directors in London, supports this surmise. He wrote on April 4, 1771 'It ...[has] been presented to us that the Company may be greatly benefited in the sale of broadcloth, iron and lead and other European commodities by sending proper persons to reside at Rungapore to explore the interest of parts of Bhutan.....'.³ Warren Hastings, indeed, took various steps in favour of the Bhutanese traders so that the English trades could get an access to that country. He also sent four political missions to Bhutan and Tibet, headed respectively by Bogle in 1774, Hamilton in 1776 and 1777, and Turner in 1783.

These missions were primarily entrusted, with the job to secure permission for European merchants to trade in Bhutan and Tibet. The Bhutanese traders had all along been strongly objecting to any such concession as they apprehended that the European participation in this business would curtail their share in it and dampen the rate of return therefrom. In particular, as a principal trader in that world of business the Deb Raja was

² Secret Consultations, 24th February 1775, No. 4, referred in Gupta, British Relations with Bhutan, p. 44.

³ Collister, Bhutan and the British, p.8.

strictly in opposition. Bogle thus revealed, “The Deb Raja made many objections to allowing merchants to pass through Bhutan, insisting that it had never been the custom [for] strangers to come into their kingdom,...”.⁴ The Deb Raja, however, rationalised his judgement in various ways. Once he pointed out, “[T]he inhabitants [of Bhutan] were of a hot and violent temper, and the country woody and mountainous; and in case of merchants being robbed it might occasion disputes and misunderstanding between them and the Companie’s servants”.⁵ To Bogle such statements simply intended to camouflage his private interest: “The opposition of the *Bhotias* really proceeded from motives which they industrially concealed”.⁶ Similar statement was put on record by the next Deb Raja when Hamilton visited Bhutan. The ambassador of the-then Deb Raja carried a message to Bogle against the entry of the English and other Europeans in Bhutan.⁷ Bogle was, however, able to secure the access of non-European traders from Bengal for the purpose of trade in Bhutan.⁸ One of the articles of the agreement between the East India Company and the Deb Raja of Bhutan that was concluded at that time proclaimed, “[T]he Deb Raja shall allow all Hindu and Musalman merchants freely to pass and repass through his country between Bengal and Tibet”.⁹ The argument also provided certain benefits to the Bhutanese traders in Bengal. We may mention in this context: (1) that the Bhutanese traders were given to enjoy trade privileges at Rangpur in Bengal as before and they could also proceed, either themselves or by their *gumashtas*, to all places in Bengal for

⁴ Public Conr., 19th April 1779, No. 2, containing Bogle’s report to Warren Hastings dated 30th September 1775 referred in Gupta, *British Relations with Bhutan*, pp. 42-43.

⁵ *ibid.*

⁶ *ibid.*

⁷ Sen, *Records in Oriental Languages (Bengali Letters)*, vol. I, No. 1 referred in Majumdar, *Britain and the Himalayan Kingdom of Bhotan*, p.54.

⁸ Majumdar, *Britain and the Himalayan Kingdom of Bhotan*, p.52.

⁹ Gupta, *British Relations with Bhutan*, pp. 46-47.

the sell of horses, free from duty or any other hindrance; (2) that the contemporary duty levied at Rangpur from the Bhutanese caravan was abolished; (3) there had earlier been a ban on the purchase of oil and dried fish in Rangpur by Bhutanese merchants. On the complaints received from them, Warren Hastings removed all those bans. He instructed, “[T]he district official should issue Perwannahs to the Zeminders and officers of the districts in which the Booteas have been accustomed to buy these articles, to protect and assist them in carrying on their trade and to allow their oil and dried fish freely to pass the different chokeys and gauts.”;¹⁰ (4) that the exclusive trade privilege was given to the Bhutanese sellers in sandal, indigo, otter skins, tobacco, betel-nut and pan; other merchants were thus prohibited to import these commodities into Bhutan;¹¹ and (5) that the government extended civic facilities to the Bhutanese and Tibetan traders who visited Calcutta every year in winter to sell their wares. A Buddhist temple was also constructed near Calcutta, which they could use as a meeting place, a place of night halt as well as for the purpose of prayer.¹²

In addition to promoting trade to Tibet via Bhutan, the British Government in Bengal sought to enhance the commercial contact between the hill people and the inhabitants of the plain. In this connection, Warren Hastings advised Bogle on May 13, 1774, “The design of your mission is to open a mutual and equal communication of trade between the inhabitants of Bhutan and Bengal:...”.¹³ To this end, the British Government took initiatives to establish a series of trade fairs in the plain where the hill people could conveniently participate. We may cite in this context the trade fair at Rangpur (now in

¹⁰ Quoted in Firminger (ed.), Bengal District Records, Rangpur, vol. I, p.5.

¹¹ *ibid*, p.47.

¹² Deb, Bhutan and India, p.138.

¹³ Collister, Bhutan and the British, p. 13.



Bangladesh) which Bogle initiated in 1780, and also the Titaliya fair in Jalpaiguri district¹⁴ that Dr. Campbell, the first Superintendent of Darjeeling, established. This practice continued in the following century. Among the fairs that the British government set up for the interaction with the hill people, the important ones were the Phalakata trade fair¹⁵, the Alipur fair¹⁶ and the Kalimpong fair. Large number of traders from Sikkim, Nepal, Tibet and Bhutan used to attend these fairs. These annual gatherings not only promoted British goods to a wider market but also strengthened the Anglo-Bhutanese relation, and pacified instability across the border. Collister thus remarked, “...Campbell’s administration provided an enlightened period of comparative peace on the frontier during which trade between Bhutan and Company’s land was encouraged”.¹⁷ Apart from establishing these fairs, the government patronaged these fairs every year, and looked after their securities¹⁸ by stationing policemen at Phalakata and Alipur¹⁹ and entrusting the job for the Alipur fair to the military cantonment at Buxa.²⁰

The British move to promote trade with Bhutan through fairs was due to the contemporary trade practices and rules in Bhutan. The Bhutanese rules and regulations on the domestic and foreign trade had been in vogue since the time of Ngawang Namgyal in the seventeenth century. For domestic trade, Namgyal had laid down, “[A]ll barter or trading should be carried on at fair and prevailing rates and not at extortionate and

¹⁴ Hunter, A Statistical Account of Bengal, p. 270.

¹⁵ *ibid*, p. 297.

¹⁶ *ibid*, p. 270.

¹⁷ Collister, Bhutan and the British, p.78.

¹⁸ Deb, Bhutan and India, p.63.

¹⁹ Hunter, A Statistical Account of Bengal, p. 295.

²⁰ *ibid*, p.262.

preferential ones. Forced gifts of butter or salt were also strictly forbidden”.²¹ For export and import trade he had enforced, “The headman should inspect the product of the country industries, and see that they are honest and solid in the make and texture. The merchants who have the responsibility of the import trade at the different marts also satisfy that they get good things, and all traders must obey the State merchants in these particulars”.²² These rules were mandatory for all traders in Bhutan.

While the British government in Bengal had thus been striving for better trade with Bhutan since the 1770s, a series of political events in this Himalayan kingdom around the second half of the nineteenth century further added momentum to development. In this connection we stress specifically the annexation of Assam and Bengal *duars* during 1841-65. It is well established by now that the maintenance of peace at the Assam-Bhutan frontier was the primary objective of the British administration in Bengal behind the annexation of *duars*.²³ But the trade motive was also there. Around the mid-nineteenth century Assam became economically important due to her land and climatic conditions that suited uniquely for the cultivation of tea. The East India Company turned to Assam for tea plantation in 1833 when the Chinese Government did not renew the Company’s monopoly right over its lucrative trade in tea. Speculations on tea made *duars* lucrative to the British since the clearance of undulating forest in this region was expected to generate revenue from timber, and to make the place at the same time ideal for the cultivation of tea. The *duar* tract was, indeed, rich in timber, especially for extensive sal forests in Sidli, Ripu and Chirang *duar*. To clear these tracts, the forest

²¹ Hasrat, *The History of Bhutan*, pp.57-58.

²² *ibid.*

²³ Gupta, *British Relations with Bhutan*, p.193.

tribes like *Meches*, *Garos*, *Cacharis* and *Parbateas*²⁴ were expected to migrate into this region as the labour force. Immigrants were also expected from surrounding districts under British administration and Cooch Behar. In addition to tea and timber, two more considerations were there. First, cotton was cultivated abundantly on the slopes of the hills, and these so-called 'hill-cottons' might be exploited for profitable ends; and second, the region had 'an excellent market for English cloth and brass and copper ware'.²⁵ The British administration was, therefore, confident about the *duar* tract being eventually able to attract entrepreneurs for tea and cotton plantation as well as for the exploitation of timber. A conjecture of more than three times increment in revenue generation within one and a half decade was the driving force behind the annexation of this region in the British dominion. After a number of battles with Bhutan, the British conquered seven *duars* in Assam and eleven *duars* in Bengal.

Although the Bengal Government paid a sum of Rs.50,000 to Bhutan as compensation, the annexation of *duars* had serious adverse impacts on the Bhutanese economy in general and on her trade in particular. Bhutan had earlier kept trade linkage with Assam and Bengal through these *duars*. Her people including the privileged class used to get all necessary and luxury items from these places.²⁶ Indeed, Bhutanese traders faced unprecedented hazards in business due to the economic blockade that the British enforced during the *duar* war. Also, the local people of *duars*, the *Mechis* for example, suffered from scarcity and starvation as they primarily survived on trade with Bhutan. They were on record to complain, '[W]e regret to say that owing to the scarcity of rice

²⁴ Proceedings of the Lieutenant Governor of Bengal, Oct, referred in Gupta, British Relations with Bhutan, p.141.

²⁵ *ibid*, pp. 140-141.

²⁶ Deb, Bhutan and India, p.118.

our helpless families are brought to starve. The cause of the grievances arises from the war, being still continued. The merchants who had hitherto supplied us with rice and cotton seeds, venture not to come to our quarter now a days'.²⁷

In view of the resentments of the Bhutanese government and her people, the British administration in Bengal adapted a number of measures. An annual compensation to the Government of Bhutan by Rs.50,000 was surely an important step to this end. Moreover, the British provided a series of facilities to Bhutan's trade and commerce.²⁸ Among other measures that were targeted to pacify the traders in Bhutan, the Bengal Government established weekly markets, called 'hats', at suitable places where the Bhutanese traders and consumers could procure rice, cotton, dried fish, pigs, lac, tobacco etc. that were produced in plenty in *duars*. Such hats were also set up in several places in Darrang and Kamrup *duars*.²⁹

The *duar* war had far-reaching socio-political impacts in this Himalayan kingdom. Since an early time the *Penlops* (governors) were involved in fighting with each other leading to turmoil in domestic law and order situation. For the first time, the *duar* war motivated them to form a pressure group to initiate peace dialogue with the British. The Deb Raja was also in favour of such a dialogue. The chief intention of these Governors was obviously the prosperity of the Bhutanese trade which they themselves carried out heavily. This effort culminated to the Sinchula Treaty in 1865. It brought an end to hostilities, and provided a congenial environment for mutual peace and friendship between Bhutan and British India. This Treaty was based on the philosophy of *laissez*

²⁷ Referred in Sen, 'The Duar War of 1865', p.29.

²⁸ Gupta, British Relations with Bhutan, p.115.

²⁹ *ibid.*

faire which swept the British society around the mid nineteenth century. This free trade philosophy was contained mainly in article IX of the Treaty, which abolished the contemporary duty on the import and export of the Bhutanese goods in India and also on the British goods imported in Bhutan or transported through it.³⁰

The Sinchula Treaty was not very successful for two basic reasons. First, the free trade doctrine of the Treaty was not widely acceptable to the Bhutanese society. We have already pointed out that the Bhutanese were suspicious about the European traders; and they did not allow them to trade directly in Bhutan for a long time. Possibly this fear-psychosis developed out of their experience in its neighbour country of Bengal where the European trading community ultimately took over the political power. Secondly, some provisions in the above Treaty were violated by Lord Bentinck and this adversely affected the interest of Bhutanese trade. As for example, Bentinck discontinued the allowance that had been provided to the leaders of trade caravans from Bhutan at Dinajpur and Rangpur.³¹ Free accommodation of the Bhutanese at the market places was also discontinued. These created serious resentment among the Bhutanese traders.

While the Sinchula Treaty could not much accelerate the Bhutanese trade for the above reasons, the internal political chaos that took place during 1866 to 1898³² crippled trading activities in the country. Three civil wars were fought here in succession. The first one ran for about two years since 1866 in consequence of the conflict between the Wangdhiporong *Dzongpen* (Officer in charge of a district) and the Punakha *Dzongpen*; the second civil war broke out in 1877 as the Punakha *Dzongpen* revolted against the Deb

³⁰ Aitchison, A Collection of Treaties, Engagements and Sanads, Vol. XIV, Part IV, p. 98.

³¹ Rennie, Bhotan and the story of the Dooar War, pp.159-160.

³² Singh, Himalayan Triangle, p. 330.

Raja; and the third one occurred in 1884 with the Deb Raja, the Thimphu *Dzongpon* and the Punakha *Dzongpen* on the one side, and the Tongsa, Paro *Penlops* and various other local *Dzongpens* on the other. Out of these civil wars the Tongsa *Penlop* emerged as the undisputed ruler of Bhutan.

For these long-drawn internal disturbances a downward trend ushered in Bhutan's trade with British India during the last quarter of the nineteenth century. This is borne in Figure 2.1 which displays the trends of her imports and exports (along with the total for 1879-1900). It clearly demonstrates a steady decline in all these series. Taking import and export together, the shrinkage is worked out at 7.44 per cent annually, from Rs.675 thousand in 1879-80 to Rs.271 thousand in 1899-1900. To grasp these trends more precisely, we present below the estimated trends of the time-series of total trade (T), exports (X) and imports (M) for the period of 1878-79 to 1899-1900. The estimations are made on the basis of the least-square method.

$$Y_T = 329097.2 - 3070.217 t \dots\dots\dots(2.1)$$

(S.E.=46298.469)	(S.E.=3525.105)	R ² =0.037
(t= 7.108)	(t= -0.871)	F=0.759 (Sig=0.394)
Sig=0.000)	Sig=0.394)	DW=1.738

$$Y_M = 153998.7 - 526.401 t \dots\dots\dots(2.2)$$

(S.E.=19657.174)	(S.E.=1496.672)	R ² =0.006
(t= 7.834)	(t= -0.352)	F=0.124 (Sig=0.729)
Sig=0.000)	Sig=0.729)	DW=1.778

$$Y_X = 178137.5 - 2730.207 t \dots\dots\dots(2.3)$$

(S.E.=28762.356)	(S.E.=2189.928)	R ² =.072
(t= 6.193)	(t= -1.247)	F=1.554 (Sig=0.227)
Sig=0.000)	Sig=0.227)	DW=1.592

where t represents year.

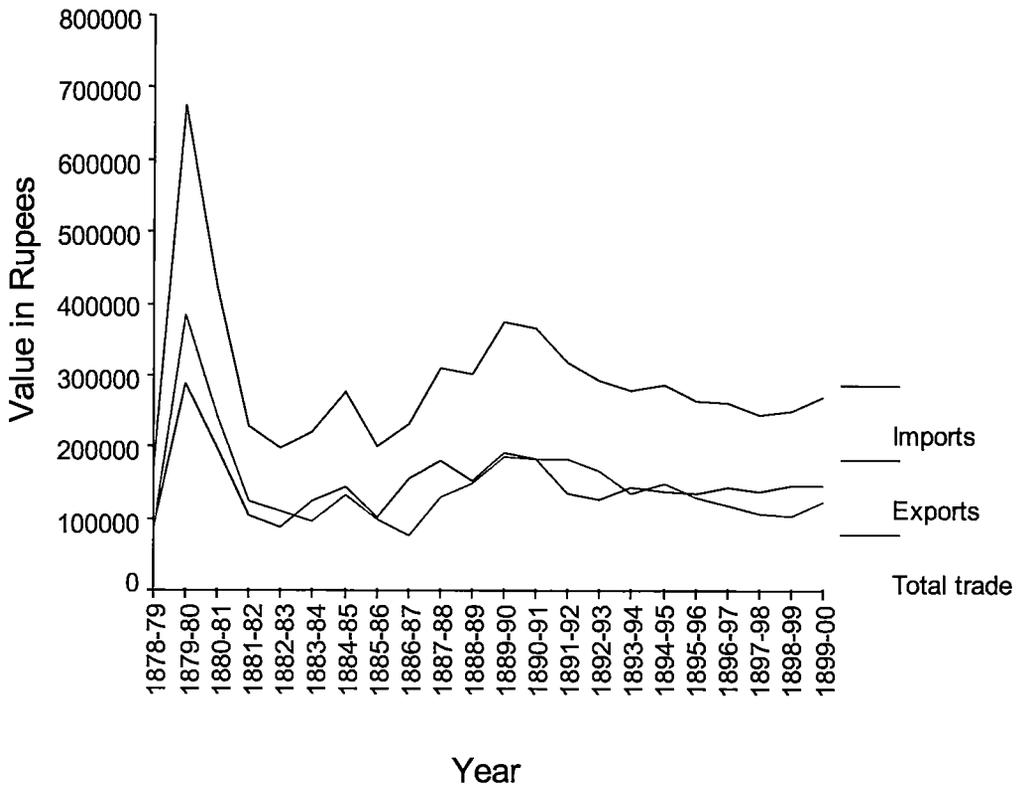


Fig 2.1: Bhutan's trade during 1878-1900

The above Estimations do not suffer from the problem of autocorrelation as the observed value of Durbin-Watson (DW) statistic is above the tabulated value of du in each case. Against the relevant tabulated value of du at 1.174 at 1% level, its observed value is 1.738 for Estimation (2.1), 1.778 for Estimation (2.2) and 1.592 for Estimation (2.3). However, the most revealing finding of this exercise is that the results corroborate negative impacts of the political events of the late nineteenth century Bhutan on her trade. According to our estimates, the annual rate of decline during 1878-79/ 1899-1900 was about Rs.526 for import and Rs.2730 for export. The latter was thus worse hit. Total trade, however, suffered annually by around Rs.3070. The precisions of these estimates

are, however, doubtful because of their high standard errors, viz. 1496, 2190 and 3525 respectively. Moreover, the R^2 and F-statistic are found very low for all the estimated relations indicating thereby that the relations are insignificant. Even if we do not accept a strong negative trend in these series, we may certainly conclude that there was stagnation in Bhutan's import and export trade during 1878-99 with a definite tilt to fall. And these tilts were, indeed, due to her internal political disturbances.

2.2. Political events in the early 1900

The imperial expansion of Russian during the last quarter of the nineteenth century was a major political event in the Asian landscape as it caused a threat to the expansion of the British trade in the Himalayan kingdoms. The British Government in Bengal sought to politically counter this potential threat by involving both Tibet and Bhutan in their favour. Bhutan's trading activities at the debut of the twentieth century were largely affected by the conflict of these imperial forces in the Himalayas.

Recorded history informs that during the second half of the nineteenth century Russia had been extending her empire to Amur and Vladivostok with a view to setting up a naval base at the southern end. The objective was evidently to get rid of the obstacles of ice in her international sea route. By that time Russia became powerful in Siberia also as China was reduced in strength.³³ Siberia was connected with her sea port, the Port Arthur, by a newly constructed trans-Siberian railway that was extended to China via Manchuria. This great railway was entirely supervised by the Russians so that they could have direct influence over a wider geographical milieu.

³³ Parker, A Historical Geography of Russia, pp. 366-367.

By the fag end of the century Russia had also consolidated her political influence in Asia, particularly in the Mongolian domain. Her expansion became undoubtedly a real threat to the central Asia and the Himalayan countries. The British military officers were worried about the expansion of Russia towards Chinese Turkestan which was situated in between Russia and Tibet. To check Russian expansion towards Turkestan, the Anglo-Russian Pamir Boundary Settlement took place in 1895. The conflict between the expansion of Russian and British imperialism was thus imminent. Indeed, the Anglo-Russian Pamir Boundary Settlement (1895) that declared status quo across a given corridor in the western Himalayas resolved the tension in the west.³⁴ But in the eastern Himalaya, the threat of Russian expansion remained unresolved as they had already reached at the door of Tibet. The British was seriously concerned about this development because, as we have already pointed out, they targeted the Tibetan market as an outlet of British goods, especially woollen fabrics. As a matter of fact, the steady growth of Indo-Tibet trade inspired J.C.White, the British political officer in Sikkim to send in 1894-95 the specimen of British woollen fabrics to Tibet to grab that market but 'Lhasa was opposed to the entry of British and even Sikkimese subjects into Tibet'. As the direct route to Tibet through Sikkim was obstructed by the Tibetans, Bhutan gained importance to the British at the end of the nineteenth century. The Russians had also immense trading interests at Tibet. By the end of the nineteenth century she had already had an extensive market in that country for her products like woollen cloths and glass ware.³⁵ These markets she had occupied by competing with the Chinese goods.³⁶

³⁴ Lattimore, *Studies in Frontier History*, p.168.

³⁵ Collister, *Bhutan and the British*, p.135.

³⁶ *ibid.*

In 1899 when Curzon came as Viceroy, the British administration was suspicious about the collusion between the authorities of Russia and Tibet.³⁷ To check Russian expansion towards Tibet, Curzon decided to send in 1903 an armed mission under the leadership of Younghusband to develop relationship with the Dalai Lama, the political authority of Lhasa. In view of the fact that the British had previously failed to establish direct contact with him, Curzon sought for the assistance of Ugyen Wangchuk, the Tongsa *Penlop* of Bhutan. Ugyen Wangchuk, indeed, assisted the Younghusband Mission in all respects. The relationship between the British administration and Tibet that emerged in this process culminated to the Anglo-Tibetan Convention of 1904. This mission had an explicit objective to promote trade. Out of nine articles that were adapted in the convention, as many as seven were directly or indirectly related to trade between Tibet and Bengal. Those articles³⁸ were: (1) new trade markets were to be developed at Gartok and Gyantse, (2) the questions of tea and tariff were agreed to be discussed later on, (3) free trade provision for quota-related articles were also to be settled later on mutual agreement, (4) roads to new trade marts were to be constructed, (5) a compensation of Rs.75,00,000 should be given to the Tibetans at the installment of Rs. 1,00,000 per year in seventy five years, (6) the British were to occupy Chumbi valley for the collection of compensation and the operation of trade marts, and (7) the Tibetans should destroy all forts along the Indo-Tibet border.

That the Tongsa *Penlop* was instrumental in forging relationship between the British and Tibet both the Younghusband mission and the Viceroy of India sincerely

³⁷ Singh, *Himalayan Triangle*, p.334.

³⁸ Lamb, *Britain and Chinese Central Asia*, pp. 302-303.

acknowledged. Thus, Younghusband put on record, "The Tongsa Penlop himself, the principal man in Bhutan, accompanied the mission to Lhasa, put me into communication with leading men and was highly instrumental in effecting a settlement. A year ago the Bhutanese were strangers, today they are our enthusiastic allies".³⁹ In a similar tone a contemporary document notes, "His Excellency the Viceroy entertains no doubt that the Tongsa Penlop's sound advice and exhortation to the Tibetan Government have been promoted by an earnest desire to establish feelings of friendship and good understanding between the parties to the recent Agreement".⁴⁰ In recognition to the service that Bhutan rendered, the British extended many facilities to that country under the recommendations of White who led a mission to Bhutan in 1903-05. Among others White recommended: (1) that the Government of India should enhance the subsidy to Bhutan from Rs.50,000 to Rs.1,00,000; (2) that the Sinchula Treaty of 1865 should be revised in respect of Bhutan's foreign relation with China and Tibet; (3) that new roads should be constructed in Bhutan under the financial assistance from British India; and (4) that the Indo-Bhutan trade relation should be improved.⁴¹ Also, the British administration provided compliments to the Tongsa *Penlop* Ugyen Wangchuk by conferring him the title of Knight Commander of the Indian Empire. He was invited as a State-Guest of the Government of India, and given a reception similar to those provided to the Maharajas of Princely States. In 1907 when the Bhutan Darbar decided Ugyen as the hereditary chief, the Indian Government immediately supported the decision.

³⁹ Quoted from Kohli, *India and Bhutan*, p.164.

⁴⁰ *ibid.*

⁴¹ Collister, *Bhutan and the British*, p. 155.

China's threat to Bhutan further pushed Bhutan closer to British India during the first quarter of twentieth century. By the early twentieth century it was well understood in the British circle in Great Britain as well as in India that Russia was no longer interested in Tibet as she was grossly involved in war with Japan. But since the days of the Younghusband mission, China had been following a policy to extend the border towards Tibet as well as other kingdoms in the Himalayas. In so far as Tibet was concerned, she was determined to invade the country with the hope to establishing her suzerainty. In a communication to Bhutan, China, indeed, explicitly claimed her political sovereignty over that country. It noted, "The Bhutanese are the subjects of the Emperor of China who is the Lord of Heavens, and are of the same religion as the other parts of the Empire. You, Deb Raja, and the two Penlops think that you are great, but you cannot continue without paying attention to the orders of your rulers".⁴² From such a perception China directed the Deb Raja to develop China-Bhutan trade. The document instructed, "The Popon [Paymaster] will inspect your climate, distance of places, crops etc. Transport of fifteen ponies and twenty coolies must be supplied. The Deb Raja must try to improve the trade of the country and the condition of tenantry".⁴³

Bhutan did not, however, pay any attention to those Chinese directions and, in fact, restricted the entry of the *Popons* inside Paro. Though the Maharaja of Bhutan did not even meet the Chinese delegation in person the British administration sought to keep Bhutan under a tighter grip by providing her further supports such as financial and engineering supports to the construction of roads, managerial supports to her tea gardens

⁴² Kohli, *India and Bhutan*, p.176.

⁴³ *ibid.*

etc. These supportive gestures from the British end went a long way to improve the Indo-Bhutan political and trade relations in the early twentieth century. Necessarily, those relations were based on mutual trust and confidence. This policy was, however, altered during the period of Lord Minto (1908) who favoured direct military intervention in the Himalayan kingdoms to check the Chinese aggression. Therefore, the Punakha Treaty (1910) that was signed between British India and Bhutan promulgated the Bhutan government to seek mandatorily the advice of the British government in her external relation with other countries.⁴⁴ This treaty thus enabled the British to trade in Bhutan through controlling her external affairs with other countries. In fact, Bhutan's trade with British India showed a rising trend from the beginning of the twentieth century.

We, thus, find that while the period 1878/79-1899/1900 was characterized with political instabilities in Bhutan, both internal and external, the following period of 1900/01-1905/06 was tranquil in both these front. Since the British India government was largely instrumental in her emerging external tranquility and this they did by way of trade-centric policies, we reasonably expect Bhutan's trade to exhibit rising trend in this period. Figure 2.2 confirms this. It shows that the period witnessed a 60.42 per cent annual growth in export. For export and import together, the growth was from Rs. 271 thousand in 1899-1900 to Rs. 1.27 million in 1905-06.

⁴⁴ Aitchison, A Collection of Treaties, p. 100

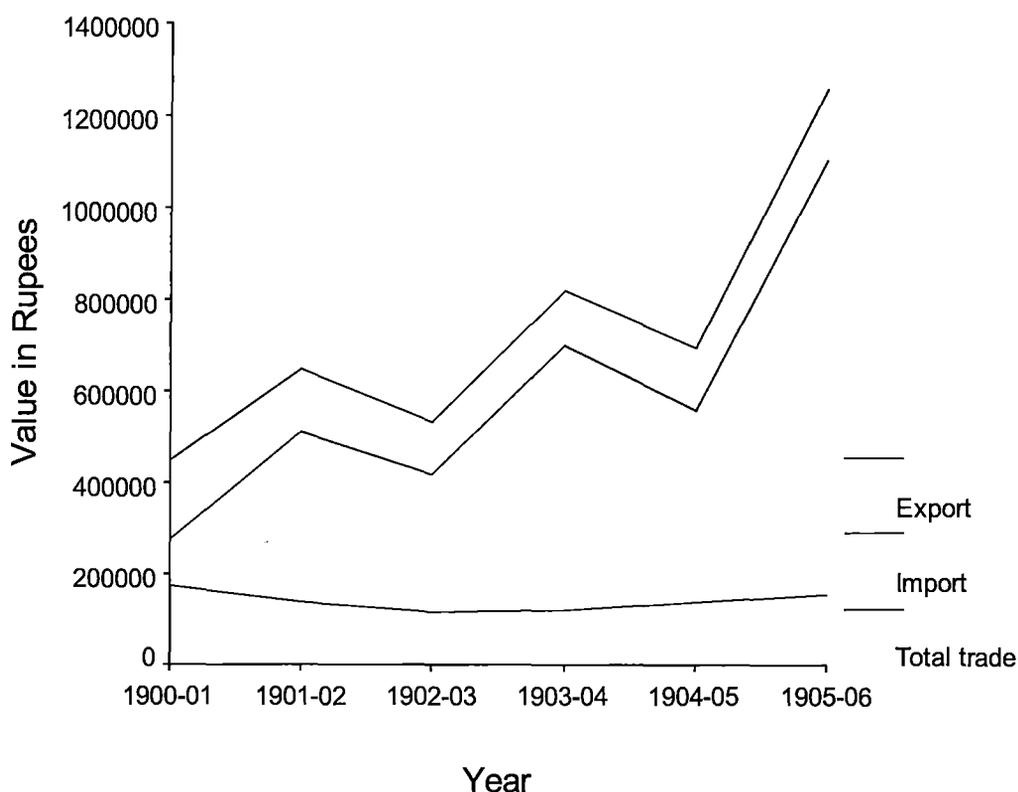


Fig 2.2: Bhutan's trade during 1900-1906

Rising trends in these series are precisely estimated below on the basis of the least square method. The notations are as before.

$$Y_T = 284683.8 + 128956.2t \dots\dots(2.4)$$

(S.E.=166966.4)	(S.E.=42873.004)	$R^2=0.693$
(t=1.705)	(t=3.008)	F=9.047 (Sig=0.040)
Sig=0.163)	Sig=0.040)	DW=2.683

$$Y_X = 135752.7 + 131559.3t \dots\dots (2.5)$$

(S.E.=158843.4)	(S.E.=40787.219)	$R^2=0.722$
(t=0.855)	(t=3.226)	F=10.404 (Sig=0.032)
Sig=0.440)	Sig=0.032)	DW=2.886

$$Y_M = 148931.1 - 2603.114t \dots\dots(2.6)$$

(S.E.=22072.782)	(S.E.=5667.767)	$R^2=0.050$
(t=6.747)	(t=-0.459)	F=0.211 (Sig=0.670)
Sig=0.003)	Sig=0.670)	DW=1.042

For the estimated relations (2.4) and (2.5), the value of R^2 is found moderately high, viz. 0.693 and 0.722 respectively. Their observed F-statistics are also found significant at more than 0.5 per cent level. We thus infer that these estimated relationships are significant. Moreover, the Durbin-Watson (DW) statistics are found above the tabulated d_u level for both the cases so that they do not suffer from the problem of autocorrelation. These estimations, however, indicate that Bhutan's export trade and total trade experienced steep upward trends during this period. Annual rates of absolute growth are Rs.132 thousand and Rs.129 thousand respectively. These estimates are significant at 0.04 per cent and 0.03 per cent respectively from the viewpoint of Student's t-statistic.

Estimation (2.6) that relates to the trend of import is, however, found insignificant from the viewpoints of R^2 and F statistics. While R^2 is as low as 0.211, the observed F-statistic is insignificant at 0.1 per cent level. Moreover, the observed DW statistic belongs to the inconclusive range of tabulated d_L - d_U . Hence, the goodness of fit is very poor for Bhutan's import trend in this period of study. In fact, the flat segment of import series in Figure 2.2 presumes such results. Juxtapose to this absence of any upward trend in import, the upshot of Bhutan's export in the early twentieth century bears a significant indication. It signifies that British India sought to get political relationship with Bhutan by greater in-take of Bhutanese goods although Bhutan did not much enhance the import of goods from British India in this period. This *prima facie* contradicts the widely accepted doctrine that the economic interest always prevails over the course of political actions by the 'core' capitalist countries. But we should note that British India's trade

interest with Bhutan might have been sacrificed for political gains. But those political gains were expected to promote further trade in the long-run with Bhutan and also with Tibet and China.

2.3. Conclusion

Various political events concerning Bhutan in the eighteenth-nineteenth centuries had thus far-reaching bearings on her foreign trade. When the Tibetan trade route via Nepal was closed to the British in the late eighteenth century, the East India Company sought for a route to Tibet and China through Bhutan. But since Bhutan was stubborn not to allow transit trade or trade in Bhutan by the European, the Company's administration in Bengal sent several political missions to Bhutan and Tibet. Many trade concessions were also granted to the Bhutanese. The Company could obtain at the end trade permissions for non-European traders, especially Indians. But the Duar War (1865) that the British indulged in for tea and related industries in and around Assam vitiated the mutual trust between British India and Bhutan. A series of trade-related concessions including an annual compensation was sanctioned to Bhutan on that occasion through the Sinchula Treaty (1865). But the *laissez faire* philosophy that the Treaty enshrined was not appreciated at large in the Bhutanese society. Moreover, the Bengal administration disobeyed some of its clauses. The Treaty could not, therefore, bring any break-through in trading activities between these countries. Three successive civil wars in Bhutan during 1866-84 further vitiated the prosperity of trade. Our trend analysis during 1878/79-1899/1900 has, in fact, shown that there was a secular decline in her imports and exports during this period.

The following period of 1900/01-1905/06 brought trade prosperity to Bhutan based on the privileges that British India granted to her. The British sanctioned those concessions with a view to checking the expansion of the Russian imperialism in the Eastern Himalayas, especially the kingdoms of Tibet, Bhutan and Nepal. In fact, with the help of the Tongsa Penlop of Bhutan, the British mission could establish a liaison with Tibet. The Chinese threat to Bhutan also induced the British to keep her under a tight grip. Because of benevolent British policies, however, Bhutan's trade grew rapidly during this period. Our trend analysis suggests that her export trade took a steep upward turn during 1900/01-1905/06 although her import trade remained largely stagnant.

There is no doubt that the British and the Bhutanese worked together for their mutual interests. The Tongsa *Penlop* assisted the British during the Younghusband mission for several reasons. He knew that Bhutan depended on the annual subsidy given by the British Government, and its withdrawal might be dangerous for the Bhutanese economy.⁴⁵ Moreover, he was very much concerned about trade, and strongly believed that the occupation of Chumbi valley by the British might help them straight forward in trade-related issues. After becoming the hereditary monarch of Bhutan in 1907, Ugyen Wangchuk focused on improving the country's economic conditions through various schemes. Those initiatives and efforts established a firm relation between Bhutan and British India during his reign. How this stable political relation could induce the flow of trade during the first quarter of twentieth century will be discussed in the following chapters.

⁴⁵ Kohli, India and Bhutan, p.160.