

Chapter-6

Foreign Trade in Bhutan

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6.1: Introduction

The economy of Bhutan is regarded as a closed economy and characterized by extreme isolationism from the rest of the world. A careful probe into the history of the country however shows that the country did have trade relations with neighbouring countries like India (Bengal & Assam) and Tibet even in the medieval period. However, there is no denying the fact that foreign trade of Bhutan was constrained by some genuinely prohibitive factors viz. landlockness of the country, prevailing barter economic system, existence of self-sufficient communities producing petty marketable surplus as well as its non-colonial regime. Bhutan's foreign trade was traditionally confined to a few basic essential commodities like salt, soda, kerosene, tea etc. and was not governed by laws of the comparative advantage. However, this trade helped economic development of the country from various aspects of development. This pattern of trade continued up to late 1950s. All this has been discussed in chapter-2 of this dissertation.

It was only after the introduction of its planned development regime in 1961 that Bhutan's foreign trade gradually diversified both in terms of commodities as well as trading partners. Even at the beginning of its planned economic development, Bhutan exported a few primary products to its southern neighbours, the northern trade being closed for the Chinese occupation of Tibet in 1958. Trade diversification in terms of trading partners commenced after its membership of United Nations in 1971, while the diversification in terms of commodities began with industrialization since the late 1970s. Bhutan now exports substantial manufacturing products viz. electricity, cement, copper products, ferro-alloys, coins, stamps, discs, tapes, smart card and media along with value added agro-based products like wood, horticultural products, herbal products etc. Major import items of present day Bhutan are machinery and equipments,

petroleum products, base metals and raw materials required for feeding the ongoing and newly commissioned development projects. Bhutan's imports always exceeded its exports leading to adverse balance of trade. However, receipt of foreign aid more than off-set the negative trade balance, the balance of payment being always favourable to Bhutan. Virtually, the closed economy of Bhutan has completely transformed into a classical case of small open economy characterized by high degree of dependence on foreign trade.

Measures have been implemented over the Five Year Plans for the promotion of its exports resulting in rapid growth. The export to GDP ratio has grown from about 17 percent in the 1980s to 30.2 percent in the 1990s. Import to GDP ratio, on the other hand, decreased from 42.5 percent of GDP in the 1980s to 40.8 percent of GDP in the 1990s. It indicates that the country is achieving self-reliance, the long cherished goal of Bhutan's development philosophy. India still remains the major trading partner of Bhutan even though share of Bhutan's trade with other countries is gradually increasing. In 2007, share of Bhutan's exports and imports to its total exports and imports with India were 81.6 percent and 79.4 percent respectively. At present, the other important trading partners for Bhutan are Bangladesh, Nepal, Japan, Singapore, Hong Kong, Thailand, China and Korea.

Bhutan's foreign trade has been substantially liberalized. Trade openness index as measured by trade to GDP ratio during the period 2004-2008 was around 101 percent of GDP, reflecting high degree of trade openness. Various trade policies were introduced and initiatives undertaken under the planned economic development for the promotion of its foreign trade. The Indo-Bhutan trade agreement in 1972, Indo-Bhutan free trade agreement in 1995, Bhutan's membership of SAARC in 1985, ratification of SAPTA in 1995 and SAFTA in 2006 all are the effective measures for promoting trade within the South Asian region. Bhutan has comparative advantage in certain areas such as hydropower, tourism and

herb-based pharmaceuticals. However, utilization of these resources has been constrained by the lack of required physical capital, appropriate technology, shortage of necessary human capital and existence of a small domestic market. Bhutan is on the way of forming a stronger regional economic cooperation for eliminating these impediments and utilize the resources of its comparative advantage. For farther liberalization of Bhutan's foreign trade profile, Bhutan's accession to WTO is at an advanced stage. However, growing liberalization of Bhutan's trade with rest of the world may have serious consequences on its sustainable development, the principal motive of national development in Bhutan. Therefore, Bhutan has to thoroughly consider pros and cons of trade liberalization before its accession to WTO.

6.2: Bhutan's Trade Policy Initiatives

Bhutan's narrow trade portfolio underwent gradual change during the planned development regime. For historical reasons, India has been and still remains the major trading partner of Bhutan. Immediately after the Indian independence in 1947, Indo-Bhutan treaty for bilateral cooperation was signed in 1949. Article-2 of this 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 be guided by the advice of the Government of India in regard to its external relations'. This treaty provided the basic framework for Indo-Bhutan trade relations. After the closure of Bhutan's trade with Tibet due to Chinese incursion, Bhutan's trade with India assumed paramount significance. Another free trade agreement between India and Bhutan was signed in 1972 and was latter revised a few times. Gradually, Bhutan extended its trade relations with other South Asian countries as well as the rest of the world through the modifications of basic Indo-Bhutan trade agreements.

The government of Bhutan has made efforts to diversify the country's foreign trade both in terms of commodities as well as trading partners.

Export promotion has been a primary goal of every Five Year Plan. Bhutan's foreign trade was handled by the State Trading Corporation of Bhutan (STC), a purely public sector agency¹. However, since the Sixth Five Year Plan (1987–1992), privatization of foreign trade emerged as an important element of its foreign trade policies. Though trade was liberal, some sort of quantitative restrictions were imposed on certain commodities. These quantitative restrictions were converted to tariff restrictions for raising the state revenue. Later on, these restrictions were liberalized, and in some cases phased out, due to free trade agreements signed at the bilateral, regional and even multilateral levels. Trade promotion was achieved through the establishment and enhancement of overall trading environment of the country. Due to the absence of rail route and sea port facilities, dry ports were established as an alternative to trade facilitation. Legal frameworks were also constructed for the promotion of free and fair trade practices.

Development of basic infrastructure for promotion of trade was a major policy agenda of Bhutan's foreign trade policies. Establishment of a sustained institutional base resulted in long term trade promotion of the country. Trade Promotion Division and Trade Information Centres were established during the Fifth Plan (1982-1987). Main functions of the Trade Information Centre are collection of trade statistics and dissemination of general trade information to the exporters and importers. Major programmes of the Sixth Five Year Plan (1987–1992) were computerization of trade information and trade licensing systems, manpower development programmes, strengthening of Trade Promotion Division and Trade Information Centre as well as safety to the domestic consumers². Efforts were made for the provision of efficient services by these institutions both to the public sectors and private traders. Under the Seventh Plan (1992-1997), trade was farther liberalized through the relaxation of licensing procedure and assignment of greater role to market mechanism. Trade Development Board was set up during the Seventh Plan period for the simplification of rules, regulations and procedures related to imports and

exports. Export trade was decentralized and 90 export licenses were issued to the private sector individuals.

The existing trade and transit agreement between Bhutan and India was renewed in February, 1995 for a period of ten years and additional road and rail routes were incorporated for trading with Nepal and Bangladesh. Major strategies of the Eighth Plan (1997-2002) include training courses and workshops for the private sectors, documentation procedures, business negotiations and promotion of capacities under the changing world environment. The Ninth Five Year Plan (2002-2007) followed the policy of strengthening institutional capacity and professional efficiency of the foreign traders, upgradation of information and data-base system as well as achievement of a competitive environment. Under the Tenth Plan (2008-2013), various legal strategies were introduced aiming at policy stability and better predictability. The Tenth Plan (2008-2013) undertook more comprehensive activities viz. development of industrial parks, dry ports, trade centres, trade networking, trade facilitation mechanism, training courses, workshops and seminars³.

Promotion of external trade and increase in the trade to GDP ratio as well as income earned from trade sector are the principal goals of Bhutan's development strategy. Various policies were implemented for further diversification of trade both in terms of commodities as well as trading partners, particularly trade with the third countries. Participation in the international trade fairs, fetching out overseas markets for the Bhutanese products through the marketing research and commissioning of trade missions were the significant steps toward promoting trade. Growth of non-hydro exports is an important policy objective of Bhutan's foreign trade policy. Trade policy also pinpoints the exports of more value added products rather than exporting raw materials. However, strengthening of non-hydro production base is highly essential for the enlargement of export base of these products. Efforts have been made for the expansion of bilateral and multilateral agreements. Long term relations are being

strengthened with Bhutan's principal trading partners and successive negotiations for preferential trading with new and potential trading partners are advancing. Since bank credit for foreign trade is highly collateral based and risk averse, the Ninth Five Year Plan (2002-2007) of Bhutan undertook credit guarantee schemes for the foreign traders⁴.

Bhutan's trade with India has been facilitated through a few institutional frameworks such as bilateral free trade agreements, use of Indian currency in Bhutanese markets and fixed exchange rate system between the two countries. For example, the Indo-Bhutan agreement on trade, commerce and transit routes revised in 2006 opened up additional four entry-exit points, sixteen being already in place⁵. Simplification of import-export procedures was significant achievement of this amendment. Bhutan's principal export to India is hydro-electricity. However, different types of policies were introduced for the diversification of trade with India, particularly value added non-hydro exports. Bhutan's cement and agro-based products have already captured huge markets in India, specifically in the adjacent areas like West Bengal, Bihar and Assam. Indian market having huge size, there is prospects for increasing these exports to a great extent.

Efforts have been made for the promotion of trade with Nepal and Bangladesh also. In September 1980, a bilateral trade agreement was signed between Bhutan and Bangladesh. India also permitted the use of its transit facilities for this Bhutan-Bangla trade⁶. Now Bhutan has preferential trading agreement with Bangladesh and the former intends to introduce further initiatives for liberalization of trade with the latter through negotiations for reduction of tariff and non-tariff barriers. Bhutan's preferential trading agreements with Bangladesh was renewed during the visit of the Bangladeshi Prime Minister Sheikh Hasina in November 2009, during which duty free access was agreed upon for eighteen new products of Bhutan⁷. The visit resulted in the possibilities for opening road connections through additional points and cooperation in a

regional electricity grid under the Bhutan-Bangladesh connectivity, which is obviously under construction.

Nepal, Thailand and the Netherlands are Bhutan's potential trade partners. A project proposal for the development of Bhutanese handicrafts and their exports to the Netherlands was formulated under the Seventh Plan (1992-1997). The Government of Bhutan intends to negotiate bilateral preferential trading agreements with Nepal and Thailand. Nepal-Bhutan trade takes place through the Indian routes and increasing efforts are being made for raising these trade. Although, both the countries produce more or less similar products, trade would not be a problem following the laws of intra-industry trade. The intra-industry trade theory states that trade will be relatively greater if capital and labour endowments between the trading countries are more similar⁸. Not only Nepal and Bhutan, all the South Asian countries are following this theory for promoting regional trade. Tourism service under SAARC region is a very good example of this traded item.

Bhutan's imports always exceeded exports, leading to a large deficit in its trade balance. However, large amount of foreign aid receipts outweighed this adverse balance of trade. Export promotion seems to be only way for the achievement of its self-reliance. Export promotion is also an important alternative due to the absence of necessary domestic market for anticipated growth of surplus production. Promoting trade with the third countries is a rational policy of the government, particularly in its advantageous areas. Regarding Bhutan's third country exports, Department of Trade and Industries are assisting the private sectors to identify new markets and products, attending in international trade fairs and trade exhibitions.

Bhutan Trade Development Project imparted services to the exporters through trainings and curbing constraints in its third country exports. Bhutan Export Promotion Centre was established in 1998. This centre assisted the exporters with product and market information, marketing

research, conducting seminars, commissioning of trade missions and participation in the international trade fairs. Export credit guarantee schemes were undertaken by the government for the promotion of export trade⁹. Major export promotion initiatives of the Tenth Plan (2008-2013) include, enhancement of convertible currency exports, appropriate branding initiatives, trade facilitation mechanism and enhance knowledge and skills of the exporters. Export promotion target for the Tenth Plan (2008-2013) was Nu. 20 billion. Alleviation of poverty and raising employment by five percent of total labour force in the trade sector are major objectives of the Tenth Plan¹⁰. Through the incorporation of export promotion, poverty, unemployment and other developmental issues in the foreign trade activities, Bhutan is implementing the export-led growth strategy, which states that export promotion works as the engine of growth as has happened in case of the South-east Asian 'growth miracles' in late 1990s.

Bhutan is following a liberal trade policy after the inception of Five Year Plan as against the closed economic conditions before planned development regime. Indo-Bhutan trade was highly liberal as per the economic friendship treaty of 1949. Preferential trading agreements at the multilateral level and free trade agreements at the bilateral level raised Bhutan's trade openness index at a high level of 75 percent in 2005/06. Where trade was protected for some cases, replacement of quantitative restrictions by tariff was considered under the Seventh Plan (1992-97). However, for some cases like match boxes, restrictions were imposed on imports for protecting domestic industries. High tariff rate was also imposed in some cases for preventing the re-export possibilities in India.

Under the Ninth Plan (2002-2007), liberalization policies were implemented at the bilateral, regional and international levels through the reduction of import tariff and abolition of export taxes. Bhutan is a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), a regional grouping under which

members will progressively reduce and ultimately eliminate tariff and non-tariff barriers for all goods. Bhutan's accession to WTO is at an advanced stage with the country preparing for the fifth working party. A strong national commitment and political will to maintain a free trade regime is effectively integrating Bhutanese economy into the regional as well as the global economies.

South Asian Association for Regional Cooperation (SAARC) was formed in 1985 with seven countries of South Asia viz. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Recently, Afghanistan has become the 8th member country of this regional cooperation. An augmented Gravity Model based analysis by the Research and Information System for Developing Countries shows that nearly 74 percent of intra-regional trade potential in South Asia remained to be exploited¹¹. In order to exploit this potentiality, concessions were offered on 3257 commodities under three different rounds of SAPTA agreements viz. SAPTA-I, SAPTA-II and SAPTA-III¹² for the liberalization of trade and thereby increase total trade volume in the region. South Asian Free Trade Area came to effect in 2006 and it was envisaged that the whole process of free trade would be instituted within ten years. Bhutan has immense prospects for extending its trade relations with the members of SAARC and promoting its existing trade with Nepal and Bangladesh.

Bhutan Government has actively performed its roles for the evolution of SAARC and accrued some obvious gains from this cooperation. The country has played an active role in the promotion of socio-economic and cultural cooperation within the concerned region. The king of Bhutan convinced the South Asian nations to forget their past differences and look into shaping the future on the basis of mutual trust and confidence on each other. After the creation of SAARC, Bhutan performed pivotal role in mitigating the regional conflicts. For example, Bhutan offered a venue for peace talks between leaders of Sri Lanka and Tamil rebels in Thimphu in 1985¹³. Bhutan hosted first SAARC seminar on forestry in the year 1987.

The country has played its active role for the promotion of ties in other areas like sports, tourism, agriculture, education, health and environment. Bhutan always encouraged technology transfer within the South Asian region.

Turning now to the benefits Bhutan accrued by joining the SAARC, Bhutan received special preferences in the form of deeper tariff cuts. As an LDC member, Bhutan enjoys special concessions and infrastructural privileges such as access to import trade financing facilities from the other members. Bhutan benefitted from cooperation in the field of aviation related areas such as airline security and technical services. Bhutan broadcasting service has worked closely with SAVE (SAARC Audio Visual Exchange Programme) and organized a few radio programmes on various themes such as non-formal education, nature conservation and cultural preservation.

Cooperation has been made in other important aspects of development such as in health, education, human capital and technical fields. During the period 1980-1992, 34 Bhutanese students were sent to Bangladesh for higher studies under Bangladeshi Scholarship. In India, Bhutanese students received their education. Under technical cooperation, seven Maldivian nurses were trained at the Royal Institute of Health Sciences in Bhutan during the period 1986-97 under the WHO sponsorship. Additional nurses were sponsored by the Maldivian Government. Similarly, Bhutanese nationals have attended various programmes and training courses in Pakistan. About 200 Bhutanese have availed study opportunities in Sri Lanka under the financial assistance from the governments of both countries as well as other multilateral agencies. The Government of Sri Lanka offered sponsorship to Bhutanese nationals in the fields of planning and management, broadcasting, social statistics, management of schools, human resource management and post graduate medicine¹⁴. In the fields of sports, Bhutan receives technical assistance from Nepal.

However, constant bilateral differences between the member countries of SAARC e.g. sustained conflicts between India and Pakistan, Nepal-Bhutan refugee problem etc. adversely affected trade and other socio-economic cooperation among SAARC countries. Some critics say that SAARC has remained confined to theoretical level and express greater desire for making cooperation outside the region. However, SAARC is reviving its spirit since SAPTA was signed in 1995 and gained new engine after SAFTA agreement came to effect in 2006. Bhutan has huge potential for promoting its cooperation, particularly in the areas of exchanging goods, investments, technology, services as well as environment with the member nations of SAARC.

6.3: Trade Patterns in Bhutan

Trade dependency of the countries, as measured by the shares of both import and export as percentage of GDP is inversely related to the size of the countries¹⁵. Bhutan is a small open economy highly dependent on foreign trade. Share of both export and import as percentage of GDP is very high. During the period 1981-82, Bhutan's estimated import amounted to about 40 percent of GDP, while estimated export to 17 percent of GDP, the share of total trade also being very high¹⁶. These import-export statistics show that there was a large trade deficit of about 23 percent of GDP. The share of import as a percentage increased to 48.2 percent while the share of export increased to 25.5 percent of GDP in 1993. The export to GDP ratio has grown over 30.2 percent of GDP in the 1990s and increased further to exceed 40 percent of GDP in the first decade of the new millennium. The import to GDP ratio declined to 40.8 percent of GDP during 1990s. However, over the period 2000–2008, import to GDP ratio again increased to over 50 percent of GDP and was expected to increase further due to import requirements for capital intensive development projects viz. mega hydel projects. Thus, over the decades, both the shares of imports and exports increased, which indicate Bhutan's growing

dependency on foreign trade for its development.

Tibet used to be Bhutan's principal trading partner before Chinese invasion of Tibet in 1950. Bhutan exchanged rice for salt, soda, tea, wool and precious metals with Tibet. However, since the early 1960s, India has become the principal trading partner of Bhutan. Recently, Bhutan's trade with other South Asian countries, Japan, China, Hong Kong, Thailand, Singapore etc. is increasing. Therefore, Bhutan's trade position has been discussed under three different categories- trade with India, that with countries other than India and Bhutan's overall trade.

6.3.1: Bhutan's Trade Pattern with India

British Bhutan trade relation did not flourish despite several treaties signed between Bhutan and India since 1772. However, this trade resumed after the Indo-Bhutan treaty of 1949. Data are not available for the first two decades of planned development regarding foreign trade of Bhutan due to absence of systematic data collection by the Royal Government. In this early era of planned development, Bhutan imported mainly machinery and equipment, electricity, building materials, petrol and petroleum products and most importantly invisibles like the services of the engineers, technicians as well as unskilled labour, particularly from India. Bhutan's principal exports to India included primary products viz. wood and wood products, vegetables etc. Cement was another export item since the late 1970s. During the period 1981-82, India was the major trading partner of Bhutan because 96.5 percent of Bhutan's exports and 98.1 percent of imports took place with India.

Bhutan's trade pattern with India has changed over time. During the period 1981-82, export of mineral products recorded highest share followed by agricultural and forestry products. In case of import, lion's share was of capital goods followed by intermediate and consumer goods. Major agricultural exports included oranges, potatoes and cardamoms.

Forest products viz. sawa and timber were other principal export items. Cement alone accounted for 26.6 percent of total exports to India during 1981-82. Processed food and menthol products were two significant manufacturing exports. In the import basket, major items were machinery and equipment, trucks, motor vehicle spares, petroleum products, iron and steel products, food and diary products etc. In fact, over the decade of 1980s, timber, cement, electricity and wood products grew at an average annual rate of 25.2 percent, 16.3 percent, 9.9 percent and 30.5 percent respectively.

There were considerable fluctuations of this Indo-Bhutan trade during the period 1981–2001. The sub-period averages indicate that, while exports to India accounted for an average 74.3 percent of total exports during the 1980s, the ratio increased to 91 percent during the 1990s, and 94.4 percent during 2000–2001. However, the average proportion of imports from India to total imports gone down from 87 percent during the 1980s to 71.5 percent during the 1990s, which again increased to 78.4 percent during 2000–2001. The average annual growth rate of export was 13.8 percent, while imports have grown at an average annual rate of 11.3 percent over the concerned period. Thereafter, export of Bhutan has grown at a faster rate than the growth of imports. Major cause of these fluctuations seems to be the irregular import equipments for the newly established hydroelectric projects, cement projects etc.

In 2008, Bhutan's total export to India was Nu. 21480.02 million, which is 95.24 percent of total export of Bhutan. Similarly, Bhutan's total import from India was Nu. 17339.55 million, a 79.09 percent of total imports in Bhutan during the same year¹⁷. Concerning Bhutan's exports to India in 2009, electricity recorded the highest share of 44.9 percent followed by base metals (31.3 percent) and mineral products (31.3 percent). Table 6.1 shows the composition of Bhutan's exports to India during 1995-2009.

From Table-6.1, it is observed that the volume of exports to India for

some items like mineral products, electricity, plastic products and base metals increased manifold during the period 1995–2009. Concerning Bhutan's total exports to India in all items shown in the above table, there was a five times increase during the same period.

Table 6.1: Bhutan's Exports to India, 1995-2009 (Nu. Mn.)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1) Live animals and animal products	0.79	1.22	0.4	0.1	0.7	0.3	0.0	0.4	4.2	2.6	2.4	10.8	13.4
2) Vegetables, fruits, nuts, coffee, tea, spices.	207.5	237.04	297.4	271.8	261.8	197.7	279.9	391.1	257.0	286.4	243.3	276.7	307.1
3) Animal/Veg, oils & fats	0.02	0.06	0.0	0.2	--	0.0	0.0	0.0	0.0	0.0	224.5	1448.3	1875.3
4) Processed foods and beverages	193.0	206.82	198.4	214.5	222.1	194.4	218.5	208.5	391.3	407.8	389.2	413.9	368.0
5) Mineral products	361.92	364.15	425.9	700.6	695.4	527.4	609.5	534.4	587.6	674.1	983.5	1587.1	1809.1
6) Electricity	721.08	747.56	1334.4	1338.7	2018.4	2189.6	2072.9	1247.4	2603.5	2711.7	3439.9	4982.0	10034.3
7) Products of chemicals and allied industries	536.49	562.3	574.3	614.6	565.8	485.5	589.0	667.6	630.0	712.5	714.0	587.0	783.3
8) Plastic and rubber products	13.36	31.79	14.4	16.6	12.7	10.8	55.5	84.0	199.3	270.8	292.6	246.6	275.7
9) Wood & wood products	614.89	475.5	579.9	440.5	297.5	250.6	241.4	176.5	215.1	281.6	214.7	257.7	305.6
10) Textiles, footwear, hats/headgear	0.32	0.00	2.1	0.7	1.4	2.0	1.0	13.2	112.8	536.5	787.2	476.4	444.9
11) Articles of stone, plaster, cement, asbestos	3.36	5.36	6.7	6.5	6.3	12.5	14.2	22.5	18.0	24.5	14.7	24.9	113.1
12) Base metals and articles of base metal	357.97	508.39	499.0	474.4	533.2	450.0	595.1	627.9	882.3	1736.6	2491.1	4098.2	6302.2
13) Machinery, mechanical/electrical appliances, parts	10.52	24.03	36.9	11.5	6.5	6.4	0.1	39.2	4.4	73.0	34.0	51.8	60.0
14) Transport vehicles & aircrafts, engines parts	1.05	0.36	0.3	0.2	0.8	1.1	0.4	3.2	0.2	15.4	16.3	0.6	--
15) Optical, photographic, measuring equipment	0.02	0.01	0.0	0.2	--	--	--	4.4	2.1	1.1	--	0.3	0.6
16) Handicrafts	0.00	2.51	0.0	0.0	--	0.0	0.1	0.0	0.0	0.3	--	0.2	0.0
17) Miscellaneous manufactured	51.62	54.57	68.6	82.4	66.2	45.6	19.4	12.4	18.0	26.6	22.4	25.5	31.1
Total	3078.94	3226.98	4041.9	4175.6	4691.2	4377.0	4700.5	5137.0	5925.9	7761.6	9969.8	14488.0	22723.7

Source: *Selected Economic Indicators* (March, 2000/ March, 2003/March, 2005/June, 2009/Sept, 2010)

Turning now to Bhutan's imports from India, it is observed that imports of mineral products recorded the highest share followed by base metals and machineries.

Table-6.2: Composition of Bhutan's Imports from India, 1995-2009

(Nu. millions).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1) Live animals and animal products	76.47	89.9	122.9	119.1	171.9	209.9	270.6	317.6	368.6	436.2	567.8	629.3	682.5	776.4	984.9
2)Vegetables,fruits , nuts,coffee, tea, spices	346.47	403.3	412.7	458.1	697.4	502.4	555.6	607.5	745.2	645.9	725.1	839.6	976.7	1121.5	1290.3
3) Animal/veg, oils & fats	134.67	134.4	127.6	151.1	161.6	168.6	201.0	220.9	174.5	165.3	230.1	311.8	365.2	480.7	407.7
4) Processed foods or beverages	213.54	213.0	261.2	306.6	388.6	422.2	503.8	545.8	573.9	624.5	752.3	765.7	763.1	822.5	1009.8
5) Mineral products incl. oils & fuels	396.04	462.2	626.0	612.8	840.5	1227.8	1512.7	1434.7	1860.5	2121.0	2746.4	3221.0	3790.4	4933.5	4996.8
6) Products of chemicals and allied	239.59	235.5	235.7	224.4	318.3	1659.3	514.8	456.2	562.5	665.2	596.2	679.1	626.8	750.9	821.2
7) Plastic and rubber products	104.16	111.8	100.2	113.0	177.6	150.3	157.7	179.5	261.6	372.0	268.2	458.5	473.8	458.7	557.5
8) Wood & wood pulp product	130.17	239.1	258.5	181.4	228.2	387.0	299.9	241.1	280.5	340.2	353.1	276.2	561.2	823.2	1126.5
9) Textiles, footwear, hats/ headgear	133.20	149.3	171.5	163.0	201.7	225.9	218.4	225.9	224.4	230.9	224.1	239.8	255.0	251.7	286.9
10)Articles of stone, plaster,cement,asbestos	95.23	112.1	83.1	111.3	86.7	80.5	145.4	133.5	155.5	183.3	191.2	260.3	317.4	305.7	356.2
11) Pearls & products ofpreciousmetals/ stone	0.13	0.22	0.3	0.2	0.2	0.3	0.1	0.4	0.4	18.1	162.4	40.6	760.9	0.7	1.4
12) Base metals and articles of base metal	241.78	251.3	271.0	256.1	767.5	791.7	969.2	928.3	1441.8	1965.4	507.4	2002.8	1955.0	2948.3	3270.8
13)Machinery,mechanical/electrical items	355.81	298.8	359.8	520.8	1094.4	966.9	1014.0	1528.2	2784.7	1669.0	2322.1	2272.4	2270.3	2066.6	2420.1
14) Transport vehicles & aircrafts, engines	111.41	136.1	341.0	295.7	579.1	503.9	545.9	562.6	559.8	573.2	550.3	639.1	1060.1	1322.0	1953.2
15)Optical.Photographic, cinematographic items	18.13	25.42	41.1	59.5	63.8	76.7	87.9	95.7	207.0	69.3	385.8	185.8	101.9	131.1	162.1
16) Handicrafts	0.03	0.95	0.4	0.0	0.0	0.1	0.1	0.5	0.4	0.1	0.5	0.0	0.1	0.0	0.0
17) Miscellaneous	28.82	28.37	36.9	45.6	63.7	85.6	77.5	78.4	61.9	114.3	111.9	132.0	143.0	146.2	195.2
Total	2630.2	2896.17	3453.6	3620.9	5845.3	7462.6	6988.8	7581.3	10260.1	10193.9	12795.1	13053.9	15099.5	17339.5	19840.8

Source: *Selected Economic Indicators* (March, 2000, March, 2003/March, 2005/June, 2009/Sept, 2010)

The share of mineral imports increased from 21.6 percent in 2001 to 28.5 percent in 2007 and it again decreased to 25.2 percent in 2009. The import share of machineries from India was 14.5 percent of total imports in 2001, which peaked at 27.1 percent in 2003 and then decreased to 12.2 percent in 2009. Table 6.2 shows Bhutan's imports combination from India during 1995-2009. Table-6.2 shows that Bhutan's imports from India during the period 1995-2009 for some commodities viz. oil, fuel, base metals and machineries increased by considerable extent, while import of handicrafts and some other products increased very marginally.

Having explored the composition of Bhutan's exports to and imports from India, let us now look into Bhutan's balance of payment situation with India. Bhutan's balance of trade with India was always negative due to the growing imports for ongoing and newly established industrial ventures. However, balance of payment was favourable due to huge inflow of Indian capital in the forms of grants, loans and FDI. Table-6.3 shows the balance of payment situation with India.

Some interesting features of Bhutan's balance of payment estimates with India can be traced from Table-6.3. First, trade balance was always negative excepting three financial years covering the period 1995-96 to 1997-98. Bhutan's trade balance since 1998-99 became negative mainly due to the imports for the Tala Hydel Project. Trade balance in the transfer of services was positive up to 2001-02, and negative thereafter. Balance in the capital and financial account was negative only for the year 1997-98. Foreign Direct Investment from India (FDI) began to enter into Bhutan since 2006-07. Inflow of FDI was Nu. 31.3 million for the year 2006-07, this increased to Nu. 198.8 million in 2009-10. Net remittances were also positive during the late 1990s. The significance of Bhutan's trade with India has increased over time. For all practical reasons, India would remain the rank one trading partner of Bhutan for the coming decades.

**Table-6.3: Bhutan's Balance of payment estimates with India
(Nu. million), 1995-2009**

Item	199 5/9 6	199 6/9 7	199 7/9 8	1998 /99	199 9/ 200 0	200 0/0 1	200 1/0 2	200 2/0 3	200 3/0 4	2004 /05	2005 /06	2006 /07	2007 /08	2008 /09	2009/ 10(p)
A. Current Account	- 205 .5	273. 3	42.4	- 921.4	153 7.5	448. 6	- 154. 5	247 8.9	- 570 7.7	- 5253. 9	- 2344 .6	5882 .1	- 142. 4	- 1098 .8	- 4002.6
Exports, f.o.b.	307 9.0	322 7.0	404 1.9	4181. 0	471 1.2	437 7.0	470 0.5	509 5.3	676 8.8	8661. 1	1061 0.5	2091 1.0	2172 1.8	2325 0.6	23383. 5
Imports e.i.f.	- 279 0.5	- 306 8.2	- 368 4.7	- 4919. 3	- 606 5.7	- 623 1.3	- 698 8.8	- 820 6.6	- 105 89.5	- 1226 2.3	- 1378 1.1	- 1646 3.4	- 2174 9.7	- 2352 9.2	- 28317. 2
Tala	--	--	- 28.3	1114. 4	147 9.1	136 3.7	568. 1	178 6.6	207 3.4	1653. 4	1341 .7	-23.4	-91.6	-7.7	-
Trade Balance	- 279 0.5	- 306 8.2	- 365 6.5	- 3804. 9	- 458 6.7	- 486 7.5	- 642 0.7	- 638 0.8	- 382 0.7	- 3601. 2	- 3170 .7	4447 .6	-27.8	- 278. 6	- 4933.6
Services	288 .4	158. 8	357. 2	- 738.3	- 135 4.5	- 185 4.3	- 228 8.3	- 311 1.3	- 248 7.2	- 2610. 6	- 1654 .1	- 1203 .6	- 2425 .2	- 2241 .7	- 2525.2
Credit	- 493 .9	114. 5	- 314. 8	- 183.1	684. 6	332. 8	311. 9	430. 9	178. 1	253.9	443. 9	455. 9	416. 5	422. 7	424.9
Debit	--	236. 1	218. 8	251.3	170. 0	625. 4	669. 9	596. 5	- 266 5.3	- 2864. 6	- 2098 .0	- 1659 .5	- 2841 .8	- 2664 .4	- 2950.1
Income	--	- 121. 6	- 533. 7	- 434.4	- 854. 6	- 958. 2	- 981. 8	- 102 7.4	- 806. 4	- 938.3	- 701. 0	- 642. 0	- 1849 .7	- 2569 .4	- 2949.8
Credit	--	- 85.8	- 34.6	106.5	532. 4	381. 4	393. 8	712. 7	249. 3	181.5	255. 0	112. 5	270. 9	72.5	18.8
Debit	--	53.7	99.8	166.1	187. 7	247. 1	195. 5	362. 9	105 5.8	1119. 8	955. 9	754. 5	2120 .5	2641 .8	2968.7
Current Transfer	--	- 139. 5	- 65.3	-59.6	- 720. 1	- 628. 5	- 589. 3	- 107 5.6	140 6.6	1896. 2	3181 .2	3280 .1	4160 .3	3990 .9	6406.0
Credit	--	727. 0	140 0.7	1567. 5	410 9.0	301 7.2	283 9.5	673 3.8	232 4.7	2958. 7	4186 .9	4419 .2	5406 .5	5314	7745.2
Debit	--	137 8.0	262 1.6	3893. 0	550 9.4	422 0.4	398 8.4	767 2.6	- 918. 0	- 1062. 6	- 1005 .7	- 1139 .1	- 1246 .2	- 1323 .1	- 1339.2
B.Capital and Financial A/C	--	651. 0	- 122 0.9	- 2325. 5	- 140 0.4	- 120 3.2	- 114 8.9	- 938. 8	- 833 0.6	6439. 5	4076 .3	1112 .8	3358 .5	3420	5226
Foreign Aid (Loans Net)	682 .1	58.0	- 94.3	968.5	157 2.5	170 7.9	186 3.2	311 6.0	325 8.6	1853. 1	2324 .8	-30.3	482. 6	3163 .1	794.2
Other Loans	0.0	71.8	0.0	- 250.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	222. 3	- 1221 .6	543.4
C. Net Errors and Omissions	- 397 .1	476. 9	611. 0	977.5	- 252 2.7	- 171 1.0	- 159 6.7	- 592 8.7	- 159 0.2	- 1970. 1	- 2182 .3	- 9353 .0	- 3070 .2	- 2607 .6	-502.9
D. Overall Balance	79. 6	808. 1	559. 1	1024. 5	587. 3	445. 4	112. 0	- 333. 7	103 2.7	- 784.6	- 450. 6	- 2358 .1	144. 9	- 286. 4	750.5

Source: Selected Economic Indicators (March, 2005/Sept, 2010), RMA.

6.3.2: Bhutan's Trade with Countries Other Than India

Although, India remained the major trading partner of Bhutan both in terms of export and import, gradual changes in the other directions of trade can be recognized. Its third country trade emerged since the 1980s and still remained at a lower level. Primary products viz. red rice, vegetables, cardamoms and fruits, particularly oranges, apples, and manufactured items viz. disc, tapes and smart cards are Bhutan's major export items in the countries other than India.

During the decade 1980s, some regular trade was maintained between Nepal and Bangladesh. Total import of Bhutan in 1981 from Bangladesh was only Nu. 1 million while it increased to 70 million in the subsequent year. Nepal became a significant trading partner only since the early 1990s. From Nepal, the country imports industrial products viz. shoes, soaps etc. From Bangladesh, Bhutan is importing invisible items viz. medical services, while exporting fruits and oranges. Some trade also existed with Japan, Singapore and Thailand. At present, the country exports some amount of horticultural products, red rice etc. in western countries and import mainly machineries, petroleum products, medicine and invisible items. Table 6.4 shows composition of Bhutan's export to countries other than India during 1995-2009.

Table-6.4 shows that Bhutan's exports to countries other than India increased for some selected commodities like apples, oranges, cardamoms, media cards but mineral products did not increase by any satisfactory extent.

Table 6.4: Composition of Bhutan's Exports to Countries Other Than India, 1995-2009(Nu. million)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Veg., fruits, tea, spices, cereals, grains & animal products	156.14	194.4	167.1	186.4	176.7	117.9	163.9	115.1	165.4	297.8	356.8	284.1	284.0	462.0	523.5
1.1 Oranges	-	-	--	--	--	--	--	105.6	124.1	207.2	225.5	176.2	160.9	226.5	352.2
1.2 Apples	-	--	--	--	--	--	--	6.0	30.2	34.9	68.8	33.7	16.2	24.9	32.7
1.3 Cardamoms	-	-	--	--	--	--	--	0.4	0.0	41.6	50.2	48.9	29.6	76.0	49.0
2. Processed food & beverages	6.36	8.57	6.6	5.7	8.1	14.3	14.3	6.5	5.5	10.6	5.3	4.6	8.1	6.7	7.1
3. Mineral products	85.47	88.32	44.8	63.7	63.7	74.7	92.0	118.1	52.4	100.0	226.2	249.0	270.8	314.4	353.8
4. Products of chemical & allied industries	-	-	--	--	--	--	--	20.0	29.1	17.4	30.1	3.5	0.6	1.6	0.9
5. Plastic & rubber products	0.00	0.76	0.0	0.8	0.7	0.0	0.0	1.4	2.5	20.9	5.4	15.5	10.2	0.1	0.0
6. Wood & wood products	13.4	5.97	4.4	4.0	6.6	0.1	1.1	7.1	1.8	2.5	1.5	0.6	0.4	4.5	0.0
7. Wood pulp products	3.12	9.91	1.6	2.9	0.3	3.2	7.8	1.5	0.1	0.1	28.6	62.8	13.8	0.6	0.6
8. Textiles, footwear, hats	2.36	1.37	0.0	1.2	16.2	14.0	5.0	10.9	0.2	1.1	0.2	9.0	16.2	3.3	0.6
9. Articles of stone, plaster, cement, asbestos ceramics, glass			--	--	-	--	--	0.1	6.6	8.8	0.3	2.0	0.2	0.8	0.7
10. Articles of precious metals			--	--	--	--	--	0.0	0.0	5.8	135.4	11.5	33.5	28.7	0.0
11. Base metals and articles of base metals	0.27	1.27	0.0	1.9	0.0	0.0	0.0	2.6	0.1	36.0	4.8	12.1	41.2	284.7	49.2
12. Machinery, mechanical, electrical appliances	0.00	1.32	1.2	9.6	6.6	4.2	0.0	55.5	0.0	6.9	619.2	362.84	4452.7	0.3	619.3
12.1 Media (disc, tapes, smart cards)	-		--	--	--	--	--	0.0	0.1	0.0	546.8	362.67	4451.3	0.0	619.3
13. Handicrafts, philatelic products	3.06	13.12	0.9	3.8	1.0	0.8	10.1	2.5	0.1	0.4	2.6	0.4	2.9	2.3	1.7
14. Others	0.0	2.56	0.0	0.0	--	--	--	1.2	0.3	1.4	0.0	0.3	0.5	0.8	0.8
Total	270.18	326.8	232.1	280.0	276.8	238.9	294.3	342.5	264.2	509.6	141.63	428.38	5135.3	111.06	155.84

Source: *Selected Economic Indicators* (March, 2000, March, 2003/March, 2005/June, 2009/Sept, 2010)

Regarding the imports, Bhutan's major items are machinery and equipments, transport vehicles, aircraft, base metals and plastic products. Table-6.5 shows Bhutan's import composition from the countries other than India.

Table 6.5: Composition of Bhutan's Imports from the Countries Other Than India, 1995-2009 (Nu. million)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Animal Products	0.2	0.9	0.4	2.1	1.0	2.3	7.0	4.4	7.8	0.2	2.4	2.1	3.2	12.5	7.8
2. Veg. fruits, nuts, coffee, tea, spices,	0.06	0.71	0.3	0.5	12.2	3.1	3.4	20.4	2.0	33.1	20.9	7.0	14.2	10.4	4.7
3. Animal or veg. oils & fats	5.15	-	6.0	20.6	13.2	6.0	10.3	56.2	50.7	147.6	43.3	1285.4	1689.8	485.5	6.4
4. Processed food, beverages	10.13	10.98	15.2	43.8	34.4	46.1	77.1	79.3	37.3	154.5	151.2	153.3	164.9	179.7	151.3
5. Mineral oil & fuels	17.01	29.14	36.3	40.1	56.9	66.9	1.4	35.9	0.7	106.3	16.2	38.2	48.4	94.7	63.1
6. Medicines and pharmaceuticals	-	-	22.0	79.0	19.6	20.6	24.0	75.2	12.5	21.2	50.5	55.9	35.1	40.8	18.2
7. Plastic & rubber products	18.8	34.3	23.6	118.8	70.3	84.6	131.9	130.9	100.0	229.5	240.4	276.5	257.8	353.7	282.6
8. Wood & wood products	0.03	1.02	21.9	17.3	7.0	12.5	21.7	12.1	2.2	8.8	13.3	22.8	17.7	44.7	5.0
9. Wood pulp products	70.42	66.14	49.0	115.6	26.3	38.1	21.3	15.3	21.9	55.2	44.5	30.4	97.8	153.2	53.3
10. Textiles, footwear, hats	2.92	7.78	31.3	84.8	43.5	49.6	53.2	139.4	108.6	570.2	555.9	449.9	259.6	388.5	97.2
11. Base metals, machinery, mechanical appliances	837.77	1407.13	1244.8	1157.1	1157.1	1268.1	1539.3	1145.1	679.5	2380.0	2414.9	3092.0	3496.3	2912.7	3945.5
12. articles of stone, plaster, cement	-	-	18.7	35.4	3.1	0.8	13.3	6.6	6.2	14.4	10.4	13.4	9.6	36.8	14.9
13. Precious, semi-precious metals	21.2	7.22	1.60	3.3	7.8	0.5	1.1	0.8	2.8	0.1	13.8	3.6	0.0	109.5	136.7
14. Personal effects, handicrafts, arts	5.24	10.53	27.8	51.3	3.3	1.8	21.1	17.0	0.1	0.2	0.1	0.1	2.5	1.0	0.5
15. Tobacco & cigarettes	1.73	5.33	5.3	5.4	6.4	5.0	3.3	--	--	--	--	--	--	--	--
16. Optical, photographic products	0.09	1.76	1.3	33.7	0.1	0.4	2.1	74.3	111.9	89.1	82.9	173.3	68.5	301.6	157.6
17. Miscellaneous manufactured	12.56	8.2	23.9	119.9	24.2	37.2	49.9	79.0	36.5	87.5	103.6	89.9	102.9	124.6	142.2
Total	1011.72	1629.05	1524.4	1895.4	1989.6	1643.7	2001.4	2466.0	1332.2	8431.2	4240.0	5958.1	6646.1	6155.6	5682.2

Source: *Selected Economic Indicators* (March, 2000/March, 2003/March, 2005/June, 2009/Sept, 2010), RMA.

From Table-6.5 it is clear that Bhutan imports machinery equipments and base metals at the highest amount from countries other than India. It is interesting to point out that Bhutan's medicine imports gradually increased at a moderate rate. This has occurred due to the growing medical

facilities developed over the last two decades. Imports of machinery and transport equipments marked gradual increase for this period. In 2009, the import share of machinery, mechanical, electrical and mechanical parts together accounted for 49.5 percent of its total imports from the countries other than India. Bhutan's balance of payment situation with the countries other than India has been shown in terms of Table-6.6 during 1995-2009.

Table-6.6: Bhutan's Balance of Payment Estimates with Countries Other Than India, 1995-2009 (Nu. million)

Items	Years														
	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10 (p)
A. Current Account	-1067.6	-261.0	10.0	-368.4	-487.9	-72.7	-756.6	512.8	188.4	-5233.5	648.8	535.1	-937.8	150.1	-4765.5
Exports, f.o.b.	270.2	326.8	232.2	179	276.6	238.9	294.3	310.6	388.6	795.9	3349.3	4422.8	2449.0	1406.9	2018.2
Imports e.i.f.	-1011.8	-1629	-1541.4	-1994.4	-2009.5	-1643.7	2001.4	-880.3	-1334.0	-8293.7	-5675.4	-6808.5	-5342.7	-5450.7	-11022.8
Trade Balance	-741.6	-1302.3	-1309.1	-1715.4	-1732.8	-1404.8	-1707.1	-569.7	-945.4	-7497.8	-2326.1	-2385.8	-2893.8	-4043.8	-9004.6
Services	-365.4	42.9	-19.2	170.4	186.3	342.2	307.1	-137.6	273.8	857.6	1081.1	1340.6	862.6	1338.3	1510.0
Credit	-	339.8	349.4	506.8	602.0	1001.1	949.9	815.7	1074.2	1641.0	1869.9	2205.3	1790.4	2277.3	2780.4
Debit	-	-296.9	-368.6	-336.5	-415.8	-658.9	-638.8	-953.3	-800.4	-783.4	-788.8	-8647.0	-927.7	-939.0	-1270.4
Income	-	78.7	360.9	302.4	362.3	499.5	253.3	113.4	66.8	230.6	388.5	634.8	539.6	819.9	283.3
Credit	-	139.5	426.2	345.0	418.0	556.7	327.6	198.5	187.0	355.7	558.3	1049.4	1149.4	940.1	742.2
Debit	-	-60.8	-65.3	-42.6	-55.7	-57.2	-74.3	-85.2	-120.1	-125.1	-169.8	-414.6	-609.5	-120.2	-458.8
Current Transfer	-	919.7	977.4	874.6	696.3	490.4	390.1	1106.7	793.1	1176.1	1505.3	945.5	553.8	2035.7	2445.7
Credit	-	1509.8	1292.3	1274.6	1274.6	1210.6	1317.6	2686.8	2117.6	2534.0	3126.9	2114.5	1373.8	2416.9	2669.5
Debit	-	-590.2	-314.8	-400.4	-578.3	-720.2	-927.5	-1580.1	-1324.5	-1357.9	-1621.5	-1169.0	-820.0	-381.1	-223.8
B. Capital Financial	1636.9	136.1	261.6	183.3	221.0	-279.3	1084.2	1529.4	471.0	120.0	1770.8	4014.0	2310.3	1700.4	1959.3
FDI	-	-	-	45.2	0.0	0.0	101.2	117.9	157.0	401.5	273.9	3238.1	1198.3	710.0	534.6
Foreign Aid (Loans Net)	1714.4	218.7	352.1	186.2	221.1	602.1	983.0	1411.5	1407.6	1086.2	1149.9	813.6	532.4	1030.2	1421.0
Other Loans	-77.5	-82.6	-90.6	-48.2	0.0	0.0	0.0	0.0	363.3	89.2	347.0	-37.8	579.6	-40.5	3.7
C. Net Errors	206.3	428.4	935.8	1008.0	1212.6	142.8	803.1	905.1	-1322	4979.4	3240.1	3230.3	439.6	4130.7	6457.0
D. Overall Balance	776.2	303.6	1207.4	822.9	945.8	-209.2	1130.7	2947.3	-662.6	-134.1	5659.7	7779.3	1812.2	5981.2	3650.9

Source: Selected Economic Indicators (March, 2003/March, 2005/June, 2009/Sept, 2010)

Table-6.6 clarifies that Bhutan's BOP situation with rest of the world was

sometimes favourable and unfavourable for some other periods. One interesting feature of this trade is that FDI from those countries increased substantially since the period 1998–99, reached the level Nu. 3238.1 million in 2006–07 and went down thereafter. Balance of trade has always been negative, imports exceeding the level of exports. Foreign portfolio investment is completely absent during this period of time.

6.3.3: Bhutan's Overall Trade Pattern

Overall trade pattern of Bhutan has recorded gradual changes during the last two decades. This overall trade is also helpful for the comparison of Bhutan's trade position with India and that with countries other than India. Table-6.7 shows the direction of Bhutan's overall trade in terms of shares of total exports or imports.

Table-6.7: Percentage Share of Bhutan's Trade with Its Major Partners.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports															
India	91.9	90.8	94.6	93.7	94.5	94.8	94.1	93.8	92.6	93.6	87.2	76.9	81.4	95.1	93.5
Bangladesh	6.0	7.4	4.2	4.4	4.2	3.6	4.5	4.0	6.2	5.0	4.9	2.5	1.7	2.8	3.2
Nepal	--	--	--	--	--	--	0.8	0.5	0.4	0.2	0.4	0.3	0.2	0.9	0.4
Hongkong	--	--	--	--	--	--	--	0.0	0.0	0.1	6.0	15.2	9.9	0.5	2.8
Japan	--	--	--	--	--	--	--	--	--	0.3	0.1	0.0	0.1	0.3	0.6
Poland	--	--	--	--	--	--	--	--	--	--	--	--	--	0.1	--
UAE	--	--	--	--	--	--	--	--	--	--	--	--	0.0	0.1	--
US	--	--	--	--	--	--	--	--	--	0.1	0.0	0.0	0.1	0.1	0.0
China	--	--	--	--	--	--	--	--	--	0.0	0.0	0.0	0.0	0.1	0.0
Maldives	--	--	--	--	--	--	--	--	--	--	--	--	--	0.1	--
Singapore	--	--	--	--	--	--	0.0	0.0	0.0	--	--	--	--	--	--
Thailand	--	--	--	--	--	--	0.1	0.0	0.0	--	--	--	--	--	--
Others	2.1	2.8	1.2	1.9	1.3	1.6	0.5	1.6	0.7	0.6	1.4	5.0	6.7	0.2	0.1
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Imports															
India	72.2	64.0	69.4	65.6	74.6	79.1	77.7	75.4	88.4	54.7	75.1	68.7	69.4	73.8	77.7
Japan	11.3	13.3	16.9	7.4	3.3	3.9	6.9	3.3	1.7	3.1	3.8	2.1	2.1	4.7	2.2
Singapore	5.3	7.6	2.8	7.2	12.7	3.2	2.4	2.4	1.7	2.3	2.6	2.7	5.1	4.1	2.9
China	--	--	--	--	--	0.9	0.2	0.7	0.3	1.1	1.1	1.5	1.9	3.6	1.9
Thailand	--	--	--	--	--	1.3	3.2	2.4	1.3	1.9	1.6	1.4	1.0	1.7	1.4
S. Korea	--	--	--	--	--	--	0.8	0.8	1.1	2.7	1.5	2.4	3.0	1.2	1.5
Germany	1.9	1.5	0.9	1.3	0.0	0.4	0.7	1.0	0.6	22.8	1.2	1.1	0.6	1.2	0.3
Indonesia	--	--	--	--	--	--	0.5	0.1	0.2	0.4	1.4	7.0	6.0	1.0	1.8
Sweden	--	--	--	--	--	--	--	--	--	1.5	0.6	0.9	1.4	1.0	--
Malaysia	--	--	--	--	--	--	0.4	0.4	0.2	0.4	1.0	1.9	0.9	0.9	1.5
US	0.3	0.5	0.6	0.8	0.3	0.4	--	--	--	--	--	--	--	--	--
UK	1.6	0.9	0.4	0.6	0.4	2.6	--	--	--	--	--	--	--	--	--
Bangladesh	--	--	--	--	--	0.6	--	--	--	--	--	--	--	--	--
Others	7.3	12.2	9.0	17.0	8.6	7.2	7.1	13.5	4.4	9.1	10.1	10.5	8.6	6.7	8.0
Nepal	--	--	--	--	--	0.3	--	--	--	--	--	--	--	--	--
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: *Selected Economic Indicators* (March, 2005/June, 2009/Sept, 2010), RMA

From Table-6.7 it is clear that Bhutan's foreign trade has been diversified in terms of its trading partners. However, more than 90 percent of

Bhutan's exports and more than 70 percent of import are still taking place with India, Bangladesh being the second largest trading partner. Recently, Bhutan's import share with China, Japan, Nepal, Hongkong and Singapore is going up. While second largest import of Bhutan takes place from Japan followed by Singapore, share of either import or export with other countries is still dismal. India is still the advantageous destination of Bhutan's foreign trade and it will remain the same until full-fledged globalizations is realized.

Bhutan's overall balance of trade situation was always negative. Imports have always grown faster than exports because of the limited export base of the country as well as to the growing import demand for the domestic industries. This negative balance was more or less stable, albeit with some fluctuations from year to year¹⁸. As far as Bhutan's overall balance of payment is concerned, it is worth mentioning that due to the large inflow of foreign capital, particularly in terms of foreign grants, Bhutan's balance of payment has always remained favourable. Excepting the financial year 2004-05, there was always favourable BOP during the period 1995-96 to 2009-10, despite large deficit in its BOT. FDI from India and other countries increased substantially, peaking in the year 2006-07 at Nu. 3238.1 million. However, actual balance of payment situation of Bhutan is very difficult to estimate due to the presence of substantial amount of informal trade between India and Bhutan¹⁹.

The overall balance of Bhutan increased by ten times during the period 1995-2010. Positive overall balance is nothing but additions to the country's foreign exchange reserves. Thus, foreign exchange accumulation of Bhutan increased over time, and the addition to foreign exchange reserve was highest in 2008-09 amounting to Nu. 5694.8 million. During the period 1994-95 to 2009-10, Bhutan's accumulation of foreign exchange reserves increased by almost nine times. Bhutan's total reserve was US\$ 120.9 million in 1994-95, which increased to US\$ 1017.1 million in 2009-10. Convertible currency reserves increased from US\$ 118.7 to US\$ 888.5

million, while rupee reserves increased from Rs. 70.0 million to Rs. 1378.6 million during the same period. Rupee reserves, therefore, increased at a faster rate than the increase in convertible currency reserves.

6.4: External Trade and Environmental Linkages in Bhutan

Foreign trade and environmental linkages has been a major concern since 1970s due to growing concern over environmental degradation and sustainable development. This obvious linkage led to serious debates between the trading communities and the environmentalists, particularly after the propagation of free trade regime under the WTO regulations since 1990s. A number of prominent debates between national or world environmental policies and trading rules such as the 'Tuna-Dolphin' debate called for WTO dispute settlement mechanism. In the well-known 'Tuna-Dolphin' case, the United States banned Mexican tuna imports because the fishing methods using those tuna resulted in incidental dolphin deaths. In 1991, Mexico obtained a GATT panel decision declaring the United States to be in violation of its GATT obligations for imposing such a ban²⁰. WTO's Committee on Trade and Environment (CTE) is the present agency for the settlement of disputes related to trade and environment.

Due to growing international trade, per capita income all over the world is increasing. In the empirical research, the relationship between level of income and environmental degradation has been studied through the use of so-called Environmental Kuznets Curve (EKC). According to the EKC hypothesis, the relationship between economic growth and environmental degradation is inverted 'U' shaped. The inverted 'U' shape of the curve implies that environmental conditions tend to deteriorate in the early stages of industrialization and then resulting demand for better environmental quality increases with increasing per capita income, at a per capita GDP of about \$5000 to \$8000²¹. It has a serious implication for the developing countries due to two reasons. First, according to EKC theory,

pollution problems tend to worsen in the early stages of development and secondly, no developing countries reached and expected to reach the stipulated income level in the near future.

Developing countries of Asia, specifically those of South Asian trade takes place in primary products viz. agricultural and forest products, natural and mineral resources and so on. This pattern of trade adversely affects environment because growing production of these traded items is responsible for land degradation and water pollution. Liberalization of trade under the WTO regime further accentuated the problem. Debates emanated from trade liberalization under the WTO regime and the environmental impact, which is inconclusive and subject matter of further research. It is argued that de-subsidization policy adopted under the Uruguay Round agreements, and resultant rise in food prices, may induce South Asian countries to expand their agricultural production. This may lead to environmental degradation owing to intensive land use, expansion in use of fertilizer, insecticides etc. as well as to deforestation. This problem is very serious for the economy of Bangladesh²². However, recent studies displayed that increased globalization caused to decrease the rate of environmental degradation and played positive role on economic development in Pakistan²³. Other studies show that the environmental impacts of domestic agricultural policy reforms is more significant than impacts induced by the Uruguay Round Agreement on Agriculture²⁴.

Product standardization is an essential part of present day foreign trade and developed countries being more aware of this have developed well defined criterion for product standardization. Developing countries often fail to meet this standard, which is a major problem for these countries to export in the developed countries. Discussions through the previous sections of this chapter show that Bhutan's main destination of trade is India, Bangladesh and Nepal. No major constraints emerged in this trade due to the absence of product standardization in this region vis-a-vis developed country standards. Bhutan's exports to outside the South Asian

region are very small and undisturbed due to the exports of organic agricultural products produced at normally fertile and richly intact environment. This does not imply that the problem would not emerge in future. The environmental issues are likely to rise with growing trade of the country. Proper standardization has to be achieved, which is obviously under process.

Bhutan's principal trading items are electricity, agricultural, forest-based, mineral-based and chemical products. Since its development process started late vis-à-vis other developing countries of South Asia and environmental preservation has been incorporated at an early stage of development with the existence of 72.5 percent forest cover, no significant environmental degradation is reported till now. However, growing exports of primary and mineral products and import of fertilizers must have adverse environmental consequences. In 2009, agricultural and forest products constituted 5.5 percent of Bhutan's total exports to India and 34.1 percent of total exports to countries other than India. Export of mineral products in India was 11.2 percent, while that in countries other than India was 22.7 percent of total exports²⁵. Bhutan imports considerable amount of chemical fertilizers as well as mineral products from the neighbouring countries such as India and Bangladesh. Assessment of the impact of trade in these environmentally sensitive commodities in Bhutan is the subject matter of further research.

Hydro-power is the major source of government revenue and export earning item in Bhutan, which constituted 44.9 percent of total exports to India in 2009. Bhutan has comparative advantage in the hydro-electricity production and its exports to India and Bangladesh. Hydropower is a renewable natural resource produced from the normal river streams steeply falling through the rising mountains. This product is regarded as comparatively less environmentally sensitive than the thermal hydel projects existing in the other countries of the world. However, main environmental impacts related to hydro-power projects include watershed

degradation, loss of forest land and ecological disturbances along with the disturbances in the routes of the seasonal migration of wildlife²⁶.

Indirect environmental impact of this electricity production on environment is also a serious concern. A well defined policy, guidelines, regulation and act passed by the assembly for development and financing of the major hydro-power projects will have to be in place to attract foreign or private investment in the sector²⁷. For further development of this industry, better environmental management policies are called for because this industry utilizes only two percent of Bhutan's electricity generation capacity, leaving huge capacity for further production, meeting the power shortages in India and Bangladesh.

Before Bhutan becomes a member of WTO, formulation of environmental standardization is extremely urgent. Bhutan became a member of the Codex Alimentarius Commission in 2000 and the standards relating to food products are in the process of preparation. Accordingly, the National Assembly has approved the Food Act 2006 and all food items imported in Bhutan has to meet the standard. The export and import of plants, animals and their products are subject to phytosanitary measures at the border checkpoints and airport as per the Plant Quarantine Act 1993. For the development of proper standardization, the country can use foreign assistance in the forms of foreign capital and technology. Bhutan as a leading member of SAARC regarding environmental preservation may take a leading role for the development of product standardization mechanism in the whole region for coping with the global challenge of export promotion, particularly in case of the environment friendly commodities.

Geography of Bhutan possesses a large number of micro-climatic conditions conducive for various herb-based production. This is a new area of Bhutan's comparative advantage because of the existence of export potentiality of these products²⁸. Bhutan's growing forests inhabit large number of medicinal plants and other herbs. Bhutan's traditional medical

system also uses herbal products and some of its flora with high medicinal value. Export possibilities of such products can be explored in the international markets after standardization ascertained for these products. Bhutan can further utilize its organic agro-based production and capture foreign markets because there are huge demands for these products in the international market. These measures fulfil dual objectives- attaining environmental preservation in the one hand, earning of foreign exchange through export promotion on the other.

6.5: Conclusion

Bhutan is a small economy highly dependent on its foreign trade. India traditionally is Bhutan's major trading partner due to geographical proximity as well as strong economic ties between the two countries. Recently, Bhutan's trade with Nepal, Bangladesh, Japan and some South-east Asian countries is increasing. One interesting feature of Bhutan's trade is that export to import ratio is higher for its trade with India than that in other countries. Bhutan's major item of export to India is hydro-electricity while the country exports primary products to other countries of the world. Bhutan's negative balance of trade is off-set by the foreign aid receipts, mainly from India.

Export promotion and trade liberalization are the two important components of Bhutan's foreign trade policies. Various export promotion measures adopted by the country substantially raised its export earnings. The country is now going to implement export-led growth strategy. Trade liberalization can further promote its export trade, particularly in the SAARC region. Bhutan has already accrued some benefits from its trade with the SAARC region. SAFTA agreement is very good avenue for raising its trade with South Asia. Bhutan is on the way to further liberalization of its trade and the country is very shortly going to take the membership in the WTO.

Due to environmentally cautious development policy adopted in Bhutan, its environment has not been significantly deteriorated by its foreign trade. However, Bhutan's trade in natural resources has obvious adverse effects on its natural environment. Since hydroelectricity in Bhutan is comparatively less environment degrading and there is 98 percent unutilized hydro-power generation capacity, the country can exploit this capacity and export to power shortage areas of India and Bangladesh, generating huge revenue. Enlargement of Bhutan's export base also requires the development of other industries. Export potential of herbal products and organic agricultural products can explore new markets in the developed countries and curtail its environmental degradation.

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