

Economic Opportunities, Sectoral Linkages and Emerging Trade Potentials Between India and Bhutan

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Abstract: Indo-Bhutan trade relations are deeply rooted in long-standing political trust, geographical proximity and sustained economic cooperation. The bilateral trade relationship between the two countries reflects economic complementarity rather than competition. This paper examines the economic opportunities, sectoral linkages and emerging trade potentials between India and Bhutan in a comprehensive manner. The study focuses on major sectors such as hydropower, agriculture, manufacturing, tourism and services, which together form the backbone of bilateral trade relations. A descriptive and analytical research methodology has been adopted, relying entirely on secondary data collected from standard books, peer-reviewed journals, government reports, policy documents and official trade statistics. The analysis reveals that hydropower continues to dominate Bhutan's exports to India and plays a crucial role in Bhutan's economic development. At the same time, new opportunities are emerging in areas such as green energy, organic agriculture, digital trade and tourism and service-sector cooperation. The study concludes that trade diversification, infrastructure development, institutional coordination and supportive policy measures are essential for ensuring sustainable, balanced and mutually beneficial Indo-Bhutan trade relations in the long run.

Keywords: Indo-Bhutan Trade; Economic Complementarity; Sectoral Linkages; Hydropower Cooperation; Bilateral Trade Potential; Regional Economic Integration

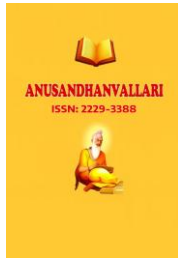
1. Introduction:

India and Bhutan share a unique and cordial bilateral relationship characterized by mutual trust, cooperation and shared developmental goals. Unlike many bilateral relationships in South Asia, Indo-Bhutan relations have remained free from major political or economic conflict. Economic cooperation and trade relations occupy a central position in this partnership. Bhutan, a small landlocked Himalayan country, depends heavily on India for trade, transit facilities, investment and development assistance. India, on the other hand, considers Bhutan not only as a close neighbor but also as a trusted strategic and economic partner in the region.

Trade relations between the two countries are governed by formal agreements that ensure duty-free access, minimal tariff barriers and simplified customs procedures. These arrangements have helped create a stable and predictable trade environment. As a result, India has emerged as Bhutan's largest trading partner, accounting for the majority of Bhutan's imports and exports. The structure of bilateral trade clearly reflects strong economic complementarities, with Bhutan exporting resource-based and energy-intensive products, while India supplies manufactured goods, fuel, machinery and services. This complementary nature makes Indo-Bhutan trade relations particularly significant in the context of regional economic cooperation.

2. Historical background of Indo-Bhutan trade relations:

Trade relations between India and Bhutan existed long before the emergence of modern nation-states. In the pre-colonial period, border communities engaged in traditional barter trade involving agricultural produce, salt, wool, livestock and forest products. These exchanges were largely informal but played an important role in



sustaining local economies on both sides of the border. After India's independence in 1947, bilateral relations between India and Bhutan were institutionalized through formal treaties and agreements. The Treaty of Friendship signed in 1949 laid the foundation for close political and economic cooperation. This treaty was revised in 2007 to reflect changing regional and global realities, while preserving the spirit of mutual trust and cooperation. Over the decades, several trade and commerce agreements have been signed to facilitate bilateral trade. These agreements provide duty-free access to Bhutanese goods in the Indian market and ensure transit facilities for Bhutan's external trade. As a result, India gradually became Bhutan's principal trading partner and development ally.

3. Importance of Indo-Bhutan trade relations:

Indo-Bhutan trade relations are important for both economic and strategic reasons. For Bhutan, trade with India supports economic growth, employment generation, government revenue and overall development. Export earnings from India, particularly from hydropower, form a major source of national income for Bhutan. Trade relations with India also help Bhutan meet its domestic demand for essential commodities, capital goods and technology.

For India, Bhutan is an important partner in terms of energy security, regional stability and neighborhood cooperation. Imports of clean and renewable hydropower from Bhutan contribute to India's energy diversification and environmental goals. At a broader level, strong trade relations with Bhutan enhance India's regional influence and contribute to peace and stability in South Asia. Thus, Indo-Bhutan trade relations have significance beyond purely economic considerations.

4. Review of Literature:

Scholarly literature on India-Bhutan economic relations largely focuses on hydropower cooperation, development assistance, and regional connectivity. Early studies by Planning Commission of India (2013) and Royal Government of Bhutan (RGoB) emphasize hydropower as the cornerstone of Bhutan's economic development and its integration with India's energy security framework. These works highlight how long-term power purchase agreements have ensured revenue stability for Bhutan while providing India with renewable energy.

Sahni (2016) and Dash (2018) analyze bilateral trade patterns and observe a high degree of asymmetry, with India dominating Bhutan's trade in terms of volume and market access. However, they also note that this asymmetry is mitigated by preferential trade agreements and duty-free access, which benefit Bhutanese exports.

Studies by ADB (2019) and World Bank (2020) focus on infrastructure and connectivity, arguing that improved transport corridors and border infrastructure are critical for Bhutan's economic diversification. These reports underline the importance of rail and road connectivity in reducing transaction costs and integrating Bhutan into regional value chains.

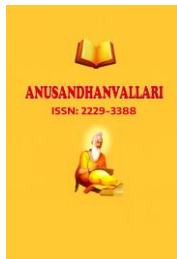
Recent literature, such as PMF IAS (2023) and Next IAS (2024), expands the scope beyond hydropower to include digital cooperation, fintech, education and renewable energy diversification. These studies argue that emerging sectors offer significant untapped potential and can reduce Bhutan's dependence on a single sector.

Overall, the literature suggests that while India-Bhutan economic relations are strong and stable, future research and policy should focus on trade diversification, value addition and services-sector integration.

5. Objectives of the Study:

The present study is undertaken with the following objectives:

1. To examine the nature and growth of bilateral trade between India and Bhutan.



2. To analyse key sectoral linkages, particularly hydropower, infrastructure, agriculture and digital cooperation.
3. To assess emerging trade and investment opportunities between the two countries.
4. To identify challenges and constraints affecting bilateral economic cooperation.
5. To suggest policy measures for strengthening sustainable and diversified economic engagement between India and Bhutan.

6. Methodology:

The study adopts a descriptive and analytical research methodology. The research is qualitative in nature and is based entirely on secondary data. Data have been collected from standard textbooks, peer-reviewed academic journals, government publications, trade agreements, policy documents and official statistical reports related to Indo-Bhutan trade relations. The collected data were systematically analyzed using descriptive and interpretative methods to understand trade patterns, sectoral linkages and emerging opportunities. This methodology is appropriate for examining long-term trends and structural dimensions of bilateral trade relations rather than short-term fluctuations.

7. Bilateral Trade: Trends and Composition:

7.1 Trade Volume Growth

India has consistently been Bhutan's largest trading partner, maintaining a dominant share of Bhutan's trade. Bilateral trade has grown substantially over the past decade:

- From USD 484 million in 2014-15 to nearly USD 1,777.44 million in 2024-25, making up over 80% of Bhutan's total foreign trade.
- India's exports to Bhutan have typically been significantly higher than imports from Bhutan, resulting in a trade surplus for India.

Such growth underscores the deepening economic interdependence between the two economies, facilitated by trade liberalization and strategic integration.

7.2 Composition of Trade

India's Exports to Bhutan: Machinery, petroleum products (fuel and lubricants) rice, ferrous products, smart phones, oilseeds and food staples.

Bhutan's Exports to India: Primarily hydroelectricity, Ferro-silicon, dolomite products, semi-finished metals, pebbles, gravel, Portland cement and other minerals. Bhutan's electricity exports alone have become a major revenue earner and a vital element of bilateral trade.

This trade composition highlights complementary economic structures: India's diversified industrial economy and Bhutan's resource-driven output-especially in hydropower and minerals.

8. Hydropower: The Cornerstone of Economic Integration

8.1 Scale and Significance

Hydropower is the central pillar of economic cooperation between India and Bhutan. It constitutes approximately 30-40% of Bhutan's GDP and nearly 40% of national revenue, making it critical for Bhutan's economic stability.

India, on its part, benefits from:

- Renewable and low-cost energy-enhancing energy security.
- Grid integration across Eastern and Northeastern states.

- Strengthened regional energy infrastructure.

8.2 Hydropower Projects

India has financed and helped construct multiple major hydroelectric projects (HEPs) in Bhutan:

Table no. 1

Project	Capacity (MW)	Status
Chukha HEP	336	Operational
Kurichhu HEP	60	Operational
Tala HEP	1,020	Operational
Mangdechhu HEP	720	Commissioned
Punatsangchhu I & II	2,200+	Ongoing / Recently Inaugurated
Kholongchhu HEP	600	Under Development

The Punatsangchhu-II project (1,020 MW) was inaugurated during Prime Minister Narendra Modi's visit to Bhutan, increasing Bhutan's hydropower capacity by nearly 40%. India also extended a ₹40 billion (approx. \$450 million) credit line to support additional energy infrastructure development.

8.3 Economic Impact:

Hydropower cooperation has created a win-win model where:

- Bhutan earns export revenues and stimulates local employment.
- India secures renewable energy supplies to meet its growing energy needs.

This arrangement also fosters private sector participation-with Indian companies like Tata Power, Adani Group and Reliance Power signing agreements with Bhutan's Druk Green Power Corporation for future hydropower ventures.

9. Infrastructure and Connectivity: Catalysts for Growth:

9.1 Road and Trade Routes

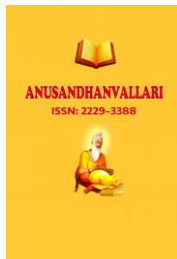
India's Border Roads Organisation (BRO) under Project DANTAK has built significant road infrastructure within Bhutan, enabling efficient trade and mobility. The India-Bhutan Integrated Check Post (ICP) at Darranga (Assam) and new land customs stations (e.g., Hatisar and Darranga) provide regulated and modernised trade gateways.

These enhancements reduce transaction costs and time required to move goods across borders-an important component of trade facilitation.

9.2 Rail Connectivity: A New Game Changer

A major breakthrough in connectivity is the first-ever rail linkage between India and Bhutan:

- Kokrajhar (Assam) to Gelephu (Bhutan)
- Banarhat (West Bengal) to Samtse (Bhutan)



These rail corridors-with a combined investment of ₹4,033 crore (~USD 500 million)-will open new freight and passenger movement opportunities, strengthen supply chains and facilitate industrial development in border regions.

Such connectivity significantly improves regional integration and supports Bhutan's aspirations to develop industrial and economic hubs at Gelephu and Samtse.

10. Sectoral Linkages Beyond Trade and Infrastructure:

Beyond hydropower and trade, India-Bhutan cooperation spans several sectors that foster economic synergies and growth.

10.1 Agriculture and Food Security

India plays a significant role in agricultural cooperation with Bhutan. For instance, five-year collaboration between Brahmaputra Valley Fertilizer Corporation Limited (BVFCL) and Bhutan's National Seed Centre focuses on supplying fertilizers and agricultural inputs vital for Bhutanese farmers. This partnership strengthens Bhutan's food security and agricultural productivity.

Agriculture remains a critical sector in Bhutan's domestic economy and Indian assistance in inputs and mechanization opens space for aritech innovation and bilateral agribusiness ventures.

10.2 Digital Technology, FinTech and Space Cooperation

The relationship has expanded into fintech and digital ecosystems:

- Bhutan uses India's RuPay payment system and plans for Unified Payments Interface (UPI) integration are underway, facilitating seamless cross-border digital transactions.
- India-Bhutan SAT, a jointly developed satellite, supports communication, disaster management and resource monitoring.

Digital linkages improve financial inclusion, promote cross-border e-commerce and lower the costs of transactions-especially for MSMEs and small traders.

10.3 Education, Skills and Human Capital Development

Education and skills development form an important bridge:

- Over 1,000 Bhutanese students benefit annually from scholarships under Indian programmes.
- Training slots under Indian Technical and Economic Cooperation (ITEC) programmes help build Bhutanese professional capacity across sectors.

People-to-people linkages enhance workforce capabilities and strengthen ties that go beyond economics.

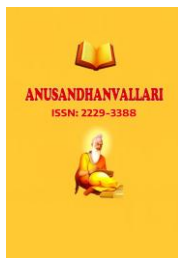
10.4 Healthcare Cooperation

India has supported Bhutan during health crises (e.g., COVID-19 vaccine supplies) and has provided medical infrastructure assistance. Although smaller in scale compared to energy cooperation, health partnerships reinforce mutual goodwill and contribute to human development.

11. Emerging Sectors and Future Trade Potentials:

As the bilateral relationship matures, new economic opportunities are emerging beyond traditional sectors:

11.1 Renewable and Green Energy



While hydropower remains the backbone, renewable and clean energy sectors-such as solar, wind and green hydrogen-are gaining attention. Bhutan's commitment to environmental sustainability aligns with India's transition toward clean energy, creating scope for joint investments and technology transfer.

India-Bhutan roundtables on renewable energy and the integration of Bhutan into regional energy markets could expand trade in renewable electricity and clean energy technologies.

11.2 Tourism and Hospitality

Bhutan's unique positioning as a sustainable tourism destination opens avenues for:

- Indian tourists and travel enterprises.
- Joint hospitality ventures.
- Cross-border tourism circuits linking Northeast India with Bhutanese cultural and natural attractions.

Simplified visa protocols and enhanced connectivity through rail and roads can stimulate tourism-driven trade and service exports.

11.3 Small and Medium Enterprises (SMEs) and Services Trade

SMEs from both countries can leverage free trade arrangements to:

- Enter niche markets in handicrafts, organic products and regional cuisines.
- Participate in cross-border exhibitions and trade fairs.
- Engage in value-chain partnerships across sectors like textiles, foods and consumer goods.

Digital platforms and fintech integration lower entry barriers, enabling Bhutanese SMEs to access Indian markets and vice versa.

11.4 Education, R&D and Innovation Partnerships

Cross-border research collaborations in areas such as climate resilience, mountain agriculture and ICT can become economic assets in the future. Shared research infrastructure and academic exchanges broaden the knowledge economy linkage.

12. Challenges and Areas for Strategic Cooperation

Despite robust cooperation, several challenges need strategic attention:

12.1 Trade Diversification

Bhutan's export base is heavily concentrated in hydropower and mineral products. Opportunities to diversify into value-added manufacturing, agro-processing, pharmaceuticals and light engineering goods are yet to be fully realized.

Joint ventures that facilitate in-country processing could increase export value and employment.

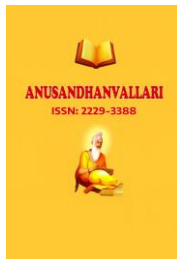
12.2 Logistics and Non-Tariff Barriers

While existing trade agreements facilitate duty-free access, issues such as logistics delays, certification norms and border infrastructure improvements require continuous coordination.

The planned rail links and upgraded check-posts will mitigate these constraints significantly.

12.3 Skill Gaps and Technology Transfer

Expanding economic cooperation will require focused programs for advanced skills development, especially in emerging technologies like digital systems, renewable energy management and fintech.



Collaborative centres of excellence and training programmes can bridge gaps.

13. Geopolitical and Strategic Dimensions:

India-Bhutan economic cooperation cannot be detached from broader geopolitics. Positioned between India and China, Bhutan's strategic partnership with India reinforces regional stability and mutual trust. Initiatives like enhanced hydropower cooperation, infrastructure connectivity and integrated digital systems contribute to economic resilience and strategic autonomy.

Amid growing global complexities, India's role as a reliable partner and Bhutan's balanced diplomacy ensure that economic engagement continues to expand without compromising national sovereignty.

14. Policy recommendations:

In order to strengthen Indo-Bhutan trade relations, the following policy measures are recommended:

1. Export diversification strategies should be promoted in Bhutan.
2. Investment in transport, logistics and border infrastructure should be increased.
3. Private sector participation and public-private partnerships should be encouraged.
4. Cooperation in renewable energy should be expanded beyond hydropower.
5. Regional connectivity initiatives should be strengthened to enhance market access.

15. Suggestions:

Based on the findings of the study, the following suggestions are offered:

1. Bhutan should focus on developing agriculture, tourism and service exports.
2. India should support skill development, technical training and capacity building in Bhutan.
3. Digital trade platforms should be promoted to improve market access.
4. Joint ventures between Indian and Bhutanese firms should be encouraged.
5. Sustainable and environment-friendly trade practices should be adopted.

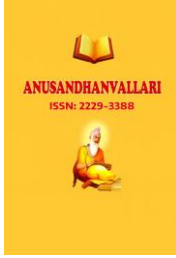
16. Conclusion:

The India-Bhutan economic relationship stands as a model of balanced, strategic and mutually beneficial cooperation. From hydropower and infrastructure connectivity to digital finance, education and renewable energy, the partnership encompasses a wide array of sectors that complement each other's strengths and needs. As trade volumes grow and economic integration deepens, new opportunities are unfolding in sectors such as tourism, fintech, green energy and SMEs. Strategic investments in transportation links, digital ecosystems and capacity building will not only cement the current gains but also unlock future trade potentials that benefit both Bhutan and India.

Above all, this relationship continues to demonstrate that sustainable economic cooperation, rooted in trust and shared vision, can create a resilient and prosperous environment-strengthening both nations economically and strategically in a rapidly changing world.

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