

INTRA- REGIONAL TRADE PRACTICES OF BUSINESS SUSTAINABILITY IN INDIA AND BHUTAN

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Abstract

India is Bhutan's top trade partner both as an import source and as an export destination. Since 2014, India's trade with Bhutan has almost tripled from USD 484 million in 2014-15 to USD 1422 million in 2021-22, accounting for about 80% of Bhutan's overall trade, with the balance of trade in India's favor. The research focuses on the trade relationship between India and Bhutan, strengthens the economic and trade link between them, and will contribute toward intra- regional trade and integration. This Paper focuses on inter- regional and intra- regional cooperation to strengthen Economic and Exports - Imports soundness among India and Bhutan. The purpose of this paper is to empirically analyze the impact of bilateral trade between India and Bhutan. The data was collected from world development indicators, Ministry of Commerce and Industry, and World Bank. The RCA will be used for intra- regional trade to analyze India and Bhutan's trade which is often used to estimate international trade flows with explanatory variables and policy implications for novel variables or parameters affecting bilateral trade flows. The empirical findings suggest that India and Bhutan have positively intra- regional trades between them. This paper suggests that the governments of both countries should make some goal-oriented policies for economic growth and integration in the region.

Keywords: Bilateral Trade, RCA, Intra-regional trade, Sustainability

INTRODUCTION:

The India- Bhutan relationship has been associated since 1961 when India planned for development the first five year plans and still India's main development partner. The centerpiece of mutually Bhutan- India relations is economic ties. India is Bhutan's main development partner and also leading trading partner. The Government of India (GoI) and the Royal Government of Bhutan (RGoB) signed a free trade and commerce treaty in 1949. The first formal Agreement on Trade and Commerce between GoI and RGoB was signed in 1972 which has undergone five revisions till date (1983, 1990, 1995, 2006 and 2016). The current Agreement on Trade, Commerce and Transit between the Royal Government of Bhutan and the Government of the Republic of India is valid till 2026. The main objective of the Free Trade Agreement (FTA) is to strengthen old ties and to enhance bilateral trade and economic

cooperation for mutual benefit and development of these two countries. The most important features of FTA between two countries are free trade and transit rights for Bhutan's trade with third countries. Bhutan - India relations has been improved through successive renewal of the agreement with new entry and exit points in India for Bhutan's external trade. The FTA has been very instrumental not just in expanding trade with India but also with other trading partners.

LITERATURE REVIEW:

"India imports 1,542 MW power from Bhutan under bilateral agreement between the two countries" said by Power Minister Piyush Goyal (The Economic Times Today, 3 March 2016). "Majority of power imported from Bhutan is under bilateral agreement between the government of Bhutan and Government of India. The tariff is negotiated by the government to ensure supply of cheap imported power to consumers," said Power Minister Piyush Goyal in Lok Sabha during Question Hour. The Economic Times Today, (3 March 2016).

The major findings of the study showed that India has become the largest trading partner of Bhutan. India has strong and sustainable trade potential with Bhutan. Even India has no specialisation in the export of any product to Bhutan but still exports continued to increase at walking rate. Overall, India has strong trade prospects with Bhutan. Garg, Sadhana(2016)

Sarki, A. (2019),"The India–Bhutan relationship has been cordial and cooperative since diplomatic relations were established in 1968. The relations of these countries using the "Paradiplomacy" method in the conduct of India's international relations. India's four states share their ties with Bhutan. Bhutan plays a crucial role in India's Neighbourhood First Policy and this smaller neighbour works as partners and friends."

The Hindu (08 November 2023)The decision by India and Bhutan to focus on infrastructure and connectivity during talks between Prime Minister Narendra Modi and Bhutan's fifth King Jigme Khesar Namgyel Wangchuck is an important marker towards more bilaterally driven regional initiatives. A joint statement speaks of completing surveys for the Kokrajhar-Gelephu rail link that connects Bhutan to Assam, and beginning discussions on another Bhutan to West Bengal rail link, while also facilitating Bhutan-Bangladesh trade, with yet another rail link, and upgrading checkpoints along the India-Bhutan border. These plans foretell a future that could well change the development story of the region, including West Bengal and the northeast, Bhutan's south and east dzongkhags (districts), as well as Northern Bangladesh.

Taneja, N, Bimal. Samridhi, Nadeem. Taher and Roy.Riya(2019), India's investment from July 2007 to March 2019 with Bhutan is US\$ 50.12 million. The Indian parties take advantage of the low cost and reliable electricity available in India by establishing operations in the electricity, gas and water sector with a share of 42% of India's 11 cumulative investment in Bhutan. These Investments in this electricity between two countries driven by the joint venture between the Tata Power Company Ltd and the Dagachhu Hydro Power Corporation Ltd for the Dagachhu Hydropower Project where Tata Power invested around 6 million USD in the Hydroelectric Power project.

CONCEPTUAL FRAMEWORK:

This paper recommends development of trade and investment performance of India, policies

that will help Bhutan in current trends. Challenges which India and Bhutan are facing to overcome trade and investment problems in the current scenario.

OBJECTIVES:

- 1.) To assess trade between India and Bhutan through Regional Economic- cooperation,
- 2.) To see the impact of economic integration on bilateral trade between India and Bhutan.
- 3.) To analyze the economic and social growth of India and Bhutan by cooperating each other
- 4.) To examine the challenges faced by India while trade and investment with Bhutan

RESEARCH HYPOTHESES:

H1: There is Economic relationship between India and Bhutan.

H2: There is a need to study trade indicators between India and Bhutan through economic integration

H3: Whether it is essential to assess impact on socio- economic environment on Trade indicators between India and Bhutan.

H4: India facing challenges to find solutions of regional integration and co-operation in Bhutan.

India- Bhutan Trade Relations:

The India-Bhutan Agreement on Trade, Commerce and Transit – which was first signed in 1972 and revised most recently for the fifth time in 2016 – establishes a free trade regime between the two countries. The Agreement also provides for duty free transit of Bhutanese exports to third countries. India is Bhutan’s top trade partner both as an import source and as an export destination. Since 2014, India’s trade with Bhutan has almost tripled from USD 484 million in 2014-15 to USD 1422 million in 2021-22, accounting for about 80% of Bhutan’s overall trade, with the balance of trade in India’s favour, as indicated in the table1 below:

Table:1 Bilateral Trade (excluding electricity) [in USD million]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Export to Bhutan	334	469	509	546	657	739	694	877
Import from Bhutan	150	281	308	378	371	405	389	545
Balance of Trade	184	188	201	168	286	334	305	332
TOTAL	484	750	817	924	1028	1144	1083	1422

[Source: Department of Commerce, GoI]

There are products which India’s top exports to Bhutan are petrol & diesel, passenger cars, rice, wood charcoal, cellphones, Coke and semi-coke, soya-bean oil, excavators, electric generators & motors, parts for turbines, transport vehicle, bitumen. There are certain products which India’s top imports from Bhutan are electricity (Rs. 2443 crore in 2021), Ferro-silicon, Ferro-silico-manganese, Portland pozzolana cement, Dolomite chips, Ordinary portland cement, Silicon Carbide, Cardamoms (Neither crushed nor ground), betel nut, oranges, semi-finished products of iron or non-alloy steel, boulders, etc. Bilateral trade is conducted in Indian Rupees

which is fully convertible to Ngultrum currency of Bhutan at par. India is the leading source of investments in Bhutan, comprising 50% of the country's total FDI. There are about 30 Indian companies in Bhutan operating in various sectors – banking, manufacturing, electricity generation, agri/food processing, ITES, pharmaceuticals, hospitality, and education – such as Punjab National Bank, State Bank of India, Tata Power Company Ltd., General Insurance Corporation, Apollo Educational Infrastructure Services, Azista Industries, Meghalaya Oxygen, etc.

Table 2 is showing total trade of India with Bhutan from 2009 to 2019. Bhutan has ranked in between 71 to 96 for total trade in India's trade. The Export to India by Bhutan shows fluctuating trends with lowest export 118.86 USD million in 2009-10 and highest with 657.33 USD million in 2018-19. The Import trend is also showing an oscillate trend with lowest import 153.11 in 2009-10 US\$ million and highest with 377.99 US\$ million in 2017-18. Bhutan is the lowest trade partner to India as compared to other BIMSTEC nation states. The highest total trade of India with Bhutan is 1,028.29 USD million in 2018-19 and lowest is 271.98 USD million in 2009-10. The Trade balance is showing trade deficit with more imports as compared to exports with Bhutan by India for the year 2009-10 and 2010-11 with 34.25 USD million and 25.54 USD million but then shows trade surplus till 2018-19. The highest trade surplus of India and Bhutan in 2018-19 is 286.37 USD million and lowest in 2011-12 is 69.22 USD million.

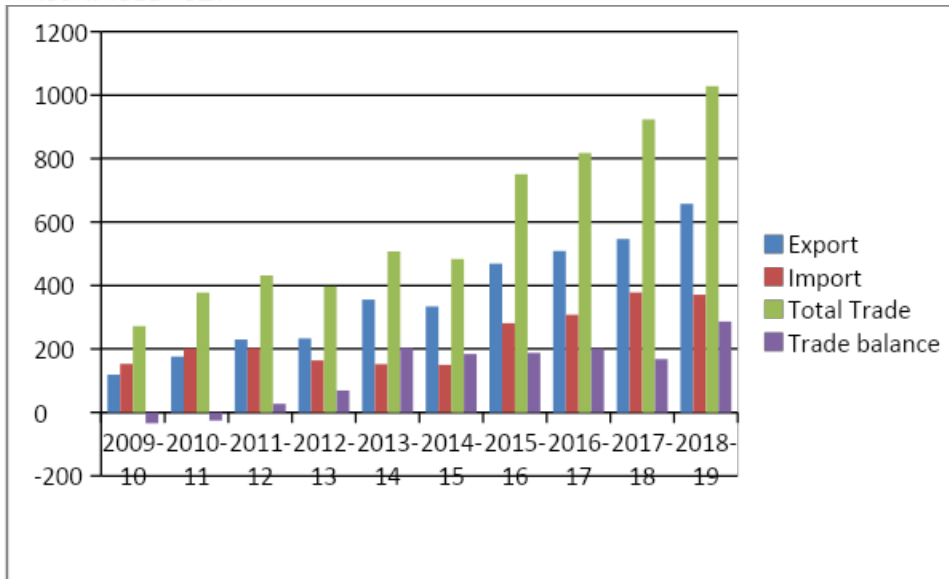
Table: 2 Total Trade of India with Bhutan from 2009 to 2019 (value in USD million)

Year	Rank	Export	Import	Total Trade	Trade balance
2009-10	96	118.86	153.11	271.98	-34.25
2010-11	86	176.03	201.57	377.60	-25.54
2011-12	92	229.86	202.55	432.41	27.30
2012-13	98	233.22	164.00	397.22	69.22
2013-14	90	355.60	152.17	507.77	203.43
2014-15	93	333.94	149.87	483.81	184.08
2015-16	76	468.95	281.27	750.22	187.68
2016-17	73	509.28	307.82	817.10	201.46
2017-18	77	546.12	377.99	924.11	168.13
2018-19	71	657.33	370.96	1,028.29	286.37

Source: Government of India, Ministry of commerce and Industry, department of commerce, Export- Import data, <https://commerce-app.gov.in/eidb/iecnttopn.asp> accessed on 15-04-2020

Figure 1 explains exports, imports, Total trade and trade balance of India with Sri Lanka. The total trade is showing the highest trend and the trade balance is showing negative trends. The exports are showing fluctuating trends and imports are showing increasing trends.

Figure:1 Total trade, trade balance, exports and imports to India from Bhutan



Source: Government of India, Ministry of commerce and Industry, department of commerce, Export- Import data, <https://commerce-app.gov.in/eidb/iecnttopn.asp> accessed on 15-04-2020

India’s export with Bhutan:

Table 3 is showing the major commodities exported to Bhutan from India for the year 2017-18, 2018-19 and percentage growth. The highest percentage growth of export to Bhutan from India is HS89 Ships, Boats and Floating structures is 50,700.00 percent which shows increase growth from 0.00 USD million in 2017-18 to 0.05 USD million in 2018-19. The lowest percentage growth of export to Bhutan from India is HS51 Silk, is 125.70 percent from 0.01 USD million in 2017-18 to 0.03 USD million in 2018-19. All the commodities are showing increase growth in the year 2018-19 as compared to previous year 2017-18. The total item is exported to Bhutan from India is showing growth percent 20.36% which increase from 657.33 million in 2018-19 to 546.12 USD million in 2017-18. The total items exported to World from India is showing growth percent 8.75% which increase from 303,526.16USD million in 2017-18 to 330,078.09 in 2018-19 US\$ million. The percentage share of all commodities exported from Bhutan divided by India’s total exported commodities from world is 0.1991% in 2018-19 and 0.1799% in 2017-18.

Table 3: Major Commodities Export from India to Bhutan (Value in USD million)

S.No.	HS Code	Commodity	2017-18	2018-19	% Growth
1.)	03	Fish and Crustaceans, Molluscs and other aquatic Invertabrates	0.50	1.27	153.64
2.)	12	Oil seeds and Olea. Fruits; misc. Grains, Seeds and Fruit; Industrial or medicinal plants; Straw and Fodder.	0.01	0.24	2564.84

3.)	13	Lac; Gums, Resins and other vegetable Saps and Extracts	0.03	0.08	129.17
4.)	16	Preparations of meat, of fish or of Crustaceans, Molluscs or other aquatic invertebrates	0.4	0.11	178.64
5.)	43	Furskins and artificial Fur, manufactures thereof.	0.00	0.00	500.00
6.)	44	Wood and articles of Wood; Wood charcoal	1.92	23.07	1,100.66
7.)	51	Silk	0.01	0.03	125.70
8.)	53	Other vegetable textile Fibres; Paper Yarn and woven Fabrics of paper yarn	0.00	0.01	253.66
9.)	58	Special woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery.	0.01	0.04	259.09
10.)	66	Umbrellas, Sun Umbrellas, walking- sticks, Seat- sticks, Whips, Riding- crops and parts thereof.	0.00	0.03	579.59
11.)	71	Natural or cultured Pearl, Precious or semiprecious stones, Pre.metals, clad with Pre- metal and articles thereof; IMIT. Jewelry; Coin.	0.00	0.03	1247.37
12.)	75	Nickel and articles thereof.	0.00	0,01	380.00
13.)	78	Lead and articles thereof	0.00	0.04	179.53
14.)	89	Ships, Boats and Floating structures	0.00	0.05	50,700.00
15.)	92	Musical Instruments; Parts and accessories of such articles	0.00	0.04	1106.90
Total of 15 Items plus other Items exported from India to Bhutan			546.12	657.33	20.36

India's Total			303,526.16	330,078.09	8.75
% Share			0.1799	0.1991	

Source: Ministry of Commerce and Industry, Department of Commerce <https://commerce-app.gov.in/eidb/ecntcom.asp> accessed 12-04-2020

India's Import with Bhutan:

Table 4 is showing the major commodities imported from Bhutan to India for the year 2017-18, 2018-19 and growth percentage. The highest percentage growth of Import from Bhutan by India is HS88 Aircraft, Spacecraft, and parts thereof is 493.67percent which shows increase growth from 0.01 USD million in 2017-18 to 0.05 USD million in 2018-19. The lowest percentage growth of Import from Bhutan by India is HS84 Nuclear reactors, Boilers, Machinery and Mechanical appliances; Parts thereof is negative 45.44 percent from 1.35 USD million in 2017-18 to 0.74 USD million in 2018-19. All the commodities are showing increase growth in the year 2018-19 as compared to previous year 2017-18. The total items imported from Bhutan to India is showing growth percent negative 1.86 % which increase from 370.96 USD million in 2018-19 to 377.99 USD million in 2017-18. The total items imported from World to India is showing growth percent 10.42% which increase from 465,580.99 USD million in 2017-18 to 514,078.42 USD million in 2018-19. The percentage share of all commodities imported from Bhutan divided by India's total imported commodities from world is 0.0722% in 2018-19 and 0.0812 % in 2017-18.

Table: 4 Major commodities Imported from Bhutan to India (Value in USD million)

S.No.	HS Code	Commodities	2017-18	2018-19	% Growth
1.)	04	Dairy Produce; Birds' Eggs; Natural Honey; Edible Prod. Of Animal origin, not elsewhere SPEC. or included	0.20	0.76	274.68
2.)	07	Edible vegetables and certain roots and tubers	0.01	0.02	86.51
3.)	09	Coffee, Tea, Mate and Spices	4.90	1.45	-70.42
4.)	20	Preparations of vegetables, Fruit, Nuts or other parts of plants	4.18	5.04	20.70
5.)	21	Miscellaneous Edible Preparations	0.19	0.41	114.23
6.)	22	Beverages, Spirits and vinegar	5.05	5.28	4.46
7.)	25	Salt; Sulphur; Earths and stone; Plastering materials, Lime and cement	23.25	35.72	53.63
8.)	38	Miscellaneous Chemical Products	0.02	0.03	29.61
9.)	39	Plastics and articles thereof	5.01	6.13	22.20
10.)	44	Wood and articles of wood; wood	1.42	1.81	28.09

		charcoal			
11.)	72	Iron and steel	128.69	158.60	23.23
12.)	73	Articles of Iron and steel	0.06	0.09	44.52
13.)	84	Nuclear reactors, Boilers, Machinery and Mechanical appliances; Parts thereof	1.35	0.74	-45.44
14.)	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers and parts	0.03	0.20	480.53
15.)	88	Aircraft, Spacecraft, and parts thereof	0.01	0.05	493.67
		Total of 15 items plus other items imported from Bhutan	377.99	370.96	-1.86
India's Total			465,580.99	514,078.42	10.42
% share			0.0812	0.0722	

Source: Ministry of Commerce and Industry, Department of Commerce <https://commerce-app.gov.in/eidb/ecntcom.asp> accessed on 14-04-2020

METHODOLOGY

Revealed Comparative Advantage Index

Revealed comparative advantage (RCA) is based on Ricardian trade theory, which posits that patterns of trade among countries are governed by their relative differences in productivity. Although such productivity differences are difficult to observe, an RCA metric can be readily calculated using trade data to "reveal" such differences. While the metric can be used to provide a general indication and first approximation of a country's competitive export strengths, it should be noted that applied national measures which affect competitiveness such as tariffs, non-tariff measures, subsidies and others are not taken into account in the RCA metric.

Table 5 is showing Revealed comparative advantage index with HS product code of India and Bhutan countries.

Table: 5 Revealed Comparative advantage index, annual

HS code	Products	India	Bhutan
[045]	Cereals, unmilled (excluding wheat (rice, barley, maize	8.61	0.63

[054]	Vegetables	1.19	0.68
[057]	Fruits and Nuts, fresh or dried	1.38	2.07
[062]	Sugar Confectionery	0.33	0.00
[071]	Coffee and Coffee substitutes	1.80	-
[074]	Tea and Mate	8.17	0.00
[075]	Spices	14.48	10.93
[263]	Cotton	10.51	-
[541]	Medicinal & Pharmaceutical products	0.92	0.00
[611]	Leather	2.97	0.04
[625]	Rubber Tyres, tyre treads or flaps & inner tubes	1.21	0.02
[635]	wood manufacture	0.23	0.05
[641]	Paper and Paperboard	0.27	0.00
[653]	Fabrics, woven of man-made fabrics	3.17	0.03
[664]	Glass	0.45	0.01
[778]	Electrical machinery & apparatus	0.30	0.05
[821]	Furniture & parts	0.37	0.07
[842]	Women's clothing of textile fabrics	3.75	0.01
[851]	Footwear	1.64	0.00

[897]	Jewellery & articles of precious material	0.72	-
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Source: <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> accessed on 22-08-2019

FINDINGS

Balassa's (1965), "Revealed Comparative Advantage (RCA) measure the comparative advantage export performance of one's country trade with other countries and commodity is defined as a country's share of world exports of a commodity divided by its share of world exports." The Computation for country i commodity j is calculated as follows:

$$RCA_{ij} = (X_{ij} / X_{wj}) / (X_i / X_w)$$

Where:

X_{ij} = ith Country's exports of commodity j

X_{wj} = world exports of commodity j

X_i = Total exports of country i

X_w = Total world exports

Table 6 shows trade potentiality of India and BIMSTEC countries check at 3digit SITC with RCA, where Product can be divided into four categories by RCA values : Product with very strong advantage ($RCA > 2.5$), Product with strong advantage ($1.25 \leq RCA \leq 2.5$), Product with moderate advantage ($0.8 \leq RCA < 1.25$) and product with weak disadvantage ($RCA < 0.8$) (Ya. Chunyan and Qi.chunjie , 2015).

Table: 6 Trade Potentiality of India and BIMSTEC countries check at 3- digit SITC with RCA

i.) Product with very strong $RCA > 2.5$

HS code	Products	Countries
[045]	Cereals, unmilled (excluding wheat ,rice, (barley, maize	(,(8.61)India
[054]	Vegetables	(,(26.66)India
[057]	Fruits and Nuts, fresh or dried	Bhutan(1.38
[074]	Tea and Mate	(,(8.17)India ,
[075]	Spices	(,(14.48)Bhutan(10.93), India
[263]	Cotton	10.5)India ,(
[611]	Leather	(,(2.97)India ,
[842]	Women's clothing of textile fabrics	(3.75)India,

ii.) Product with strong advantage ($1.25 \leq RCA \leq 2.5$)

HS code	Products	Countries
[057]	Fruits and Nuts, fresh or dried	(1.38)Bhutan
[071]	Coffee and Coffee substitutes	(1.80)India

Source: Author

iii.) Product with moderate advantage ($0.8 \leq RCA < 1.25$)

HS code	Products	Countries
[054]	Vegetables	(, (1.19)India
[625]	Rubber Tyres, tyre treads or flaps & inner tubes	(1.21)India

Source: Author

iv.) Product with weak disadvantage ($RCA < 0.8$)

HS code	Products	Countries
[045]	Cereals, unmilled (excluding wheat ,rice, (barley, maize	(, (0.63)Bhutan
[054]	Vegetables	(, (0.68)Bhutan
[062]	Sugar Confectionery	(, (0.3)Bhutan(0.00), India
[611]	Leather	(, (0.0)Bhutan
[625]	Rubber Tyres, tyre treads or flaps & inner tubes	(, (0.02)Bhutan,
[635]	wood manufacture	(0.23)Bhutan(0.05), India ,
[641]	Paper and Paperboard	(, (0.27)Bhutan(0.00), India
[653]	Fabrics, woven of man-made fabrics	(, (0.03)Bhutan
[664]	Glass	(, (0.45)Bhutan(0.01), India
[778]	Electrical machinery & apparatus	(, (0.05)Bhutan
[821]	Furniture & parts	, (0.37)Bhutan(0.07), India
[842]	Women's clothing of	(, (0.01)Bhutan

	textile fabrics	
[851]	Footwear	(,0.00)Bhutan
[897]	Jewellery & articles of precious material	(,0.72)India ,

Source: Author

CONCLUSION:

India has been the largest and the most important trading partner for Bhutan since the start of the development plans. In 2020, overall trade with India was recorded at Nu. 94.89 billion (including electricity), which accounted for 82% of Bhutan's total external trade and the figure without including electricity was recorded at Nu. 67.18 billion, which accounted for 77% of Bhutan's total trade. The overall import from India accounted for 87% of the total import value with or without taking into account trade in electricity. Exports to India accounts for 90% of total exports including electricity and 77% without electricity. Bhutan's major exports to India includes electricity, ferro-silicon, dolomite, semi-finished product of iron or non-alloy steel, Portland pozzalana cement, cardamoms, pebbles gravel, gypsum, carbide of silicon, ordinary Portland cement, etc. The total export value in 2020 including electricity was Nu.43.51 billion and excluding electricity was Nu.27.52 billion. Bhutan's major imports from India comprise of diesel, petrol, motor vehicles for transport of goods(dumper), ferrous products, telephones, electrical distribution panel board, coke and semi-coke, soya-bean oil, passenger cars and, petroleum bitumen. The total imports from India including electricity was Nu.51.37 billion. With the most liberal trading arrangement accorded by the FTA, India is certain to remain as the most important trading partner for Bhutan. The government, therefore, remains steadfast to maintain continued bilateral trade talks to build upon the existing trade relations. The annual bilateral meeting on Trade, Commerce and Transit between GoI and RGoB at Commerce Secretary level (CSLM) has not only been effective in finding appropriate solutions to trade and transit issues hindering bilateral trade, but it has also provided in itself a dedicated forum to explore new avenues for expanding trade and commerce between the two countries. In view of the close ties of friendship between the two Governments and its people, bilateral trade with India is envisaged to be very instrumental in elevating socio-economic relations to new heights.

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