

Hydroelectricity Generation and the Dynamics of India-Bhutan Relations**

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Abstract

This study of the relations between India and Bhutan after the renegotiation of the India-Bhutan Friendship Treaty in 2007 seeks to show that India's investment in hydroelectricity generation in Bhutan is an important key to good relations between the two countries. The study does so by examining primary sources, namely, official documents and speeches, and secondary ones, namely, texts, books and newspaper items, in term of policy and organizational structure related to hydroelectricity generation. The findings are that while HEP generation in Bhutan contributed to India's energy security, it in turn made Bhutan more dependent on India's economy and investment. Cooperation in this field is found to have been an important part of India's foreign policy of maintaining ties with its neighbours, especially Bhutan. Bhutan in turn extended to India a special relationship. Yet, Bhutan's change of regime from Absolute Monarchy to democracy in 2006, as well as shifts in the international environment, notably China's expanding role in the region, occasion Bhutan to seek to adjust its relations with India to give it, as an independent state, room to manouver such that its best interests are served. India thus needs to in turn adjust the nature of development assistances extended to Bhutan if it wishes to retain the special relationship.

Keywords: Bhutan, hydroelectricity generation, India's foreign policy, Indo-Bhutan Relations

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จุฬาลงกรณ์มหาวิทยาลัย

ไฟฟ้าพลังงานน้ำ และพลวัตความสัมพันธ์อินเดีย-ภูฏาน**

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บทคัดย่อ

การศึกษานี้มุ่งเน้นศึกษาความสัมพันธ์ระหว่างอินเดียและภูฏานภายหลังจากทบทวนสนธิสัญญาพันธมิตรในปี 2550 ผ่านระเบียบวิธีวิจัยแบบคุณภาพ การลงทุนในไฟฟ้าพลังงานน้ำของอินเดียถือเป็นกุญแจสำคัญในภาคส่วนเศรษฐกิจที่ส่งเสริมและรักษาความสัมพันธ์ที่ตึงเครียดระหว่างอินเดียและภูฏาน การลงทุนนี้ยังช่วยให้อินเดียมีความมั่นคงทางด้านพลังงานเพิ่มขึ้นและส่งผลกระทบต่อภูฏานทั้งทางเศรษฐกิจและการลงทุนจากอินเดีย ฉะนั้นการพัฒนาไฟฟ้าพลังงานน้ำในภูฏานจึงไม่ใช่เพียงนโยบายเศรษฐกิจของอินเดีย หากเป็นนโยบายต่างประเทศที่มีต่อภูฏาน การศึกษาเน้นวิเคราะห์ความสัมพันธ์อินเดีย-ภูฏานผ่านโครงการไฟฟ้าพลังงานน้ำ ทั้งในเชิงนโยบายและการจัดโครงสร้างองค์การในฐานะปัจจัยเชื่อมโยงสำคัญที่สะท้อนให้เห็นถึงความสัมพันธ์ลักษณะพิเศษที่ภูฏานมีให้อินเดีย โดยอาศัยข้อมูลปฐมภูมิและทุติยภูมิในการศึกษา บทความชิ้นนี้ต้องการนำเสนอให้เห็นว่าโครงการไฟฟ้าพลังงานน้ำในภูฏานนั้นมีความสำคัญในฐานะสัญลักษณ์ซึ่งสะท้อนภาพความสัมพันธ์ลักษณะพิเศษที่อินเดียมีต่อภูฏาน ความเปลี่ยนแปลงที่เกิดขึ้นต่อแผนนโยบายการพัฒนาโครงการไฟฟ้าพลังงานน้ำในภูฏานจึงสะท้อนภาพความสัมพันธ์กับอินเดียที่เปลี่ยนแปลงไป

คำสำคัญ: ภูฏาน, ไฟฟ้าพลังงานน้ำ, นโยบายต่างประเทศอินเดีย, ความสัมพันธ์อินเดีย-ภูฏาน

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Introduction

The relationship between India and Bhutan under the modern state concept can be traced back to the 19th century when the British colonial government established a treaty with Bhutan in 1865 known as Treaty of Sinchula after the victory of the British in the war between British India and Bhutanese Kingdom. This treaty has resulted in a more tangible border between British India and Bhutan. However, the treaty was in place until Bhutan established a monarchy and King Ugyen Wangchuck succeeded in integrating the land in 1970. This new situation led to a change in the treaty between Bhutan and British India in 1910 at Punakha. According to the new treaty, the British government undertook that it would not interfere with the internal affairs of Bhutan. Meanwhile, the Bhutanese government agreed to provide Britain with assistance and advice on external affairs. Therefore, this treaty was a sign of the relationship between the British Indian and Bhutanese government. Political relations between India and Bhutan grew in terms of economics and politics. Bhutan has become a major hub for trade on routes between British India and Tibet. It was a major contributor to British India's supply of forest products and transportation to Tibet.

The nature of relations between India and Bhutan changed again after India's independence in 1947, which led to the formation of the "Republic of India". The Government of India under the leadership of Prime Minister Nehru decided to review the relationship with Bhutan, then under the rule of the Second King, in 1949. This led to the signing of a treaty of friendship between the two countries, modifying some details in the previous treaty. However, the overall content was not altered, especially provisions regarding external relations whereby Bhutan's foreign policy was to remain under the guidance of India (Walcott 2011, 253-254). However, the new treaty contributed greatly to Bhutan's consolidation of its sovereignty. It signified that India recognized Bhutan's independence. A major turning point for India's further expansion of its relationship with Bhutan was the annexation of Tibet into China in 1950 because India saw a greater threat from China in the Himalayan region (Rathore 1974, 61-64). The changing circumstances resulted in dramatic changes in the attitude of India to the Himalayan countries. In addition, the Cold War made India's policy towards Bhutan one of coalition-building. India offered several benefits to Bhutan to prevent it from becoming under Chinese influence. For example, India offered a grant to the Bhutan and supported it to become the member of United Nations in 1971 (The Permanent Mission of the Kingdom of Bhutan to the United Nations 2017).

Economic cooperation, especially in the form of finance for economic development is an important matter that strengthens cooperation between India and Bhutan. India plays a very pivotal role in driving the development of the Bhutanese economy. As a result, Bhutan's economy is tied to the economy of India. India has been instrumental in setting the framework for Bhutan's economic development since 1961. It also provided financial support for Bhutan's five-year plan to drive internal change (Mehra 1981, 129). The key economic sector, which symbolizes the relationship between India and Bhutan, is hydroelectric power generation (Royal Bhutanese Embassy, New Delhi 2016). Bhutan is assessed to have the potential to generate electricity from hydropower up to 30,000 MW (International Hydropower Association 2017). India has invested in hydroelectric power in Bhutan. The first HEP dam project began in the 1970s under the name Chukka Hydropower Project.

In addition, India has many hydroelectricity projects under construction within Bhutan such as Tala Hydroelectric, Punatsangchu-I, Punatsangchu-II, Mangdechu, Chamkarchu, etc. (Royal Bhutanese Embassy, New Delhi 2016). This is a result of the 1949 Treaty of Friendship. According to the Treaty, Bhutan's foreign policy was under the guidance of the Government of India. In addition, the treaty also provides for free trade between the two countries. However, the internal political situation in Bhutan has continued to change. One of the major changes was the change of regime from monarchy to democracy in 2006. This phenomenon has prompted Bhutan to negotiate with India to amend the treaty of friendship, particularly its section two, which stipulated India's great influence on Bhutan's foreign policy. These led to the revision of the treaty of friendship between India and Bhutan in 2007. As a result, Bhutan has become more independent in external affairs. This trend of changing relationships between these two countries is the subject of this study. The main question is how India's investment of hydroelectricity project in Bhutan symbolizes Bhutan-India Relations? Thus, the paper focuses on the cooperation between India and Bhutan in hydroelectricity generation since 2007 and analyses information in terms of policy and organizational structure related to hydroelectricity generation. In this regard, the study posits that cooperation between India and Bhutan in hydroelectricity generation is an important part of India's Foreign Policy toward Bhutan. The study examines primary and secondary data. The primary data are governmental documents searched through the websites of both Bhutanese and Indian governments, such as the 1949 Treaty of Friendship, the 2007

Treaty of Friendship. Secondary sources are articles, books, and news and comments items on Bhutan-India relations.

Hydroelectricity Cooperation: The Role of India's Investment in Bhutan

Since India gained independence from Britain in 1947, the expansion of its international political role has been increasing through many foreign policies such as in the Non-Aligned Movement and the Five Principles of Peaceful Coexistence (Fraser, Bhattacharya and Bhattacharya 2001, 18-19). However, India's approach and structure of foreign policy largely adhered to the framework of the colonial era because of limited human resource. This meant that there was little change in Indian foreign policy (Mahajan 2015, 91-92). Most foreign policy operated in the same way as during the colonial era, such as building relations with neighbouring countries or maintaining a treaty that the British had made. As a result, India after Independence had good relations with its neighbours, such as Nepal, Bhutan, Myanmar, Sri Lanka, and China, except for Pakistan. India did not become a member of United Nations Security Council and supported China to be the only representative of the south countries (Kennedy 2015, 129-131). Although Indian foreign policy as a whole has not changed much, great efforts were made to stay away from the colonial government's legacy. Bhutan depended on India for its defence, especially in the western part of the country, and Bhutan is in turn privileged to pass through India (Kharat 2016, 96-98). Between 1949 and 2007, India was a country that played a significant role in Bhutan's foreign policy. The Treaty of Friendship indicated that Bhutan must seek advice from India in external affairs. It is safe to say that India was the main actor in defining Bhutan's foreign policy throughout that period. Although the treaty specified that Bhutan must seek foreign policy advice from India, this is not to say that Bhutan lost its sovereignty because Bhutan could choose not to follow that advice. For example, Bhutan voted against India on the case of Cambodia's seat in the United Nations in 1979 (Stobdan 2017).

Moreover, India is one of the countries that has employed economic activities as instruments of foreign policy with great efficiency, especially with neighbouring countries, so that they become dependent on the Indian economy such as for consumption, investment, loans, etc. Bhutan is highly dependent on India as a market for exports, financial assistance for development, and investment in a wide range of industries (Rajput 2011, 126-128). Economic assistance is a main plank of India's foreign policy to reinforce Indo-Bhutan relationship. These involve the

provision of subsidies in various forms, such as grants, loans, and investments to develop transportation, education, and electricity. These financial and economic policies have made the relationship between India and Bhutan more intimate and special. Bhutan's hydroelectric power scheme is an economic unit in which Bhutan gives many privileges to India. India's investment in Bhutan's hydropower industry is the important sector because these investments are not open to other countries.

The growth of India's hydroelectric power investments in Bhutan started in 1961 under Bhutan's first five-year plan, with the government contributing over Nu. 107.2 million (1.6 million USD) to the plan. In 1961, the government of India and Bhutan signed the construction of Jaldhaka hydroelectric power project in the south-western region, which was the first time that Bhutan could generate electricity. It exports electricity to India's West Bengal, which had its first electricity supply in 1968. Following the success of the above-mentioned project, India has invested in two more Bhutanese hydroelectric power projects to increase energy security in Bhutan. India provided 89.8 percent of the operating funds of more than 475.2 million rupees (6.9 million USD) of Bhutan's third five-year plan, 1971-1976. This five-year plan led to the large-scale hydroelectric power agreement that India signed with Bhutan in 1974. The Chukha Hydroelectric Power Project has a capacity of 336 megawatts. India has invested over Rs. 2,040 million, of which 60 percent as a grant and 40 percent as a loan (Kharat 2005, 106-107). In this regard, the Chukha Hydropower Project is being implemented through the full ownership of the Bhutanese Government's Chukha Project Authority. However, the agreement stipulated that the Chukha Project Authority be under the advisory authority of the Water and Power Development Consultancy Services (India) Ltd. This meant that Chukha Hydropower exported the electricity to India only.

From 1961 until 2007, there were three major investment projects that were implemented through the agreement system in the same way as the Chukha project (Kharat 2009, 163-165). India thus receives low-cost electricity from Bhutan. A study on the development of hydroelectric power in Bhutan found interesting information that all projects were invested by India and that India largely benefited from it rather than Bhutan (Gupta 1999, 96-97). However, Bhutan accepted this problem because she also benefited from this kind of development such as free electricity, hydroelectricity development knowhow. India has become a very privileged country for the

development of hydroelectric power in Bhutan and is the only country that imports electricity produced by the projects. For these reasons, Bhutan has largely acquiesced to India's foreign policy towards it that had the extension of economic assistance as its core.

Electricity has become an important commodity enabling India to have a special relationship with Bhutan because it generates revenue for Bhutan. Economic figures show that more than 75 percent of electricity produced in Bhutan is exported to India and account for more than 40 percent of national budget revenue. In this regard, the Asian Development Bank estimates that the hydropower sector will grow to 50 percent of GDP and 75 percent of its budget revenues by 2020 (Mitra and Jeong 2017, 382-383). Bhutanese hydroelectricity development is not only economic investment but contributes also to the economic stability of Bhutan. India's role in this industry is not only economic but is also part of India's foreign policy influence on Bhutan. In the same way, Bhutan's Investment privileges in hydropower projects reflect the changing dynamics of Bhutan's foreign policy.

Since the negotiation of a new friendship treaty in 2007, Bhutan has changed its stance on investment in developing hydroelectric power. Bhutan's hydroelectric power industry has undergone a major structural change and is now independent of the advice of the Water and Power Development Consultancy Services (India) Ltd. The organisational reform of many mega hydropower projects on the Bhutan side began in 2008, particularly this involved the integration of hydropower companies such as Chukha, Kurichhu and Basochhu Hydropower Corporation under a single organisation known as Druk Green Power Corporation Limited (DGPC) (Ebinger 2011, 123-124). Although the partnership between India and Bhutan has not changed significantly, a large amount of information suggests that Bhutan has increased its own investment to reduce its dependence on Indian capital (Mitra and Jeong 2017, 208-210). Bhutan's democratic government has set up a company for asset management and investment under the name of Druk Holding and Investments Limited. DGPC is a State-Owned Enterprise. It is responsible for the development of hydropower projects on its own or as joint ventures with external investment (Jain and Saini 2016, 8). The increased autonomy of the agencies responsible for managing all hydropower projects within Bhutan is a significant risk to India. Greater privatization of Bhutan's hydroelectric power management would mean greater focus on operating for profit rather than to privilege India. India has to accept the risk of rising electricity

prices in the future. Bhutan is also very likely to seek external investment alternatives to that from India, as China is interested in importing electricity from Bhutan. So, the relationship between India and Bhutan after the 2007 treaty is changing, especially given Bhutan's greater freedom in foreign affairs. Meanwhile, the treaty allows Bhutan to extend its foreign policy to neighbouring countries like China. If it is considered that the investment in Bhutan's hydroelectric power is an element of foreign policy, the opportunity for China to invest in this sector will be a key indicator of a decline in India's influence over Bhutan. As a matter of fact, Bhutan's hydroelectric power policy is not just an investment and economic policy, namely an internal one, it is also a foreign policy of Bhutan in which was India accorded a very important role. Therefore, changes in the hydropower sector of Bhutan signifies of only a change in domestic policy but also changes in the relationship between India and Bhutan.

India's Constituent States and Policy Decision-Making towards Bhutan: Costs and Benefits from Hydro-Electricity Projects

Bhutan is one of India's neighbouring countries located near the north-eastern part of India. In this regard, the western part of Bhutan is connected with the state of Sikkim and West Bengal, the south is connected with Assam, and the east is connected with Arunachal Pradesh. Sikkim is one of the states with the most obvious relationship with Bhutan, as it was considered by British India as a buffer state along with Bhutan. In addition, the Bhutanese dynasty also had close ties with the Sikkimese dynasty (Phuntsho 2016, 572-573). These meant that the two states enjoyed good relations in the past. This was until India annexed the kingdom of Sikkim in 1975, leading to the collapse of its monarchy. Thus, the relationship between neighbouring Sikkim and Bhutan has changed to one based on the national interests rather than on traditional kinship. Bhutan and the Himalayan state were very close in the past because of similarities in language and culture its influenced by Tibet (Coelho 1971, 1-9). In the case of West Bengal, impact on the Indo-Bhutan relationship derives from its access to the sea and thus as a trade channel for Bhutan (Mohapatra 2008, 59-60). Therefore, West Bengal is geo-economically strategic for Bhutan, affording it access to markets. The relationship between West Bengal and Bhutan can be traced back to the colonial period when Bhutan was a viable trade route between British India and Tibet. This relationship ended after the Chinese occupation of Tibet. It is particularly interesting that

West Bengal is the first area to benefit from the hydroelectric power project between Bhutan and India because the first hydroelectric dam generates electricity for this state that is the main border between India and Bhutan.



Figure 1: A map of Bhutan and India's states

Source: Google map

On the other hand, the relationship between Bhutan and Assam was in the past ridden with disputes and warfare until the British occupation. Therefore, the Bhutanese government had to negotiate with the British Indian government until Indian independence. The major problem that embroiled Assam and the Indian government was terrorism, whereby Bhutan was used by terrorists as a base for hiding and operating. This problem resulted in the Government of Bhutan, the state government of Assam and the Government of India to work together to solve concretely and eventually destroyed the separatist groups. Apart from security issues, Assam is also a major export destination for Bhutan.

In the case of Arunachal Pradesh State, the nature of the relationship is related to based on the fact that Bhutanese people have the same ethnic and linguistic characteristics as the people in that state, especially in its eastern part. In sum, the relationship and cooperation

between Bhutan and the states of India is another form of relationship that is important for India's foreign policy orientation towards Bhutan.

One of the interesting aspects of Indian foreign policy is the states' influence on foreign policy. For example, the Chief Minister of West Bengal would greatly influence the dialogue between India and Bangladesh (Staniland and Narang 2015, 263-264). Although they as stakeholders contribute to India's foreign policy framework, they are less active in terms of relations between India and Bhutan. Bilateral relations between the two countries are conducted by the Indian national government and the diplomatic missions. The states neighbouring Bhutan only indirectly influence foreign policy decisions by giving interviews critical of the government more than as contributors to foreign policy decisions. This differs from the significant role played by the Kerala government has in the development of relations with Gulf countries. (Malone, Mohan and Raghavan 2015, 208-209). It can safely be said that the establishment and implementation of India's foreign policy toward Bhutan is a monopoly of the Indian Ministry of Foreign Affairs, without the involvement of the constituent states which may be affected by the policy. This is a reflection of the fact that the HEP Projects' benefits accrue mainly to the northern areas such as Uttar Pradesh, Bihar and Jharkhand, etc. Adjoining Indian states like West Bengal and Assam are merely transmission routes of electricity or only partially benefit from the electricity generated (Alam et al. 2017, 589-590). This situation is a result of economics and politics. The states which benefits from electricity are major political power bases and constitute a large proportion of parliamentary seats. In addition, the import of electricity to these states is also necessary to maintain the level of electrical security necessary for the special economic zone being promoted.

In fact, Assam and West Bengal continue to experience significant inaccessibility to electricity, which is vital to economic development at the state level. But with centralized policy and legal issues, the central government does not allow the state governments to negotiate with foreign countries. These states are thus unable to negotiate direct purchase of electricity from Bhutan. This situation shows the states neighbouring Bhutanese, such as West Bengal and Assam, have no role to play in the relationship between the two countries. However, we must acknowledge that the construction of a hydroelectric power plants has significantly led to changes in the ecology of water resources flowing through Bhutan to India, especially in the Assam area. Although the development of the hydropower projects in Bhutan is while water flow is not blocked,

the point needs to be made that. There has been no environmental impact assessment in both the upstream and downstream areas (Premkumar 2016, 30-31). This scenario could lead to further changes in food and agricultural production, especially in the lowlands of Assam, which is a major source of crops in north-eastern India. Moreover, this phenomenon has resulted in developmental gaps that have contributed to the problem of water supply to the neighbouring states of India, as the rivers flowing from Bhutan affect agricultural systems in Assam and West Bengal.

The lack of India's constituent states' involvement in the formulation of the Indian national government's policy towards Bhutan is having a major impact on the way of life in India. While the roles of Sikkim and Arunachal Pradesh are not different from those states, the central government remains the main actor in foreign policy decisions. The difference is that only two states have the potential to produce electricity to meet the needs of the state. This has resulted in access to electricity without the need to import. This paper found that in planning for the development of a hydro-power plant project, a government-affiliated partnership did not appear to consult neighbouring state governments but based its decisions on the political interests of the dominant party in the national parliament. This is top-down policy decision-making. While the neighbouring Indian states gain little benefit from foreign policy on hydropower development in Bhutan, they nonetheless must bear the negative impacts of the project's implementation. Therefore, it can be concluded that the relationship and cooperation between India and Bhutan have not drawn Indian's constituent state actors into the decision-making process. Given that they are receiving negative impacts or should receive some benefits, they should be given channels of participation in decisions about the future development of foreign relations and economic cooperation.

A New Relationship between India and Bhutan?

Having dealt with the relationship between India and Bhutan in relation to the development of the hydroelectric power, we now move on to consider more fully how the relationship is likely to change and why. Bhutan's current efforts to reengineer the structure management and organisation of hydroelectricity projects indicate that the relationship is taking on a new direction. As said, the new Bhutan-India Friendship Treaty of 2007 rendered Bhutan free to work with other countries than India (Kharat 2015, 92-93). Rather than continuing to depend solely on India for investment in HEP generation, Bhutan is now earnestly putting in its own investment and is also

negotiating electricity export to Bangladesh. Should this become reality, India would no longer be the only foreign importer of Bhutan's electricity. This economic move symbolizes change in Bhutan's foreign policy stance. The landlocked country is seeking more options in foreign investment and trade in order to ensure the stability of its economy and independence of action. With China's inroads into the region, Bhutan now looks to China in its rebalancing of relations. Yet, China's trade and investment in Bhutan remains very limited, so its influence on Bhutan's foreign policy remains unclear when compared to that of India. And since the possibility of exporting electricity to Bangladesh is still being negotiated, thus rebalancing is likely to be gradual.

In the past, cooperation between Bhutan and India was carried out through the national government, with the prime minister of India and the monarch of Bhutan being very active actors. As Bhutan has transformed itself into a democracy since 2008, the prime minister now represents the people and is in charge of managing the interests of the country. However, the attitude of the Indian government in negotiating the relationship has not changed. It remains focused on negotiating with the monarch rather than with the prime minister. This is a major problem in India's foreign policy conduct of and is creating internal problems for Bhutan, because it promotes confusion over the status of the democratic government. Constitutionally, this latter now makes policies. Bhutan's foreign policy can be changed at any time without the need to adhere to the recommendations of the monarch or follow Indian foreign policy. We have seen more dialogue between Bhutan and China, which is a bad sign for India since 2007 (Singh 2014, 13-17). India's failure to adjust its conduct of foreign policy in this changed situation is clouding Indo-Bhutan relations. The Indian government has expressed a hostile stance towards Bhutan's democratic government through its emphasis on the monarch over the government. For example, the Indian government chose to invite the Bhutanese king as an honorary guest at the Indian National Day and to negotiate political and economic issues with him (Ministry of External Affairs, Government of India 2012). In fact, the 2008 Bhutanese constitution gives the monarch has no power to interfere with policy.

China's political and economic growth factor is another important variable that could lead to a change in Bhutan's foreign policy towards India. At present, it must be acknowledged that the broader influence of China has transformed the dynamics of the international arena. The rapid economic growth followed by the political influence of China has become a major factor that is

contributing to the global balance of change. China has begun to spread its influence to the major US power areas such as Southeast Asia, Central Asia, Africa, West Asia, Eastern Europe, and South Asia. This growth has contributed to a change in India's power status in South Asia. China has invested enormously in Sri Lanka, Maldives, Nepal and Pakistan. China's One Belt One Road strategy accords importance to South Asia as a major economic and political maritime hub. In mid-2017, China held a forum to discuss the strategy, inviting many countries around the world to participate. Nearly all South Asian countries attended the meeting except India and Bhutan. Both countries are neighbours of China which have not yet resolved border problems with it. The main reason why India does not accept China's strategy is its claim to sovereignty over Kashmir, an important economic development area under this strategy. Although Bhutan does not have official relations with China, Chinese tourists are the main tourist groups in Bhutan. At the same time, Bhutan has opened an honorary consulate in Hong Kong to facilitate Chinese tourists. In addition, China and Bhutan have been negotiating border issues continuously since 2007 to seek common grounds in conflict resolution. These phenomena bodes for India's reduced influence on Bhutan, which is expected to strengthen relations with China in the future (Roy 2018). China's developing relations with Bhutan is a new threat to India's foreign policy that needs to be re-examined to maintain its special relationship status with Bhutan. Nepal and Sri Lanka should be a key lesson for India in designing foreign policy in order not to repeat history.

With the changing circumstances, India needs to change its foreign policy stance towards Bhutan. At present, the relationship covers military, political, economic, culture and tourism matters (Kathuria 2007, 263-265). India is Bhutan's only major trading destination, while India is the main importer of electricity which generates substantial revenue for Bhutan. India's foreign policy towards Bhutan needs to be broadened in the economic aspect in order to retain Bhutan's dependence on India while helping Bhutan to gain more economic growth. Hydropower is a major source of revenue for Bhutan today. As Bhutan has adopted the Gross National Happiness, economic development model, which focuses on the balance between the environment and the economy and which has made it impossible for Bhutan to expand its economic base to other sectors such as heavy industry (Kinga, Galay, Raptan and Pain 1999, 24-29), India can provide additional assistance to Bhutan to further strengthen its relationship through the development of renewable energy to generate electricity for export such as Wind energy and Solar energy. This

is a sector where India has the potential to help because Bhutan also has the potential to be a major producer of solar, wind, and biogas. By signing of the Paris Climate Change Agreement, India is playing a key role in reducing greenhouse gas emissions in the country, including carbon dioxide. A carbon credit is another way Western countries have chosen to maintain their greenhouse gas emissions by buying natural areas to store greenhouse gases. Bhutan is a country that has a negative carbon emission. Therefore, the promotion and investment of carbon credits in Bhutan will play an important role in enhancing Bhutan's economic development paths in order to be more closely linked to the development of India. This will help India maintain good relations with Bhutan, even though Bhutan has expanded its cooperation to other countries. India also has tremendous technological potential that can help boost development within Bhutan. Shifting to environmental, green economy, and technology would help strengthen cooperation between the two countries while spreading the benefits more equally. These are the new areas of cooperation that India can build on and work with Bhutan to maintain the special relationship from which both countries can benefit.

Conclusion

Historical relations between India and Bhutan have been close-knit through political, economic, social and cultural ties. At present, the relationship is expanding, covering many sectors, especially economic. Bhutan is a country with very limited development and is also a landlocked country. These factors have made neighbouring countries very important for economic and social development, which India can effectively assist through bilateral economic cooperation. One of the most important sectors in Bhutan's economy is hydroelectricity, which generates revenue for the country and is a key export commodity. The development of hydroelectric power is an indicator of Bhutan's foreign policy since investment in this sector is only open to countries with special relations. This privilege falls to India only. Therefore, the policy related to Bhutan's hydroelectric power projects is not only an economic policy but also a significant part of foreign policy.

The changes in investment privileges, management, and organizational structure in this sector demonstrate Bhutan's changing its foreign policy towards India which is the only country with investment privileges. While India's foreign policy design on Bhutan is monopolized by the

Commented [SK1]: I would say that this is not the result of the colonial heritage, because Bhutan has relatively relations with the colonial government in a different way from the Indian government. The Bhutanese government wants all privileges granted to the Indian government and does not want to have a relationship with China because of the Tibetan issue. Therefore, the change in Bhutan's hydropower investment is a new kind of relationship that Bhutan wants to send to the Indian government.

central government, this pattern has meant that actors in its constituent states lack foreign policy involvement. This is particularly so in the case Bhutanese hydropower development projects, which directly impact those states as downstream areas. India's constituent states' low participation in setting India's foreign policy framework for Bhutan is one important gap. The needs of the constituent states' are not taken into account. Although the India-Bhutan relationship remains good today, both internal and external factors of the two countries are significantly impacting the special relations. The new Treaty of Friendship in 2007, the change in Bhutan to a democratic regime in 2008, and the growing Chinese influence are challenging India to adjust its foreign policy towards Bhutan. So, expanding the scope of economic cooperation, to make Bhutan more dependent on India, in new areas of green economy, renewable energy, and technology is suggested as key to India and Bhutan maintaining special relations. India has to admit that both the internal and external contexts of the two countries are changing rapidly. India has to adjust its foreign policy to maintain a good and special relationship because Bhutan is an independent state that can strike up with other countries to maximise its national interest. India needs to modify its stance towards Bhutan and to extend equal trade and investment benefits. The special relationship may be waning when neighbouring countries such as China can offer better deals, and Bhutan is free to take that advantage. Finally, one final note is that the conduct of foreign policy is not only through diplomatic relations and treaties. In the India-Bhutan case where economic matters has been the cornerstone, it is through imaginative changes in this area that India-Bhutan foreign relations can be enhanced.

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