India – Bhutan relations

What is the issue?

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India has an enormous opportunity to transform from being Bhutan's largest developmental partner to its largest investor and business partner.

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What is the changing nature of relationship?

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- The Mangdechhu hydroelectric project is a 720MW run-of-river power plant being built in central Bhutan.
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- It is one of the 10 hydroelectric projects planned by Bhutan to generate 10,000MW hydropower by 2020 with support from India.
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- However, both sides have faced issues in getting a favourable tariff for the project, which is set to start production in January 2019.
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- Bhutanese and Indian negotiators have had seven rounds of meetings so far, but have not been able to agree on a mutual tariff rate.
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- However, Bhutan's tariff rate is below what new hydropower projects in India are charging and hence India has to make a final decision in this regard.
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- Bhutan also wants India to start the construction of the 2,560 MW Sunkosh Reservoir project and the 2,640 MW Kuri Gongri reservoir project along with India.
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- Both these projects are not only mentioned as priority projects by Bhutan but also as one of its key economic priorities.
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- On the other hand, the process from the Indian side is getting slow due to the financing concerns for the projects.
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- Despite that, these two mega projects will be part of a clean and reliable stabilising power source for India and contribute to its renewable energy targets.
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- These projects show that Bhutan wants to convert the relationship with India from the traditional donor and aid recipient to that of investment and trade.
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What are the reasons?

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- While hydro projects built with India will provide the bulk of the revenue for the Bhutan government, the projects by themselves cannot generate many jobs for the Bhutanese youth.
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- This is especially so because Bhutan has the highest proportion of youth to the total population in South Asia.
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- The hydro projects, in the long run, will also not be enough to bridge the ever-widening trade gap or current account deficit with India.
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- Hence, Bhutan made a long-standing national objective of achieving economic self-sufficiency.
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- Bhutan have also made an in-principle decision to not seek more aid from India for its 12th plan period than it did in the 11th plan.
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- Not only from India, Bhutan is also sharply reducing its overall grant component.
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What will be the recourse?

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- This development presents an enormous opportunity for India graduate from being Bhutan’s largest developmental partner to Bhutan’s largest investor

and business partner.
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- Bhutan sees India as the largest potential source of investment for its economic diversification programmes.
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- India also serve as a largest market for their products and services that come out of this diversification.
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- Bhutan is also on the path of demanding an exemption from India's Central GST in the future.
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- This is because CGST is affecting the export of Bhutanese goods to India, both in terms of price and procedures at the border.
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- On the other hand, Bhutan is willing to pay the state-level GST.
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- Thus the relationship of India with Bhutan should go deeper than its engagement in the hydropower sector into other dimensions of mutual interest.
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- As, Bhutan remains India's closest and most reliable friend, it is now time to take this relationship to the next level.
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Source: The Indian Express

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