

**India and Bhutan:  
Challenges and  
Opportunities in Cross  
Border Trade**

**Uttam Lama**

# India and Bhutan: Challenges and Opportunities in Cross Border Trade

**Uttam Lama**

**Published and Printed by:** Institute for Social and Economic Change  
Dr V K R V Rao Road, Nagarabhavi Post,  
Bangalore - 560072, Karnataka, India.

**ISEC Working Paper No. 567**

December 2023

*Institute for Social and Economic Change (ISEC) is engaged in interdisciplinary research in analytical and applied areas of the social sciences, encompassing diverse aspects of development. ISEC works with central, state and local governments as well as international agencies by undertaking systematic studies of resource potential, identifying factors influencing growth and examining measures for reducing poverty. The thrust areas of research include state and local economic policies, issues relating to sociological and demographic transition, environmental issues and fiscal, administrative and political decentralization and governance. It pursues fruitful contacts with other institutions and scholars devoted to social science research through collaborative research programmes, seminars, etc.*

*The Working Paper Series provides an opportunity for ISEC faculty, visiting fellows and PhD scholars to discuss their ideas and research work before publication and to get feedback from their peer group. Papers selected for publication in the series present empirical analyses and generally deal with wider issues of public policy at a sectoral, regional or national level. These working papers undergo external review but typically do not present final research results, and constitute works in progress.*

*ISEC working papers can be downloaded from the website ([www.isec.ac.in](http://www.isec.ac.in)).*

ISBN 978-93-93879-86-8

© 2023, Copyright Reserved  
The Institute for Social and Economic Change,  
Bangalore

Working Paper Series Editor: **Sobin George**

# INDIA AND BHUTAN: CHALLENGES AND OPPORTUNITIES IN CROSS-BORDER TRADE

Uttam Lama<sup>\*</sup>

## Abstract

*Studying the trade interactions and engagements between India and Bhutan via various border corridors leads to an understanding of the critical role that border corridors play, particularly for landlocked nations like Bhutan. This research holds significant importance in the context of the need to promote economic cooperation and regional development between these two neighbouring countries. The primary goal of this study is to trace sustainable economic development, diplomatic relationships, and foster mutual prosperity. The central objective of this study revolves around conducting a comprehensive analysis of the diverse trade routes, infrastructure, and policies governing the movement of goods and services between India and Bhutan. Through an evaluation of the challenges and opportunities inherent in these corridors, the study seeks to identify opportunities for enhancement and optimization. Additionally, this research delves into the economic impact of trade on both nation-states, with a special emphasis on its potential for opportunity creation and income generation. Furthermore, this study places particular focus on the Jaigaon-Phuentsholing border regions, recognising their direct and indirect influence on borderland development. It also emphasizes the socio-cultural factors that shape trade interactions between India and Bhutan, underscoring the significance of cultural exchange and interpersonal connections in nurturing a conducive trade environment. Through a deeper understanding and enhancement of these trade corridors, both nation-states can aspire to achieve economic growth, elevate living standards, and ensure enduring regional stability and borderland development.*

**Keywords:** Cross-border trade, Indo-Bhutan relations, informal corridors, socio-cultural, economic cooperation

## Introduction

The WTO (World Trade Organisation) is vital for managing cross-border trade between countries. Its goal is to ensure that goods and services can move between nations smoothly and predictably by making trade agreements (WTO<sup>1</sup>). Essentially, it opens up borders for trade between nation-states. In today's era of globalisation, these nation-states are increasingly recognising the potential of their borders as conduits for trade and connectivity with neighbouring countries and the global world (Boehmer & Pena, 2012). As a result, the study of borders takes on a new dimension, encompassing not only their role as trade gateways but also as facilitators of people-to-people interactions transcending these boundaries (Boehmer & Pena, 2012; Kurki, 2014). This transnational interconnection underscores the critical importance of border studies in promoting peace and prosperity among nations.

---

<sup>\*</sup> PhD Research Scholar at Institute for Social and Economic Change, Nagarabhavi, Bengaluru-560072.

<sup>1</sup>[https://www.wto.org/english/thewto\\_e/thewto\\_e.htm](https://www.wto.org/english/thewto_e/thewto_e.htm)

Consequently, it establishes a distinct nexus between economy, geography, and politics within the contemporary globalised landscape (Schendel, 2005; Bisht, 2010; Stobdan, 2014).

Trade has always played a central role in the economic growth and development of nations, fostering cooperation and mutual prosperity among countries (Ismail et al. 2015). Among the numerous nations engaged in trade, the connection between India and Bhutan serves as a prominent example of strong economic ties and diplomatic goodwill (Kohli, 1982; Murthy, 1992; Penjore, 2004). These two neighbouring South Asian countries, separated by the Himalayan range, have cultivated a robust trade partnership over time, utilising various trade routes to facilitate the exchange of goods and services (Rajput, 2014). This study examines the complexities of trade between India and Bhutan. It also sheds light on the geographical, historical, and economic factors that underlie this flourishing relationship. In addition, studying the trade between India and Bhutan through different corridors might help us to understand the challenges and opportunities in the border trade.

The border between India and Bhutan stretches for 699 kilometers, and it shares boundaries with the Indian states of Assam (267 km), Arunachal Pradesh (217 km), West Bengal (183 km), and Sikkim (32 km) (Ministry of Home Affairs, GoI; Rahmati, et al. 2020). Nevertheless, trade between India and Bhutan primarily occurs through the border corridors of West Bengal and Assam. Presently, more than 13 land corridors are active through which the transaction of goods and services has been done (Ministry of Finance, RGoB). Further, the land border collectively contributes more than 95 percent of the trade of Bhutan. Whereas, the Jaigaon-Phuentsholing corridor alone contributes more than 75 percent of Bhutan's trade. Furthermore, the study is much more focused on the Jaigaon-Phuentsholing corridor due to the huge concentration of economic activities there.

The study will delve into the importance of trade routes connecting these nation-states, investigate the types of commodities traded, and analyse the mutual advantages derived from this trade relations. The history of trade between India and Bhutan showcases a distinctive level of cooperation, emphasising the significance of regional trade dynamics and the positive impact they can have on both economies (Bisht, 2010; Rajput, 2011; Stobdan, 2014). By exploring the different trade routes through which trade flows, we aim to offer an insightful overview of this relationship, illuminating the opportunities and challenges that lie ahead.

Thus, this study's primary focus is on analysing the trade relationship between India and Bhutan via various corridors that connect these neighbouring nation-states. Moreover, it aims to highlight the complexities of this dynamic trade partnership and assess its consequences for both the countries as well as the wider region.

## **Literature Review**

It has been observed that an efficient infrastructure is necessary as a key driver of increased trade volumes between the countries (Olarreaga, 2016; Lama, 2023). The crucial role of building necessary infrastructure, such as roads, railways, ports, and smooth border crossing arrangements along the border areas has well been recognised (Nordås & Piermartini, 2004; Ismail et. al., 2015). Trade through

border corridors often leads to economic growth, not only in the border regions but also in neighbouring areas (Schoenberger & Turner, 2008). It can contribute to regional integration by promoting cooperation and economic ties between countries sharing the corridor (Brooks, 2010; Srivastava, 2011). Studies have also identified various challenges and barriers associated with trade through border corridors (Walther, 2022). These include customs procedures, trade regulations, border security issues, and political tensions between neighbouring countries (BewiadziAkakpo, 2021; Walther, 2022).

However, because of numerous obstacles in conducting formal transactions through border corridors, it has led to an increase in informal trade activities along these border regions (Donko, et. al., 2021). Informal trade can significantly contribute to the local economy but may also pose challenges related to regulation and taxation (Koji, 2016). Border corridors often have geopolitical significance, and trade through these corridors can impact diplomatic relations between countries (Foucher, 1991; Boehmer, & Pena, 2012). In fact, geopolitical tensions can sometimes disrupt or slow down trade flows (Stobdan, 2014; Evans, 2022). Further, it also observed that trade facilitation measures, including customs modernisation, trade agreements, and cooperation frameworks, can enhance the efficiency and effectiveness of trade through border corridors (Schoenberger & Turner 2008; Brooks, 2010; BewiadziAkakpo, 2021; Evans, 2022).

Cross-border cooperation and collaboration between neighbouring countries are frequently emphasized in the trade literature, as essential for optimising the benefits of trade through border corridors (Bisht, 2012). Many scholars provide detailed case studies of specific border corridors, such as those between India and its neighbouring countries, China's border trade routes, and corridors in Africa and Europe (Das, 2008; Málíková, et. al., 2015; Chettri, 2018; Walther, 2022). These case studies offer insights into the unique challenges and opportunities of different corridors. A recent study by Chakraborty & Ray (2015) focuses on the sustainability aspect of trade through border corridors. This includes examining the environmental impact, social inclusivity, and long-term sustainability of trade activities in these areas. Moreover, scholars like De & Raychaudhuri (2013) and Soyres, et al. (2019) have suggested policy recommendations for governments and international organisations to improve trade through border corridors. These recommendations typically aim to reduce trade barriers, enhance infrastructure, and promote cross-border cooperation (Jaroenwanit & Ratanasithi, 2011; Fanou, & Wang, 2018; Baniya, et. al., 2020).

So, the literature on trade through border corridors is diverse and multidisciplinary, reflecting the complexity and significance of this topic in the context of global trade and economic development. However, researchers continue to explore new dimensions of this subject as trade patterns and global dynamics evolve.

## **Data and Methodology**

Here, we may present a comprehensive overview of the data sources and the research methodology employed in the study on trade between India and Bhutan through border corridors. The research primarily relies on secondary data obtained from various sources such as the Ministry of Finance (Royal Govt. of Bhutan), World Integrated Trade Solution (WITS), IMF DOTS Database, Directorate General of

Foreign Trade and the Ministry of Commerce and Industry (Govt. of India). These national and international agencies and institutions have published extensive reports on trade statistics, infrastructure development, and border corridor activities. These data from organisations provide valuable insights into trade patterns, regional integration, and cross-border cooperation. Similarly, peer-reviewed academic articles offer scholarly perspectives on the challenges, opportunities, and policy recommendations related to trade through border corridors. In-depth case studies on the Jaigaon-Phuentsholing border region were carried out which contributed qualitative data to the analysis.

While the study mainly relies on secondary data, some primary data collection methods were employed also for some specific purposes, to understand more the nature of informal trade activities of areas. The surveys and in-depth interviews were conducted among key stakeholders, including government officials, traders, and logistics providers, to gather insights into the challenges and opportunities related to border trade along with customs procedures, trade regulations, and informal and unrecorded trade activities.

Our study presents a descriptive analysis of trade data, infrastructure development, and economic growth within the border regions. This analysis uses tables, figures, and graphs to present key trends and patterns in border trade. Quantitative analysis is employed to examine the relationships among various variables. The analysis includes statistical calculations such as average trade size, growth rate, and total trade (in percent) to assess the impact of various infrastructure development on trade volumes, economic growth, and regional integration. Qualitative analysis is used to delve into the nuances of informal trade activities, geopolitical tensions, and cross-border cooperation. Further, content analysis of interviews and case study help identify some prominent themes, challenges, and opportunities in this border region.

## **Trade between India and Bhutan**

In 1949, the first 'Peace Treaty' was signed between independent India and Bhutan in Darjeeling (Rajput, 2011; Phuntsho, 2013). According to the Articles 5 and 6 of this Peace Treaty, both nations agreed upon and allowed free trade between India and Bhutan, facilitating the exchange of goods and services across the border (Stobdan, 2014). Consequently, the Treaty accelerated trade between India and Bhutan, helping to maintain positive economic relations. Historically, prior to India's independence, Bhutan had also trade relations with Tibet and China (Sen, 2015). Bhutan primarily exported items to Tibet, such as rice, madder, fine silk fabrics, musk, dyes, and brass utensils, while importing items like salt, tobacco, soda, silver, gold dust, betel nuts, and other consumables from Tibet (Choden, 2004; Sen, 2015; Rajput, 2011).

Trade relations between China and Tibet saw limitations or abandonment after the People's Republic of China (PRC) came into power in 1949 and asserted its sovereignty over Tibet (Norbu, 2008). Consequently, Bhutan faced the threat of a Chinese attack because of the presence of Chinese troops at the Bhutan border (Stobdan, 2014). Nevertheless, as per Article 2 of the 1949 Treaty, the Indian government was authorised to provide guidance and protection to Bhutan in matters concerning external affairs and defense (Sen, 2015; Rajput, 2011; Phuntsho, 2013). Hence, India played a crucial

role in assisting Bhutan in securing its territories by deploying Indian soldiers along the Bhutanese border (Stobdan, 2014). Furthermore, India also provided substantial financial support to Bhutan for the implementation of its inaugural Five-Year Plan spanning from 1961 to 1965 (Lama, 2023). As a result, Bhutan's security concerns led it to distance itself from China, fostering a close and dependable friendship with India.

Ever since, Bhutan's trade and economy have remained heavily dependent on India, a dependency that persists to the present day (Bisht, 2012). The India-Bhutan Trade, Commerce, and Transit Agreement, initially signed in 1972 and last updated in 2016, creates a system where both countries can trade freely with each other (Embassy of India, Thimphu<sup>2</sup>). This agreement also allows Bhutan to send its products to other countries through India without paying import taxes. This agreement played a vital role in strengthening their relationship and increased their interdependence. These agreements have facilitated and expanded trade between the two nations, identifying various border corridors, including the official recognition of the Jaigaon corridor for trade between India and Bhutan during the 1995 trade agreement (Rajput, 2011).

### **Formal Trade between India and Bhutan**

According to data from the World Integrated Trade Solution (WITS), the total trade volume between India and Bhutan has exhibited consistent growth over the years. Specifically, from 2000 to 2020, the total trade between the two nations has seen an average annual growth rate of 13.31 percent. During this same 20-year period (2000-2020), India's exports to Bhutan have grown at a remarkable average rate of 18.34 percent. Conversely, India's imports of goods and services from Bhutan have increased at a comparatively slower average rate of 6.10 percent. Despite this growth, the trade balance analysis reveals a notable disparity over the two decades (2000-2020), with India importing nine times more from Bhutan than it exports. Consequently, for nine consecutive years, the trade balance has been negative. In contrast, Bhutan has imported more goods from India than it has exported for at least 11 years (see table no.1).

However, it is worth noting that over the past decade (2011-2020), India has achieved a positive trade balance with Bhutan, indicating that it has exported more to Bhutan than it has imported. This positive trend has led to a significant overall increase in the total trade volume between India and Bhutan, which has grown by more than 41 times between 2000 and 2020. This remarkable achievement can be attributed to the bilateral free trade agreements and the economic and commercial integration efforts between India and Bhutan, which have played a pivotal role in driving these impressive trade figures (Kohli, 1982; Bisht, 2010).

---

<sup>2</sup><https://www.indembthimphu.gov.in/pages.php?id=42>

**Table No 1: Trade between India and Bhutan, (2000-2020)**  
(In US \$ Million)

<b>Years</b>	<b>Export</b>	<b>Import</b>	<b>Total Trade</b>	<b>Trade Balance</b>
2000	1.09	18.33	19.42	-17.24
2001	5.97	23.31	29.28	-17.35
2002	23.12	24.86	47.98	-1.74
2003	84.92	52.81	137.73	32.11
2004	87.01	50.91	137.92	36.1
2005	95.13	100.07	195.19	-4.94
2006	63.8	116.29	180.09	-52.48
2007	70.84	202.12	272.96	-131.28
2008	106.12	159.77	265.89	-53.65
2009	108.48	140.89	249.37	-32.41
2010	159.21	185.69	344.9	-26.48
2011	219.08	205.68	424.76	13.4
2012	170.76	169.27	340.03	1.49
2013	161.67	137.06	298.73	24.6
2014	200.37	144.35	344.71	56.02
2015	375.22	195.02	570.24	180.2
2016	374.21	127.33	501.54	246.88
2017	401.68	206.99	608.67	194.69
2018	652.43	305.98	958.41	346.45
2019	694.31	249.28	943.59	445.02
2020	623.08	184.25	807.33	438.83
<b>Total</b>	<b>4678.5</b>	<b>3000.26</b>	<b>7678.74</b>	<b>1678.22</b>

**Source:** World Integrated Trade Solution (WITS<sup>3</sup>)

According to the WITS data, from the year 2000 to 2020, India and Bhutan conducted trade transactions totaling 7678.74 US\$ million. According to the IMF (International Monetary Fund) database, this figure represents more than 85 per cent of Bhutan's total trade with India. Over these two decades (2000-2020), these transactions encompassed 4678.50 US\$ million in exports to Bhutan, accounting for 60.93 per cent of the total trade. Simultaneously, a total of 3000.26 US\$ million was allocated for importing goods and services from Bhutan, constituting 39.07 per cent of the total trade between India and Bhutan. India has successfully maintained a trade balance of 1678.22 US\$ million over this period, with a gradual growth in the trade balance.

It is evident that Bhutan's economy considerably relies on India. According to the data from the IMF over the past decade, 90.33 per cent of Bhutan's exports have been directed towards India, while 89.25 per cent of its imports have originated from India. This underscores the significant volume of trade Bhutan engages in with India. Furthermore, a portion of Bhutan's trade, approximately 10 percent, is conducted with other countries, including Bangladesh, China, Singapore, Nepal, Italy, Korea,

<sup>3</sup><https://wits.worldbank.org/CountryProfile/en/IND>



Thailand, Japan, the Netherlands, and others. Several compelling reasons explain why Bhutan consistently favour India as its trade partner.

Firstly, a substantial portion of Bhutan's trade, whether with India or other nations, is facilitated through Indian transportation routes (such as roads, railways, and sea routes), reducing transportation costs for Bhutan (Rajput, 2014). Secondly, India stands as the nearest and most accessible market for Bhutan when it comes to both exporting and importing, compared to other countries (Bisht, 2010). Thirdly, India's provision of free trade, financial development grants, subsidised goods, and services incentivises Bhutan to prioritise India in its trade and economic dealings (Lama, 2023). Moreover, India's steadfast support in matters of national security, particularly in countering potential threats from China, has deepened Bhutan's "loyalty" to India (Stobdan, 2014). Lastly, the enduring bond of friendship and trust between India and Bhutan continues to facilitate smooth and productive trade relations with India, further solidifying their partnership (Taneja et. al., 2019).

**Table No 2: Bhutan's major trading partners, (2013-2022) (In Percentage)**

<b>Bhutan Export Partners</b>	<b>Share of Bhutan's Total Export (%)</b>	<b>Bhutan's Import Partners</b>	<b>Share of Bhutan's Total Import (%)</b>
India	90.33	India	89.25
Bangladesh	5.04	China	2.51
Nepal	0.97	Singapore	1.24
Italy	0.87	South Korea	1.08
Netherlands	0.77	Thailand	0.85
Germany	0.64	Japan	0.71
Indonesia	0.29	United States	0.53
Singapore	0.18	Germany	0.48
Japan	0.16	Nepal	0.37
China	0.10	Austria	0.35
Others	0.64	Others	2.63
Total	100.00	Total	100.00

**Source:** IMF DOTS Database<sup>4</sup>

## **Major Trade Items between India and Bhutan**

During the 2019-20 period, Bhutan's primary imports from India included petroleum oils and bituminous minerals, iron ore and related products, light oils, coal coke, tires, soya bean oils, cellular telephones, and more. Among these, the top ten products accounted for 41.60 per cent of Bhutan's total imports. Notably, petroleum products and minerals (HS Code: 271019) constituted the highest proportion of exports to Bhutan at 17.45 percent, followed by ferrous iron ore products (HS Code: 720310) and light oils and preparations (HS Code: 271012), making up 6.62 per cent and 4.79 percent, respectively.

<sup>4</sup><https://data.imf.org/regular.aspx?key=61013712>

**Table No 3: Major ten items, exported from India to Bhutan(2019-2020)**

HS Code	Product Description	Value in (US\$ Million)	Share in India's Total Export to Bhutan%
271019	OTHER PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS ETC	128.85	17.45
720310	FERS PRDCT OBTND BY DRCT RDCTN OF IRON ORE	48.93	6.62
271012	LIGHT OILS AND PREPARATIONS:	35.37	4.79
440290	OTHER	26.83	3.63
270400	COKE AND SEMI/COKE OF COAL/LIGNITE/PEAT W/N AGGLOMERATED;RETORT CARBON	18.14	2.46
870423	G.V.W. EXCEEDING 20 TONNES	10.49	1.42
401120	NEW PNMTY TYRES USED ON BUSES/LORRIES	10.34	1.40
150790	OTHER SOYA BEAN OIL AND ITS FRACTIONS	10.24	1.39
851712	TELEPHONES FOR CELLULAR NETWORKS OR FOR OTHER WIRELESS NETWORKS:	9.07	1.23
870421	G.V.W. NOT EXCEEDING 5 TONNES	9.02	1.22
	Total of Top 10 Items	307.28	41.60
	Total	738.6	100.00

**Source:** Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India (different years)

Observation reveals that Bhutan's purchases from India primarily encompass petroleum materials, raw materials for steel and other industries, as well as finished products like vehicles and associated materials. This indicates a gradual shift in Bhutan's trade strategy from agricultural items to primary and secondary products for industries. Furthermore, in the service sector, 1.23 per cent of cellular items were exported to Bhutan, contributing to the development of cellular and wireless networks.

Likewise, it has been observed that India primarily imports electrical energy and raw materials from Bhutan. The key items in this import category include electrical energy, ferrosilicon, dolomite, Portland cement, silicon carbide, gypsum, polymer sheets, and cardamoms, among others. In the fiscal year 2019-20, the top 10 items accounted for 94.03 per cent of the total imports from Bhutan. Notably, electrical energy (HS Code: 271600) and ferrosilicon (HS Code: 720221) emerge as the most highly demanded items imported from Bhutan. In fact, during the 2019-20 period, these two items collectively constituted 68.02 per cent of the total imports from Bhutan. Additionally, carbon, dolomite, Portland cement, and silicon collectively contributed more than 20 per cent to the total imports from Bhutan. In contrast, the percentage of seasonal fruits and other edible items imported from Bhutan was relatively lower. Certain edible items such as flavored water and cardamom, combined, accounted for approximately 2 per cent of the total imports.

**Table No 4: Major ten items imported from Bhutan to India, (2019-2020)**

HS Code	Product Description	Value in US\$ Million	Share in India's Total Import from Bhutan%
271600	ELECTRICAL ENERGY	152.78	37.66
720221	FERRO-SILICON CONTNG>55% OF SILICON	123.19	30.36
720719	OTHR PRDCTS CONTNG BY WT<0.25% OF CARBON	33.22	8.19
251810	DOLOMITE NOT CALCINED OR SINTERED	28.53	7.03
252329	OTHER PORTLAND CEMENT	15.26	3.76
284920	CARBIDES OF SILICON W/N CHMCLY DEFINED	9.55	2.35
252010	GYPSUM; ANHYDRITE	6.57	1.62
392010	PLATES SHEETS ETC.OF POLYMRS OF ETHYLENE	4.5	1.11
220299	OTHER SWEETND FLAVRD WATERS	4.14	1.02
90831	CARDAMOMS: NEITHER CRUSHED NOR GROUND:	3.77	0.93
	Total of Top 10 Items	381.51	94.03
	Total	405.73	100

**Source:** Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India<sup>5</sup>(different years)

### Trade through different corridors of Bhutan

Bhutan conducts its trade, both with India (TI) and with countries other than India (OTI), through six major regions or corridors, as per information from the Ministry of Finance, Government of Bhutan. These regions are Gelephu, Paro, Phuentsholing, Samdrup Jongkhar, Samtse, and Thimphu Transit. Furthermore, within these six major regions, there are a total of 16 check-posts or corridors and transits where trade occurs via road and air routes. The Paro region employs air routes, specifically Paro Air Cargo and Paro Air Terminal, in addition to Thimphu Transits, for trade both with India and other countries. In contrast, the other four major regions are connected by road routes to Indian regions and encompass 13 check-posts or corridors.

It has also been observed that over 95 per cent of Bhutan's trade, whether with India or other countries, is conducted through these 13 check-posts or corridors. These check-posts or corridors are situated in various regions: the Gelephu check-post in the Gelephu region; Lhamoizingkha, Pasakha, and Phuentsholing in the Phuentsholing region; Jomotshangkha, Phuntsho Rabtenling, Pelzomthang, and SamdrupJongkhar in the Samdrup Jongkhar region; and Bhimtar, Gomtu, Jitty, Pugli, and Samtse in the Samtse region. It is noteworthy that these 13 corridors share a border with Indian states, specifically West Bengal and Assam, and Bhutan's trade is conducted through these Indian routes.

<sup>5</sup><https://tradestat.commerce.gov.in/eidb/default.asp>

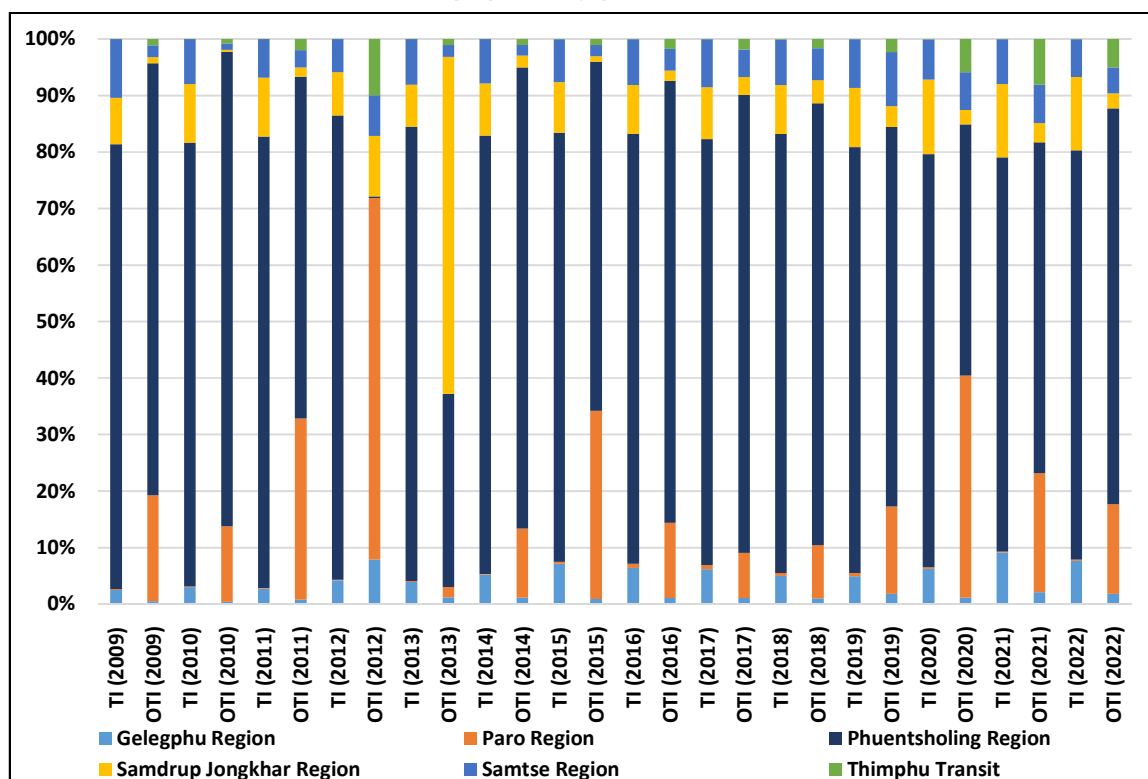


**Source:** prepared by author

The bar graph representing trade between Bhutan and India (TI) as well as trade with countries other than India (OTI) underscores that the majority of trade occurs through the Phuentsholing region. This highlights Bhutan's significant dependence on the Phuentsholing border region for conducting trade in goods and services. The data also reveals a notable economic concentration in the Phuentsholing border region, attributed to the flexible nature of the corridor, its strategic geographical location, industrialisation, and the availability of raw materials. These factors have collectively transformed Phuentsholing into an economic zone.

Additionally, the Phuentsholing border region enjoys excellent connectivity with South Asian Highways, Indian National Highways, and nearby Indian railway stations, which facilitates fast, convenient, and cost-effective transportation for Bhutan. In contrast, other corridors lack similar infrastructure development, which encourages traders to prioritise the Phuentsholing region over alternatives. Indeed, trade data from the past 14 years consistently shows that the Phuentsholing region has remained the top choice for trading compared to other corridors. Consequently, the frequent and substantial flow of goods and services through the Phuentsholing region has led to its development as a central trade space and an economic hub. Consequently, the Phuentsholing border corridor is often referred to as the gateway to Bhutan.

**Figure No 1: Trade through Different Regions or Corridors of Bhutan with India (TI) and with Other Countries (OTI), 2009-2022  
(In percentage)**



Source: Ministry of Finance, Royal Govt. of Bhutan<sup>6</sup>, (different years).

Given Bhutan's status as a landlocked country, the exchange of goods and services primarily occurs through either air or road routes. In this regard, the Paro region and Thimphu Transit serve as the major air corridors facilitating these transactions. The data demonstrates that air routes are predominantly utilised for trade with countries other than India (OTI), while road routes are the primary choice for trade with India. Furthermore, a noteworthy trend emerges from the data, indicating that these air routes collectively achieved their highest-ever levels of trade with OTI countries over the past 14 years (2009-2022). The bar graph illustrates that air corridors accounted for more than 25 per cent of trade with OTI countries on five occasions. Notably, the data underscores the significance of air routes for Bhutan's trade, particularly during the years 2011 (34%), 2012 (73.94%), 2015 (34.35%), 2020 (45.14%), and 2021 (29.20%)(MoF, RGoB) This underscores the crucial role of air routes in Bhutan's trade, which significantly impacts the country's economy.

In 2011 and 2012, Bhutan faced rupee crunch issues and financial crises, leading to a significant increase in trade conducted through air routes (Bisht, 2012). Similarly, during 2020 and 2021, the Paro region and Thimphu Transits (air routes) were extensively utilised for trade, accounting for over 45 per cent of trade with countries other than India due to the impact of the Covid-19

<sup>6</sup><https://www.mof.gov.bt/publications/reports/bhutan-trade-statistics/>

pandemic. In the subsequent years, 2021 and 2022, air routes continued to play a substantial role, contributing more than 29 per cent and 20 percent, respectively, to trade with countries other than India. This highlights that Bhutan has the option to engage in trade with other countries via air routes; however, it is considered costly and risky, making it unsustainable for extended periods.

Conversely, the regions of Gelephu, Phuentsholing, Samdrup Jongkhar, and Samtse are renowned for conducting trade with both India and other countries through road routes, utilising Indian roads and services. Among these four major corridors, the Phuentsholing corridor is the most frequently employed for trade, followed by Samdrup Jongkhar, Samtse, and Gelephu. In 2009, Phuentsholing accounted for the highest proportion of trade with India, at 78.73 per cent compared to other corridors. However, by 2022, the Phuentsholing corridor represented 72.45 per cent of Bhutan's total trade with India. The reduction in the use of the Phuentsholing corridor, after more than a decade, can be attributed to the development and utilisation of alternative corridors for trade. In 2009, the Samtse corridor was the second most utilised corridor for trade, accounting for 10.40 per cent of the total (MoF, RGoB).

However, when comparing the data with that of 2022, it was anticipated that this corridor would experience reduced utilisation, accounting for 6.70 percent. The rationale behind the decrease in the use of both the trade routes could be understood by observing the growing preference for the Samdrup Jongkhar region. In 2009, this corridor ranked as the third most-utilised road route for trade with India, representing 8.20 per cent of the total trade volume after the Phuentsholing and Samtse corridors. Over the years, the utilisation of this corridor has consistently increased for trade with India, reaching 12.95 per cent in 2022. This corresponds to an average compound growth rate (CGR) of 22.97 per cent between 2009 and 2022. Furthermore, the Gelephu corridor serves as the fourth significant road corridor for trade with India. In 2009, this corridor contributed only 2.49 per cent to Bhutan's total trade. However, due to its strategic geographical location and its recognised potential, the Gelephu corridor has seen increased utilisation for trade with India, accounting for 7.68 per cent of total trade in 2022.

Furthermore, when examining Bhutan's trade with countries other than India (OTI), it becomes evident that the Phuentsholing corridor has consistently been the preferred choice from 2009 to 2022. The data illustrate that Phuentsholing ranks as the primary corridor for trade with countries other than India, followed by Paro, Thimphu Transit, Samdrup, Samtse, and the Gelephu corridor. According to the data, in 2022, a significant 70.07 per cent of Bhutan's trade with OTI countries was channeled exclusively through the Phuentsholing corridor. This percentage represents an increase of 58.51 per cent in 2021 and 44.42 per cent in 2020. These fluctuations can be attributed to the impact of the Covid-19 pandemic, which led to the utilisation of air routes for trade with countries other than India in consecutive years, namely 2020 and 2021. Consequently, in 2020, the Paro air corridor facilitated 39.25 per cent of trade exchanges with countries other than India, marking a 23.82 per cent increase compared to the previous year (2019). Similarly, the Thimphu Transit corridor accounted for 5.89 per cent and 8.11 per cent of total goods and services in 2020 and 2021, respectively, during the Covid-19 pandemic. These figures represent two to four times higher trade transactions with countries other than

India compared to 2019. Therefore, it is evident that Bhutan's economy relies significantly on this border region or corridor.

According to trade data provided by the Ministry of Finance of the Royal Government of Bhutan, the Phuentsholing corridor stands out as the predominant road route for Bhutan's trade. The trade figures indicate that the Phuentsholing region facilitated a total of 74.23 per cent of trade transactions between India and countries other than India from 2009 to 2022. Within the total trade figures, 75.96 per cent of trade occurred with India, demonstrating an average growth rate of 39.06 percent, while 66.98 per cent of trade was conducted with countries other than India, with an average growth rate of 60.24 per cent over the period spanning 2009 to 2022. These figures underscore the extensive use of the Phuentsholing corridor for trade within Bhutan, emphasising its pivotal role in the country's economy.

In addition to the Phuentsholing corridor, the Samdrup Jongkhar region accounted for 9.25 per cent of Bhutan's total trade between 2009 and 2022. This was followed by the Samtse Region (7.15%), Gelephu Region (4.93%), Paro Region (3.77%), and Thimphu Transit (0.68%), which are also significant corridors for Bhutan's trade. Furthermore, Bhutan's trade heavily relies on road corridors, which have contributed to 95.55 per cent of trade with an average growth rate of 42.27 per cent between 2009 and 2022. Similarly, air routes, specifically Paro and Thimphu Transit, have made a significant contribution of 4.45 per cent to Bhutan's total trade, with an average growth rate of 11.36 per cent over the same period (MoF, RGoB).

The primary items traded with India through the Jaigaon-Phuentsholing corridors include vehicles, black pipes, pole line hardware fittings, solar power generation systems, electrical switching systems, fodder equipment, surgical equipment, calcium carbide, ferro silicon, marble slabs, stones, and more. Similarly, Bhutan's trade with countries other than India through the Jaigaon-Phuentsholing corridor involves motor vehicles, electrical goods, garments, machinery goods, computers and accessories, industrial raw materials, dolomite powder, Portland cement, limestone powder, fruits, household goods, and other commodities.

**Table No 5: Trade between Bhutan – India (TI) and Other countries (OTI) through different trade corridors of Bhutan (2009-2022)**  
(In percentage)

Regions/Corridors	Trade with India (%)	Other Than India (%)	Total Trade (%)
<b>Gelephu Region</b>	5.78	1.39	4.93
<b>Paro Region</b>	0.32	18.17	3.77
<b>Phuentsholing Region</b>	75.96	66.98	74.23
<b>Samdrup Jongkhar Region</b>	10.16	5.42	9.25
<b>Samtse Region</b>	7.73	4.72	7.15
<b>Thimphu Transit</b>	0.05	3.31	0.68
<b>Total</b>	100.00	100.00	100.00

**Source:** Ministry of Finance, Royal Govt. of Bhutan, different countries.

It has been observed that the significant volume of trade flowing through the Phuentsholing corridor has played a pivotal role in the development of the Jaigaon region, a border town in India located across the border from Bhutan. As a result, people are migrating to this borderland in pursuit of economic opportunities. Currently, Jaigaon's economy is directly or indirectly reliant on Bhutan, indicating a high degree of socioeconomic engagement between the residents of both border regions. Phuentsholing residents meet their needs through the Jaigaon market, while Jaigaon's residents cross the border for their daily livelihood. Hence, this region is commonly referred to as the Jaigaon-Phuentsholing borderland, characterised by mutual interdependence.

### **Informal trade at the Jaigaon-Phuentsholing borderland**

Occasionally, it has been observed that informal trade resulted in high duties, corruption, law enforcement, and harassment by border customs (Ayadi, et al. 2013). In addition, informal trade is more desirable due to its potential for cost savings because traders often pay bribes to avoid paying high taxes or customs fees (Dyaratna-Banda, 2007; Taneja & Bimal, 2017).

Moreover, informal trade is preferable to formal trade because the informal trade is flexible and sensitive to shifting market demands than formal trade (Ayadi, et al. 2013). Therefore, traders can quickly adjust to changes in supply and demand since they are not restricted by formal regulations (Walther, 2022). Moreover, regions with scarce job opportunities and limited resources often foster informal trade as one of the few available means to generate income (Koji, 2016). Besides this, formal cross-border trading can be challenging and expensive due to rigid customs regulations, tariffs, paperwork, and other trade barriers (Taneja & Bimal, 2017). In order to overcome these obstacles and reduce expenses, small traders turn to informal trading (Walther, 2022).

So along with the formal trade, the Indo-Bhutan borderland also has experienced informal trade across the border. In fact, it has been observed that porous borders between India and Bhutan promote informal trade in the borderland. Contrarily, the restriction encourages cross-border informal trade even if the checkpoints help to control informal trade (Donko et. al., 2022). However, the study has witnessed the importance of the Jaigaon-Phuentsholing border region with a high concentration of trade activities. In fact, the Jaigaon-Phuentsholing region is considered a vulnerable border region in terms of informal trade. Despite this, both Jaigaon and Phuentsholing Land Custom Station try to control the passing of informal items through the border corridors. Generally, there are many factors that encourage the informal transaction of goods and services across the border (Evans, 2022). These might be geographical factors, trade tariff regulations, economic inequality, exclusion of local people from mainstream trade, unemployment, socio-cultural relations, corruption, etc. which accelerate the informal trade at the border regions (Koji, 2016; Walther, 2022).

First, in the Jaigaon-Phuentsholing borderland, the practice of arbitrage trade is common and easy due to the flexible border. For that, traders cross the border frequently and purchase items at a lower price in one country and resell them at a higher price in another, which is made possible by differences in the prices of goods between neighbouring countries. For instance, fuel, and alcohol is quite cheaper in Bhutan than in India. On the other hand, clothing and food items are cheaper in India



than in Bhutan. Therefore, Jaigaon traders purchase the fuel from Phuentsholing and resell it to the Indian borderland. Consequently, throughout the corridors, selling of petrol and diesel can be seen by the local and small shopkeepers of the borderland. Similarly, clothing, food items, and meat are common items that usually traders purchase from the Jaigaon market and trade to the Phuentsholing market. It seems very common and easy in the Jaigaon-Phuentsholing borderland, and this pricing difference is encouraging people to participate in informal cross-border trading.

Based on our field survey, we gathered some interesting observations regarding the local border trade. According to some respondents:

*"Every day, we cross the border to purchase fuel from the Phuentsholing petrol pump. We refill our bikes and cars with petrol, and upon crossing the border, we transfer it from the vehicles to bottles for resale. Occasionally, we repeat this process two or three times in a day. On average, we manage to sell at least 15-20 litres of fuel, resulting in average daily earnings of 1000-2000 rupees."*

*"In addition to this, there is a demand for alcohol, gas cylinders, utensil items, and various subsidised food items, which traders purchase in Phuentsholing and sell in Jaigaon. Similarly, meat, tobacco products, and some food items are sourced from Jaigaon and sold in Phuentsholing."*

Second, in the Jaigaon borderland, local people are excluded from the mainstream trade, and the formal trade practices are going on between Thimphu and the Indian major state through the Jaigaon-Phuentsholing corridor. Consequently, the border region is mostly dominated by outsider traders and businessmen. Therefore, an engagement of the local people in the formal trade activities appears as a challenging task. Access to the markets for local people has often become challenging. However, there is a scope to continue border trade practices to satisfy regional demand through informal trading.

One interesting finding from our field study was that we observed an increasing number of unemployed youths in the border regions are involved in informal trading activities as a source of income. Moreover, the smuggling of illegal commodities such as drugs, wildlife species, tobacco products, and other contraband items has become prominent through the informal trading practices. These forms of trade in contraband items are significant in the Indo-Bhutan border regions and give huge profit.

During our field study, one respondent said, *"Formal trade occurs exclusively between the two countries, with limited opportunities and market access for local residents. This scarcity prompts informal trade to meet the regional demand for goods and services. The allure of quick profits draws numerous unemployed youths into this informal trade."*

Third, it has also been observed that at the Jaigaon-Phuentsholing borderland, cross-border communities frequently have relationships with one another that go beyond the political border in terms of culture, ethnicity, and family. These relationships encourage informal trade, enabling people to provide goods and services. (Again, as we have noted from one respondent, *"some of the services and*

*trading items are brought or purchased from across the border which are accessible and subsidised for only particular citizens. We asked for these items and resell them to the markets”.*

### **Land Customs Stations (LCS): Roles and Seized Items**

The significance of land customs stations in cross-border trade is crucial, as they regulate and formalise trade activities while also potentially impeding local border trade due to the dominance of mainstream traders. Understanding the functions of these stations sheds light on the informal local economy and its impact on border regions. There are two land customs stations, one is in the Jaigaon and Phuentsholing border region i.e., Jaigaon Land Customs Station (JLCS) and the other is Phuentsholing Land Customs Station (PLCS). The JLCS is located on the Indian side of the border, whereas the PLCS is situated on the Bhutanese borderland. However, both the centres manage the official movement of goods and services through the corridors. Functioning as a transit customs and immigration centre, it also handles cargo and passenger operations within Indo-Bhutan territory. These stations conduct document inspections for vehicles entering India and Bhutan, including invoices, packing lists, and transport consignment notes. Goods and documents are meticulously reviewed prior to endorsing the consignment note with a stamp. Only after fulfilling all requirements, can vehicles proceed to Bhutan or India. Despite this, it has been observed that flexible borders significantly facilitate informal trading activities across the border regions (Foucher, 1991, Das, 2008).

The present study relies on the data provided by the JLCS. It indicates the roles of the custom stations in facilitating official transactions and regulating unofficial trade. Several interviews were conducted with officials, and local residents in the Jaigaon border region. The present survey was conducted during 2019-20, and during that time, the JLCS was staffed with 2 supervisors, 3 inspectors, and 4 havildars. It was evident that the customs police were insufficient in number to effectively oversee informal activities through the corridor. Nevertheless, the station did have warehouse and restroom facilities available. Furthermore, the Bangeyor Pasakha checkpoints initiated inspections of official goods and services transactions.

The recorded data on seized items have been provided by the JLCS for the period of 2005-2016. The 10 years of seized data set traces the informal trade activities across the JLCS. According to JLCS, there are 41 seizure cases, registered between 2005 and January 2016 with a total value of 37,03,330 rupees. This is evident from the data spanning the last 10 years provided by the Land Customs Station, Jaigaon. In 2005-06, there were only 3 recorded seizure cases, with a total value of approximately 54 thousand rupees. In 2006-07, an additional 3 seizure cases were reported, but the total value was low, it was 23 thousand rupees only. From the available information, it has been observed that the trend continued from 2008-09 to 2010-11, with both the number of seizure cases and their total value steadily increasing.

However, the data did not specify the particular items seized by the Land Customs Stations. Furthermore, it was mentioned that there were challenges in maintaining data, especially concerning the valuation of items, and a significant portion remained unrecorded. Nevertheless, some general estimations were provided, indicating that timber, liquor, and wildlife species were among the major

items seized, while utensils, clothing, and meat also appeared on the list of seizures (JLCS). Notably, there were no recorded seizure cases for certain specific years, such as 2012-13, 2014-15, and 2015-16. (This absence of records suggests two possibilities either informal trade had completely ceased through this corridor during those years, or the Land Customs Station failed to document seized items).

**Table No 6: The seizure cases by the Jaigaon Land Custom Stations, 2005-2016.**

Years	No. of Seizure cases	Value in rupees (INR)
2005-06	3	53,860.00
2006-07	3	23,430.00
2007-08	2	17,980.00
2008-09	6	94,481.00
2009-10	6	11,30,964.00
2010-11	9	6,59,355.00
2011-12	5	5,29,870.00
2012-13	0	0
2013-14	7	11,93,390.00
2014-15	0	0
2015-16 (Up to January 2016)	0	0
<b>Total</b>	<b>41</b>	<b>37,03,330.00</b>

**Source:** Land Customs Station, Jaigaon

In connection with the missing numbers, one Land Customs officer explained; *"Our actions are triggered solely by receiving information about informal transactions; in the absence of such information, we are unable to initiate any measures."*

Therefore, the data indicates that the absence of recorded cases was due to a lack of information received by the LCS or a gap in officials' records for those particular years. It is evident that informal trade was on the rise, rather than declining over time. However, the concerned departments have claimed they are trying to control the illegal informal activities.

Further, one staff member mentioned that; *"As much as possible the customs station tries to control unofficial items to transact through the border corridor, but the porous border finds different ways to transact the goods and services informally."*

He also informed us that *"lack of information, as well as less staff, could not be able to control the whole informal trade transaction in this region. However, the department to some extent is successfully controlling such informal activities"*.

In addition to that, he mentioned, *"Furthermore, we assumed that due to some local people's involvement in informal trade, less information is filed against the informal trader which helps to ease the supply of goods and services through this corridor."*

The Jaigaon-Phuentsholing border region exhibits active informal activities, although the exact scale of these transactions remains undisclosed. Informal trade plays a crucial role in meeting regional

demands for goods and services, particularly when formal trade avenues are limited. However, it also brings about challenges related to regulatory oversight, revenue collection, and the potential for illicit practices (Ayadi et. al., 2013). While informal trade contributes to increased economic activity and livelihood opportunities, it is accompanied by drawbacks such as a lack of consumer protection, tax evasion, and susceptibility to exploitation (BewiadziAkakpo, 2021). To address the root causes of informal trading in border corridors, initiatives aimed at formalising trade, simplifying customs procedures, reducing tariffs, and improving infrastructure are crucial.

## **Challenges and Opportunities**

The cross-border trade between India and Bhutan might grapple with geographic, regulatory, and infrastructure challenges (Stobdan, 2014). Nonetheless, the deep-rooted historical, cultural, and political-economic relationship between the two nation-states might be helpful for substantial avenues for trade, particularly in sectors such as hydropower, tourism, and agriculture (Gupta & James, 1992, Bisht, 2012; Boehmer & Pena, 2012). By persistently collaborating and investing in infrastructure and trade facilitation initiatives, both India and Bhutan can amplify the advantages of cross-border trade (Nordås & Piermartini, 2004; Brooks, 2010).

The geographical aspect is a significant challenge for cross-border trade (Rumley & Minghi, 1991; Málková, et al. 2015). Bhutan's mountainous terrain and landlocked status make transportation challenging, which in turn poses obstacles to the construction and maintenance of essential infrastructure like roads and bridges throughout Bhutan's various regions. Additionally, in the event of any natural disaster in Bhutan, trade operations could be disrupted for an extended period challenging the available technological and infrastructure opportunities. Consequently, the transportation of goods and services might frequently face interruptions in this region. Furthermore, Bhutan's small population and limited market size might also restrict the scope of trade, particularly in the context of the question of achieving economies of scale.

India and Bhutan have established duty-free access for the majority of their exports and imports items in both their respective markets (Kohli, 1982; Rajput, 2011). This trade primarily encompasses hydroelectric power, minerals, and certain agricultural products (Ranjan, 2018). However, certain items may require special permissions and could be subject to tariffs. Additionally, Bhutan engages in trade with countries other than India through the Indo-Bhutan border corridors, potentially leading to customs and regulatory challenges in the future. Nonetheless, the primary issue in cross-border trade remains the customs and regulatory discrepancies between the two nation-states. Hence, differences in customs procedures, tariff structures, and regulatory frameworks between India and Bhutan could result in trade and commerce experiencing delays and administrative intricacies or complexities (Walther, 2022).

Furthermore, since the Indian Rupee and Bhutanese Ngultrum share an equal value, cross-border trade has been conducted using these two distinct currencies. Consequently, there is a currency exchange rate risk in the border region, where the Ngultrum has informally been exchanged at a lower rate (Bisht, 2012). This use of different currencies, the Indian Rupee and the Bhutanese Ngultrum, can

introduce complications and risks into financial transactions. Additionally, it might foster informal currency exchanges. Another challenge facing Indo-Bhutan cross-border trade pertains to national security (Stobden, 2014). Bhutan shares its borders with China to the north and India to the south. Given that these border regions are situated adjacent to international borders, security threats persist. Consequently, the geopolitical dynamics in the region can occasionally lead to tensions that impact cross-border trade and transit (Foucher, 1991; Krishna, 2003).

Despite these challenges, border trade presents numerous opportunities for the development of both border economies. The Indo-Bhutan trade agreement opened the border for free trade between them. Border trade also creates opportunities for the local people in terms of selling their traditional food and items and earning through employment. It generates income and job opportunities for the border people. Further, the economic engagements across the border have also created opportunities of border *haats* (local market) where border people could get equal opportunities to earn and participate in the border economy (Chakraborty & Ray, 2015).

The cross-border trade agreement also provides preferential access to each other's markets, fostering trade and economic cooperation (Sharma & Lal, 2017). It also offers simplified customs procedures and reduces trade barriers, making it easier for a business to engage in cross-border trade. For Bhutan, India represents a large and diversified market for its products, reducing reliance on a single market. This might help to make the market more diverse and could promote Bhutan's economy to a higher level.

The present hydropower partnership between India and Bhutan not only supplies hydroelectric power to India but also serves as a significant revenue source for Bhutan, while providing a dependable energy source for India (Bisht, 2012, Ranjan, 2018). Furthermore, Bhutan's abundant natural resources, seasonal fruits, and agricultural products hold a great appeal for the Indian market.

Again, Bhutan's picturesque pollution-free landscape attracts foreign and Indian tourists most. The natural geographical beauties are contributing to the growth of its tourism sector and fostering cross-border people movement. Moreover, border trade promotes cultural exchanges between the different neighbouring communities (Chakraborty & Ray, 2015). The cultural affinities and commonalities between the two nations thus facilitate the exchange of goods and services, fostering friendly relations through socio-cultural activities (Kurki, 2014). So, this engagement and interaction among border communities should contribute to maintaining peace and prosperity in the border region (Custerd, 2012).

Thus, the regular border trade activities stimulate the growth of border management and its associated infrastructure (Sharma, & Lal, 2017). The collaborative endeavors aimed at enhancing infrastructure and connectivity, including the expansion of border trade facilities, have a vast potential to significantly improve the trade efficiency within this region (Olarreaga, 2016). Moreover, Bhutan's strategic positioning between India and China positions it as a prospective trade corridor in the future (Stobdan, 2014).

## **Some critical observations regarding Indo–Bhutan Border Trade**

Trade between India and Bhutan through various corridors plays a crucial role in bolstering the economic growth of both border regions. Expanding trade routes is especially beneficial for Bhutan, given its geographical landlocked status, as it provides more avenues for regular transactions. This not only facilitates the exchange of goods and services for Bhutan but also offers the flexibility to reduce transportation costs by utilising different routes. Furthermore, it contributes significantly to maintaining positive relations between the two nations. Nevertheless, Bhutan's current trade scenario heavily relies on a single corridor (i.e., Jaigaon-Phuentsholing corridor). The majority of India-Bhutan trade occurs through Jaigaon-Phuentsholing corridor. According to the Ministry of Finance, Govt. of Bhutan, over 75 per cent of trade is conducted via the Jaigaon-Phuentsholing corridor. In contrast, all other corridors collectively account for only 25 per cent of Bhutan's total trade. Consequently, this economic concentration in a single border region has led to the making of the Jaigaon-Phuentsholing corridor as the gateway and economic hub of Bhutan.

The major factor contributing to the concentration of economic activity in the Jaigaon-Phuentsholing region is its good infrastructure, the availability of raw materials, established industrial development, access to markets, and well-connected railway and road networks compared to other corridors (Dikshit, et. al., 2020). Additionally, the socio-cultural ties between the people living along the Jaigaon-Phuentsholing border foster an environment of peace and development. But it needs to be noted that the utilisation of other Indo-Bhutan corridors remains limited or infrequent. Consequently, development primarily occurs in this single border region, raising questions about why the other border corridors are not performing as well or are not as developed as the Jaigaon-Phuentsholing corridor, despite sharing similar border characteristics and functions. One possible explanation could be that Bhutan's trade is predominantly oriented towards India, reducing the likelihood of increased informal activities through the other corridors. Moreover, the presence of more porous borders could pose challenges to national security.

The study found that the border serves not only as a gateway but also fosters the development of the borderland economy. Crucially, these border corridors stimulate the local economy by facilitating frequent transactions of goods and services, which can boost economic growth in both India and Bhutan, benefiting their respective border regions. Furthermore, Bhutan, being a smaller economy, can gain from accessing India's larger market, while Indian trade and commerce can also seize opportunities in Bhutan's market. This growth trajectory has the potential to enhance living standards and increase employment opportunities in the border regions of both countries. Additionally, both nations leverage each other's resources, with India providing Bhutan with goods and services, as well as cost-effective labour, while Bhutan supplies India with resources such as hydropower, minerals, and agricultural products.

The present study suggests that expanding trade and adopting a more flexible border approach could reduce Bhutan's economic dependence on a single country while also creating opportunities to establish economic ties with other neighbouring countries. This diversification of trade

partners could enhance Bhutan's economy, making it more resilient to external shocks. Consequently, improved access to each other's markets can attract foreign investment. Moreover, multinational companies may opt to invest in Bhutan or establish production facilities there, to access the Indian market, potentially leading to job creation and technology transfer. The increased trade activity might necessitate infrastructure development along the border regions, including the construction of roads and border crossing facilities. This infrastructure development could benefit both countries and improve connectivity within the region. The enhanced economic cooperation between India and Bhutan can contribute to regional stability. Closer economic ties often lead to better diplomatic and political relations, which can help in resolving regional issues more amicably.

Moreover, Bhutan boasts abundant hydropower resources, while India faces a growing energy demand (Bisht, 2012). By facilitating energy trade, both nations can bolster their energy security. Bhutan can export its surplus hydropower to assist India in meeting its energy needs, while also fostering closer cultural and people-to-people connections between the two countries. This, in turn, can nurture goodwill and mutual understanding, strengthening diplomatic relations. Trade serves as a potent diplomatic tool, enabling India and Bhutan to fortify their diplomatic ties and cooperate on various borderlands, including regional security and environmental concerns along their shared borders. Additionally, a stable economic partnership can play a pivotal role in maintaining political stability in the border regions. This is because economic growth and development often go hand in hand with political stability, which can lead to positive ripple effects on governance and societal well-being.

However, we need to emphasise also that when borders are opened for trade, there could emerge certain problems and challenges along with numerous benefits. It also necessitates careful planning and border management, taking into account potential future challenges. These include illegal border activities, trade imbalances, attention to the importance of domestic industries, the costs associated with infrastructure development, informal trade activities, as well as national security considerations. So, with an efficient and effective borderland management and cooperation, the political and economic outcomes of increasing trade between India and Bhutan through different corridors should have the potential to be significant for both the nation-states.

## **Summary and Conclusion**

An expansion of trade between India and Bhutan through various border corridors holds immense potential for fostering economic growth in both border regions. It addresses Bhutan's geographical landlocked status by providing multiple avenues for trade, facilitating the exchange of goods and services and reducing transportation costs through different routes. Furthermore, this increased trade contributes positively to the relationship between the two nations.

However, one important issue is that the concentration of economic activity in the Jaigaon-Phuentsholing corridor appears primarily due to its favorable infrastructure, availability of raw materials, established industrial development, and socio-cultural ties, which have created a thriving environment. This raises questions about the underutilisation of other border corridors, despite sharing similar

characteristics. It is crucial to explore further why these corridors have not seen the same level of development and economic activity.

Expanding trade and adopting a flexible border approach should not only reduce Bhutan's economic dependence on India but also open doors to establish economic ties with neighbouring countries. The diversification of trade partners can enhance Bhutan's economic resilience and attract foreign investment, ultimately leading to infrastructure development and improved connectivity within the region. Moreover, energy trade and diplomatic cooperation between India and Bhutan, along with careful border management, are found essential components of this evolving trade landscape. By leveraging their respective strengths and resources, both nations could achieve not only economic prosperity but also regional stability and political cooperation.

Based on our current study, it could be said that enhancing trade through various corridors should be treated as an important gateway towards sustainable economic development, political stability, and diplomatic cooperation for both India and Bhutan. An efficient and effective borderland management and collaboration should be treated as effective measures essential for realising the full potential of the bilateral trade relationship between India and Bhutan.

## References

- Ayadi, L., Benjamin, N., Bensassi, S., & Raballand, G. (2013). "Estimating informal trade across Tunisia's land borders", World Bank policy research working paper (6731).
- Baniya, S., Rocha, N., & Ruta, M. (2020). "Trade effects of the New Silk Road: A gravity analysis" *Journal of Development Economics*, 146, (102467).
- BewiadziAkakpo, S. (2021). "Informal Trade Routes and Security Along the Aflao-Lomé Border Region (Ghana-Togo)" *Journal of Borderlands Studies*, 37(2), 317-337.
- Bisht, M. (2010). "India-Bhutan relations: From developmental cooperation to strategic partnership" *Strategic Analysis*, 34(3), 350–353.
- Bisht, M. (2012). "Bhutan–India power cooperation: Benefits beyond bilateralism", *Strategic Analysis*, 36(5), 787-803.
- Bisht, M. (2012). "The Rupee Crunch and India-Bhutan Economic Engagement", Institute for Defence Studies & Analyses (IDSA), Issue Brief, 1-12, New Delhi.
- Boehmer, C. R., & Pena, S. (2012). "The Determinants of Open and Closed Border" *Journal of Borderlands Studies*, 27(3), 273-285.



- Brooks, D. H. (2010). "Regional cooperation, infrastructure and trade costs in Asia", ADBI Working Paper No. 123, Tokyo: Asian Development Bank Institute, 1-16.
- Chakraborty, G., & Ray, A. K. (2015). "The Look East Policy from People Perspectives: A Study on Mizoram", Kolkata: IDSK and NDNFI, 1-68.
- Chettri, P. (2018). "India-China border trade through Nathu La pass: prospects and impediments" *HIMALAYA, the Journal of the Association for Nepal and Himalayan Studies*, 38(1), 7.
- Choden, T. (2004). "Indo-Bhutan relations recent trends", *Perspectives on Modern South Asia—A Reader in Culture, History, and Representation*, 298-302.
- Custred, G. (2012). "The Linguistic Consequences of Boundaries, Borderlands and Frontier", *Journal of Borderlands*, Routledge, 26(3), 265-278.
- Das, G. (2000). "Trade Between the North-eastern Region and Neighbouring Countries: Structures and Implication for Development" In G. & Das, *Border Trade: North-East India and Neighbouring countries* (pp. 23-26). New Delhi: Akansha Publishing House.
- De Soyres, F., Mulabdic, A., Murray, S., Rocha, N., & Ruta, M. (2019). "How much will the Belt and Road Initiative reduce trade costs?" *International Economics*, 159, 151-164.
- De, P., & Raychaudhuri, A. (2013). "Trade facilitation and poverty reduction in Asia and the Pacific: A case study of a South Asian Economic Corridor" ARTNeT Working Paper Series, (No. 131).
- Dikshit, A., Sarkar, R., Pradhan, B., Acharya, S., & Alamri, A. M. (2020). "Spatial landslide risk assessment at Phuentsholing, Bhutan". *Geosciences*, 10(4), 131.
- Donko, K., M. Doevenspeck, and U. Beisel. (2022). "Migration Control, the Local Economy and Violence in the Burkina Faso and Niger Borderland", *Journal of Borderlands Studies*, 37(2), 235-251.
- Dutta, S. (2002). "Cross-Border Trade of North-East India: The Arunachal Perspectives", Maulana Abul Kalam Azad Institute of Asian Studies, Kolkata [by] Hope India Publications & Greenwich Millennium, London, ISBN- 8178710102.
- Dyaratna-Banda, O. G. (2007). "Informal Trade in Sri Lanka". Project Report for Legal Empowerment of Poor, Pathfinder Foundation, Colombo, 1-33.

- Evans, M. (2022). "Insecurity, Informal Trade and Timber Trafficking in the Gambia/Casamance Borderlands". *Journal of Borderlands Studies*, 37(2), 273-294.
- Fanou, E. H., & Wang, X. (2018). "Assessment of transit transport corridor efficiency of landlocked African countries using data envelopment analysis" *South African Journal of Science*, 114(1-2), 1-7.
- Gupta, A., & James, F. (1992). "Beyond "Culture": Space, Identity, and the Politics of Difference" *Cultural Anthropology*, 7, 6-23.
- Ismail, N. W., & Mahyideen, J. M. (2015). The Impact of infrastructure on trade and economic growth in selected economies in Asia.
- Ismail, Normaz Wana; Mahyideen, Jamilah Mohd (2015). "The impact of infrastructure on trade and economic growth in selected economies in Asia" ADBI Working Paper, No. 553, Asian Development Bank Institute (ADBI), Tokyo.
- Jaroenwanit, P., & Ratanasithi, S. (2011). "Barriers to border trade along the East-West Economic Corridor: The case of Thailand-the Lao PDR trade on the border of Mukdahan province" Greater Mekong Subregion Academic and Research Network, 201.
- Kohli, M. (1982). "India and Bhutan: A Study in Interrelations." Munshiram Manoharlal Publishers Pvt. Ltd, Delhi.
- Koji, K. (2016). "Myanmar's cross-border trade with China: beyond informal trade" IDE Discussion Paper). IDE-JETRO 625. <http://hdl.handle.net/2344/1601>.
- Kurki, T. (2014). "Border from the Cultural Point of View: An Introduction to Writing at Border" *Journal of Current Cultural Research*, 58-62.
- Lama (2023). "India and Bhutan: A relationship before and after Independence" Institute for Social and Economic Change, Working Paper No-560, ISBN 978-93-93879-28-8
- Malik, A. H., & Sheikh, N. A. (2016). "Changing dynamics of Indo-Bhutan relations: Implications for India" *International Journal of Political Science and Development*, 4(2), 44-53.
- Máliková, L., Klobučník, M., Bačík, V., & Spišiak, P. (2015). "Socio-economic changes in the borderlands of the Visegrad Group (V4) countries" *Moravian Geographical Reports*, 23(2), 26-37.

- Nga, L. T. H., Hiep, T. X., Thuy, D. T., & Huyen, H. L. (2019). "India–Bhutan treaties of 1949 and 2007: A retrospect" *India Quarterly*, 75(4), 441-455.
- Norbu, D. (2008). "Chinese strategic thinking on Tibet and the Himalayan Region" *Strategic Analysis*, 32(4), 685-702.
- Nordås, H. K., & Piermartini, R. (2004). "Infrastructure and trade" Staff Working Paper ERSD-2004-04, World Trade Organisation.
- Olarreaga, M. (2016). "Trade, infrastructure, and development" ADBI Working Paper Series-626. Tokyo, Asian Development Bank Institute.
- Phuntsho, K. (2013). "The History of Bhutan" Gurgaon: Random House India, ISBN-978-8-184-00767-1.
- Rahmati, F., Ali, M. A., & Kamraju, M. (2020). "A study on strategic location of siliguri corridor and its issues". *Int. J. All. Res. Educ. Sci. Methods (IJARESM)*, 8(7).
- Rajput, M. (2011). "Indo-Bhutan Relations through Prism of History" New Delhi: Manak Publication Pvt. Ltd, ISBN-978-81-7831-259-0.
- Rajput, M. (2014). "Indo-Bhutan Relations: A Critical Analysis" *The Indian Journal of Political Science*, 149-156.
- Ranjan, A. (2018). "India-Bhutan hydropower projects: Cooperation and concerns" Institute of South Asian Studies: Singapore, Working Paper No-309, 1-10.
- Rumley, D., & Minghi, J.V. (Eds.). (1991). "The Geography of Border Landscapes (1st ed.)". Routledge. <https://doi.org/10.4324/9781315746593>
- Samaranayake, N. (2019). "China's engagement with smaller South Asian countries" Washington, United States Institute of Peace. (pp. 15-16).
- Schendel, W. V. (2005). "The Bengal Borderland: Beyond State and Nation in South Asia" Anthem South Asian Studies, Anthem Press, London, ISBN-978-1-84331-144-7.
- Schoenberger, L., & Turner, S. (2008). "Negotiating remote borderland access: Small-scale trade on the Vietnam–China Border" *Development and Change*, 39(4), 667-696.

- Sen, S. (2015). "Indo-Bhutan Relations (1774-1907)" Kolkata: Mainstream Publication, ISBN-978-93-82304-37-1.
- Sharma, R., & Lal, J. (2017). "Indo-Bhutan Trade Relations: An Analysis" *International Journal of Academic Research*, 45-48.
- Srivastava, P. (2011). "Regional corridors development in regional cooperation" Asian Development Bank Economics Working Paper Series, (258).
- Stobdan, P. (2014). "India and Bhutan: The strategic imperative" Institute for Defence Studies & Analyses, IDSA Occasional Paper No. 36.
- Taneja et. al (2019), "Indo-Bhutan Economic Relations" Indian Council for Research on International Economic Relations, Working Paper-384,1-34.
- Walther, O. (2022). "Security and Trade in African Borderlands—An Introduction". *Journal of Borderlands Studies*, 37(2), 229-234.

**Websites:**

[www.mov.gov.bt](http://www.mov.gov.bt)  
[www.wits.worldbank.org](http://www.wits.worldbank.org)  
[www.dataimf.org](http://www.dataimf.org)  
[www.commerce.gov.in](http://www.commerce.gov.in)  
[www.wto.org](http://www.wto.org)

## Recent Working Papers

- 510 **The Abysmal State of Drug Cost Containment Measures in India: Evidences from Expenditure on Cancer Medicine**  
Sobin George, Arun Balachandran and Anushree K N
- 511 **Peace-Building and Economic Development through Decentralization: The Pre-Bifurcation Jammu and Kashmir Experience**  
Sardar Babur Hussain
- 512 **The Policy and Performance of Industrial Sector in Karnataka**  
Malini L Tantri and Sanjukta Nair
- 513 **Infrastructure Led Livelihood: A Comparative Analysis of Hill and Valley in Manipur**  
T Thangjahao Haokip and Marchang Reimeingam
- 514 **Indian Startup Ecosystem: Analysing Investment Concentration and Performance of Government Programmes**  
Fakih Amrin Kamaluddin and Kala Seetharam Sridhar
- 515 **Effects of Covid-19 Pandemic on the Rural Non-farm Self-employed in India: Does Skill Make a Difference?**  
Indrajit Bairagya
- 516 **Promoting Green Buildings towards Achieving Sustainable Development Goals: A Review**  
S Manasi, Hema Nagaraj, Channamma Kambara, N Latha, O K Remadevi and K H Vinaykumar
- 517 **Indian Civil Aviation Industry: Analysing the Trend and Impact of FDI Inflow**  
Priyanka Saharia and Krishna Raj
- 518 **Biodiversity and Ecosystem Governance in Indian Protected Areas: A Case Study from Manas in Assam**  
Michael Islary and Sunil Nautiyal
- 519 **Coresidence of Older Persons in India: Who Receive Support and What are the Levels of Familial Support?**  
Kinkar Mandal and Lekha Subaiya
- 520 **India's Trade in Dirty Products**  
Malini L Tantri and Varadurga Bhat
- 521 **Education and Nutrition among the Migrant Construction Workers' Children – A Case Study of Bengaluru City**  
Channamma Kambara, Malini L Tantri, S Manasi and N Latha
- 522 **Performance of Piety: Lived Experiences of Muslim Women**  
Romica Vasudev and Anand Inbanathan
- 523 **Changing Forest Land Use for Agriculture and Livelihood in North East India**  
Reimeingam Marchang
- 524 **Fiscal Federalism: Transfer Dependency and Its Determinants Among Select Indian States**  
J S Darshini and K Gayithri
- 525 **Essentiality of Package of Practices (PoPs) of Tomato Cultivation in Semi-arid Region of Karnataka – A Bird's Eye View**  
M Govindappa
- 526 **Job-Seeking Behaviour, Employment, Labour Employability Skills, Dissatisfaction and Job Mobility: A Study of North-East Migrant Workers in Bengaluru**  
Reimeingam Marchang
- 527 **Socio-Economic Characteristics and Land Particulars of Ginger Farmers in Karnataka**  
Pesala Peter and I Maruthi
- 528 **How Civic Groups are Meeting the Challenges of Saving Bengaluru Lakes: A Study**  
Dipak Mandal and S Manasi
- 529 **Revisiting India's SEZs Policy**  
Malini L Tantri
- 530 **TATA Motors Singur: Narratives of Development Projects, Politics and Land Acquisition in West Bengal**  
Pallav Karmakar and V Anil Kumar
- 531 **Migration, Reverse Migration, Employment and Unemployment Crises During the First Wave of COVID-19 Pandemic in India**  
Reimeingam Marchang
- 532 **Women, Employment and Stigma of Crime: Narratives of Former Female Convicts From West Bengal**  
Shreejata Niyogi
- 533 **Cost Benefit Analysis of System of Wheat Intensification Method of Cultivation Vis-à-Vis the Traditional Method: A Case Study of Gaya, Bihar**  
Shikha Pandey
- 534 **Did Skill Development Policies Promote Participation in and Benefits from Skill Education? Evidence from a Nation-wide Survey**  
Andrea Vincent and D Rajasekhar
- 535 **Implications of Infrastructure on Human Development in North East India: A Review**  
T Thangjahao Haokip and Reimeingam Marchang
- 536 **Domestic Violence Against Women – A Case Study and the Role of Civil Societies from the Sundarbans Region of West Bengal**  
Anamika Das and C M Lakshmana
- 537 **Impact of Skill Development Infrastructures: A Study of Manipur**  
T Thangjahao Haokip and Reimeingam Marchang
- 538 **Why Do Farmers Not Adopt Crop Insurance in India?**  
Meenakshi Rajeev
- 539 **Comprehending Landslides, MGNREGS and Decentralised Government: A Study in Sikkim and Darjeeling**  
Shikha Subba
- 540 **Locating Married Women in Urban Labour Force: How India is Faring in 21st Century**  
Jyoti Thakur and Reimeingam Marchang
- 541 **A Critical Study on the Impact of ICT on Interactive Service Workers in the Hotel Industry**  
Jina Sarmah

- 542 Intergenerational Transfers in India: Who Receives Money and Who Gives Money?**  
Kinkar Mandal and Lekha Subaiya
- 543 Karnataka Administration: A Historical Review**  
K Gayithri, B V Kulkarni, Khalil Shaha and R S Deshpande
- 544 Understanding the Pathways from Victimisation to Offending: Voices from the Field**  
Shreejata Niyogi
- 545 Civic Activism in Urban Waste Management in Bengaluru City, India**  
Dipak Mandal and S Manasi
- 546 Ward Committees as "Invited Space": Is It Successful? A Literature Review of Urban India**  
Riya Bhattacharya
- 547 Service with a Smile: A Study Examining Interactive Service Work and Workers (ISW) in India**  
Jina Sarmah
- 548 Religion and State in Sikkim: The Place of the Buddhist Sangha**  
Pooja Thapa and Anand Inbanathan
- 549 Time Allocation and Gender Inequalities: A time-use Comparison**  
Jyoti Thakur and Reimeingam Marchang
- 550 Agrarian Distress: Role of Political Regimes in Kerala**  
Ance Teresa Varghese
- 551 Assessing Commuter's Willingness to Pay to Reduce Traffic Congestion Induced Air Pollution in Bengaluru, India**  
Vijayalakshmi S and Krishna Raj
- 552 Nutritional Status of Women and Children in North Eastern States**  
Malini L Tantri, Channamma Kambara and Harshita Bhat
- 553 Requiem to Enlightenment? Gadamer and Habermas on Tradition, Religion, Secularism and Post-Secularism**  
Anil Kumar Vaddiraju
- 554 Estimation of Productivity Loss Due to Traffic Congestion: Evidence from Bengaluru City**  
Vijayalakshmi S and Krishna Raj
- 555 Swachh Bharat Mission: Awareness Strategies, Implementation and Issues**  
D Rajasekhar and R Manjula
- 556 Agriculture Value Chain Governance in the Context of Select Agricultural Export Products – Evidence from India**  
Malini L Tantri and Sanjukta Nair
- 557 Human Capital and Economic Growth in India: A Time Series Analysis Using Educational Variables from 1982-2017**  
Surendra Kumar Naik and Indrajit Bairagya
- 558 How are Cancer Treatment Decisions Made? Insights from a Qualitative Study Conducted Among Selected Cancer Patients in Bengaluru City (India)**  
Sobin George, Mohamed Saalim P K, Omkar Nadh P, Divyashree H V
- 559 Doing Business, Trade Facilitation and Agricultural Exports in India - The Case of Select Agricultural Products**  
Malini L Tantri
- 560 India and Bhutan: A Relationship Before and After Independence**  
Uttam Lama
- 561 Making of a Muslim Woman: Different Pathways to Religious Practices**  
Romica Vasudev and Anand Inbanathan
- 562 The Role of Telecommunication Service Sector in Indian Economy - An Analysis of Output and Employment Linkages**  
Prajeesh Karonnon and Meenakshi Rajeev
- 563 Policy Impacts on Indian Telecom Services Industry: Sales, Connectivity and Usages**  
Prajeesh Karonnon and Meenakshi Rajeev
- 564 Performance of Major Ports in India - Inter and Intra Port Analysis**  
Shafeeqe Abdul Kader and Malini L Tantri
- 565 The Positioning and Performance of Organised Food Processing Industry in India - A National and Sub-National Level Analysis**  
Sibin Jerry Thomas and Malini L Tantri
- 566 Livelihood, Gender and Online Platform: A Case of CSCs in Karnataka**  
Meenakshi Rajeev and Pranav Nagendran

Price: ₹ 30.00

ISBN 978-93-93879-86-8



## INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

(ISEC is an ICSSR Research Institute, Government of India  
and the Grant-in-Aid Institute, Government of Karnataka)

Dr V K R V Rao Road, Nagarabhavi P.O., Bangalore - 560 072, India  
Phone: 0091-80-23215468, 23215519, 23215592; Fax: 0091-80-23217008

E-mail: [sobin@isec.ac.in](mailto:sobin@isec.ac.in); Web: [www.isec.ac.in](http://www.isec.ac.in)