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# India's Development Cooperation in Bhutan's Hydropower Sector: Concerns and Public Perceptions

**Udisha Saklani**

Department of Geography, University of Cambridge, United Kingdom; [us267@cam.ac.uk](mailto:us267@cam.ac.uk)

**Cecilia Tortajada**

Institute of Water Policy, Lee Kuan Yew School of Public Policy, National University of Singapore, Singapore; [cecilia.tortajada@nus.edu.sg](mailto:cecilia.tortajada@nus.edu.sg)

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**ABSTRACT:** The global landscape of international development is undergoing a rapid transition, with emerging actors playing a significant role in meeting the developmental needs of developing-country partners. Over the past six decades, India has emerged as a major donor and development partner, directing a significant share of its assistance and investments to countries in South Asia. This paper provides an overview of India's development cooperation with Bhutan, the largest and one of the oldest beneficiaries of Indian assistance, with special attention to the hydropower sector. In recent years, the scale of India's disbursement and development cooperation activities in Bhutan has come under scrutiny. In this paper, we document the official views, and those of the international organisations and the media in India and Bhutan, on the possible repercussions of these activities in the near, medium and long term and how the different concerns are being addressed. We argue that in future India will have to work harder to alleviate the key concerns of stakeholders in Bhutan regarding India's growing investments there.

**KEYWORDS:** Hydropower, energy development, public perception, development assistance, India, Bhutan

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## INTRODUCTION

The regime of development assistance has seen a marked change with the emergence of a wide range of non-traditional donors and development partners. Such partnerships are seen by some analysts as being complementary, serving as alternative routes to development (Task Team on South – South Cooperation, 2011; Quadir, 2013) which provide emerging players a platform for economic diplomacy (UN-OHRLS, 2011; Saran and Aneja, 2016). Within the expanding category of emerging economies that engage with other Southern partners, India has taken an important place as a provider of development assistance, contributing to capacity building, institutional development and technical expertise in other developing countries (UN-OHRLS, 2011; Mawdsley, 2010; Chaturvedi, 2012).

India's economic cooperation dates back to the 1950s (Chanana, 2009), with the greatest emphasis on its regional neighbours, Nepal and Bhutan, which are also the largest beneficiaries of India's foreign aid (Jerve, 2006). Initially consisting of state-led flows of resources to recipient countries, India's development cooperation has increasingly led to the involvement of private-sector players that provide growing flows of investment, resources and technical cooperation (Katti et al., 2009). In recent years, there has been a rising interest in analysing India's long-standing development assistance regime in African and Asian nations (Agrawal, 2007; Chanana, 2009; Mawdsley, 2010; Price, 2013). Such assistance has gradually contributed to India's geopolitical significance, and in the process has challenged the predominant North – South development paradigm (Six, 2009). However, scholarly examinations of the perspectives of recipient countries on Indian overseas assistance are rare.

We use a single case study, India's official development cooperation with Bhutan, to reflect on India's priorities and practices as a development partner and examine how this cooperation has come to be viewed by the Bhutanese media and political elites. We explore India's development assistance projects in Bhutan, with particular attention to the hydropower sector where a historically strong and stable bilateral partnership is now showing signs of strain. Our focus is on key issues related to Indian hydropower investments in Bhutan, which have emerged in public discourse in the popular press, in parliamentary discussions and in government documents.

Bhutan is an important case for analysing India's behaviour as a development partner for several reasons. Bhutan was one of the earliest recipients of Indian assistance (Kugiel, 2017: 109) and has witnessed an increasing influx of Indian overseas aid over the past six decades in diverse sectors such as education, human resource development, health, hydropower development, agriculture and roads. It has remained India's top priority, receiving the greatest part of Indian loans and grants (Bhagal, 2016; Padma, 2017). In 2016, total foreign assistance to Bhutan was Rs54.9 billion (US\$815.4 million, at the 2016 exchange rate)<sup>1</sup> (Ministry of External Affairs, 2016: 11), a large increase from Rs2 billion (US\$45.29 million, at the 2000 exchange rate) in 2000 (Mullen, 2014). In 2017, it was the only country to consistently receive new Indian financial commitments for large-scale development projects (Mullen and Arora, 2016). Besides, India-Bhutan relations have developed over the years through beneficial cooperation on a wide range of issues, including energy trade (increasingly involving private-sector players), internal security and foreign policy.

Recent economic and political developments in Bhutan demonstrate the potential for domestic affairs to shape the dynamics and outcomes of India's engagement. Over the years, Bhutan has not only discarded its self-imposed isolationist policy and opened its doors to the world (Uddin et al., 2007), but it has also witnessed a regime change, ushering in democracy (Sinpeng, 2007; Turner et al., 2011). New opportunities for foreign players to enter Bhutan's energy sector (Royal Norway Agency for Development Cooperation, n.d.; Subba, 2018), as well as Bhutan's democratisation process and greater domestic public engagement, present new complexities which are relevant to the study of trends and perceptions in Bhutan of India's investments, and an assessment of what the future might hold for relations between the two countries.

The paper starts with a contextual review of the nature and instruments of India's development assistance and its regional focus on South Asia for development partnerships. We progress to a historical overview of India's development assistance to Bhutan and examine Bhutan's hydropower sector, a significant destination of Indian assistance and a major pillar in their bilateral relations. We then analyse these dynamics in the context of the role of Indian assistance in driving Bhutan's economy along a particular trajectory, and the way in which certain sections of the Bhutanese population view India as a development partner. The paper concludes with some reflections on India's development assistance to Bhutan and the way forward for the bilateral partnership.

The analyses in this paper are based on a review of academic literature and government documents, supplemented by a media-content analysis of English language articles over the last decade in the Bhutanese mass media (mainly online newspapers and popular citizens' blogs). Primary data were obtained in India in October and November 2015, February and November 2016, and in Bhutan in April 2016. Group discussions were held in Nepal in November 2017 on hydropower development and regional electricity trade in South Asia, with a focus on India, Bhutan and Nepal. In addition, one of the authors attended an international conference on Bhutan at the University of Oxford in January 2019, where discussions were held on different aspects of Bhutan's ecology, economy and society including its hydropower sector. In total, 62 semi-structured discussions have been carried out to date, of which

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<sup>1</sup> All rupee amounts are expressed in US dollars using historical exchange rates for the respective years. Details for each year are mentioned in Appendix A.

approximately 40 are relevant to this paper. Respondents included scholars, newspaper editors, think tank analysts, and current and former government officials from India and Bhutan (Appendix B). They were asked about their views on hydropower-based collaboration between the two countries and how the Bhutanese population and the media perceive the engagement.<sup>2</sup> These views have been supplemented by official narratives (as reflected in reports published by the National Assembly of Bhutan) to highlight the varied perceptions of India's agenda and role in Bhutan's modernisation.

### **NATURE OF INDIA'S DEVELOPMENT ASSISTANCE**

Soon after Independence, India started engaging with its neighbouring countries, disbursing development assistance in the form of ad hoc, multi-year loans, grants and technical assistance, such as a loan of Rs200 million (US\$42 million, at the 1958 exchange rate) to Myanmar and a grant of Rs100 million (US\$21 million, at the 1958 exchange rate) to Nepal (Chanana, 2009) in 1958. The institutional responsibility for assistance to India's development partners rests on India's Ministry of External Affairs (which is responsible for foreign relations) and Ministry of Finance (which negotiates and coordinates foreign loans, credit and grants for the economic development of the country). However, there are no clear consolidated estimates of India's overseas assistance activities. Some information on India's loans, grants and technical assistance is reported in the annual Union Budget, but not all foreign assistance is channelled through clearly demarcated paths or captured in the budget (Roychoudhury, 2013; Dubey and Biswas, 2015). This makes analysing India's development cooperation activities challenging.

In practical terms, Indian assistance has comprised loans, grants, technical assistance and training initiatives under the Indian Technical and Economic Cooperation (ITEC) programme. The latter is a demand-driven scheme launched in 1964 to provide training (in India) to government officials, bureaucrats and scholars from partner countries; it also includes education-related assistance, such as scholarships for students from other developing countries. Line of Credit is the third and the newest assistance channel (launched in 2004), through which India disburses credit which is signed and managed by the Export-Import Bank of India.<sup>3</sup>

India's development assistance does not have a standard definition or measurement. It includes "a mixed bag of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government" (Agrawal, 2007: 5). Over the years, Indian overseas activities have widened in geographical scope, extending from its periphery to countries in Africa, Central Asia, Southeast Asia, Latin America and Eurasia (Table 1). The nature of investments differs from region to region. In South Asia, India has historically invested most heavily in infrastructure, while in Africa the emphasis has been on technical skills and training (Mawdsley, 2010). Annual government reports show that the primary focus of India's development assistance activities is its immediate neighbourhood, particularly Nepal, Bhutan, and more recently Afghanistan. In the 2018-2019 Union Budget, South Asian countries were the top recipients of Indian bilateral loans and grants, led by Bhutan (US\$366.63 million). A similar pattern of distribution is seen in the 2019-2020 budget estimates.

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<sup>2</sup> Given the sensitive nature of diplomatic ties between India and Bhutan, we have provided anonymity for all respondents, identifying their views only as 'personal communication' along with the year when we talked to them.

<sup>3</sup> The Export-Import Bank of India is a specialised financial institution owned by the Government of India. It was set up in 1982 for the purpose of promoting India's international trade. It can raise funds from the international debt market for disbursing lines of credit, and thus India can access greater capital resources from the private sector to support its development partnerships (Mullen, 2013).

Table 1. Grants and loans to foreign governments under the Indian Ministry of External Affairs (US\$million).

Country	Revised estimates (2018-2019)		Budget estimates (2019-2020)	
	Grants	Loans	Grants	Loans
Mauritius	94.40	---	99.71	---
Seychelles	14.61	---	10.68	---
Afghanistan	68.65	---	46.29	---
Bangladesh	17.53	---	24.93	---
Bhutan	294.25	72.38	301.26	71.22
Nepal	109.55	---	99.71	---
Sri Lanka	24.1	---	21.37	---
Maldives	64.27	---	56.98	24.93
Mongolia	0.23	---	0.71	---
Other developing countries	18.26	---	17.49	---
Disaster relief	2.92	---	2.85	---
African countries	48.20	---	56.98	---
Eurasian countries	3.65	---	3.56	---
Latin American countries	1.46	---	1.42	---
Myanmar	54.05	---	56.98	---
Support to international training/programmes	53.9	---	53.84	---

Note: US dollar exchange rates are calculated for 2018 and 2019 respectively. Source: Ministry of Finance (2019).

The strategic direction of India's development cooperation programme is guided by its development priorities and geopolitical considerations (Agrawal, 2007; Mullen, 2014) and supported by regional policies such as Neighbourhood First, Act East and, more recently, the idea of "trans-Himalayan regionalism" (Chaturvedy, 2014; Ministry of External Affairs, 2015: 1, 10). To support these aspirations, leading Indian public and private-sector companies are now involved in sectors such as road construction, hydroelectricity, power transmission, telecommunications, and industry and agriculture, benefitting from opportunities that have materialised through India's development cooperation agenda (Chakrabarty, 2018). As discussed by Samuel and George (2016), such investments have given rise to varied perceptions and critiques of the effectiveness of India's credit programmes, given the 'tough conditions' attached, such as procuring 75% of goods from India for the implementation of projects (New Age, 2016). Other scholars highlight the lack of scrutiny of the degree of poverty alleviation and livelihood generation in recipient countries (Roychoudhury, 2015), and the operational incapacity of some Indian firms that are awarded line of credit bids, resulting in unnecessary delays (Kumar, 2017). Such instances are seen by some scholars as an extension of state-led practices in relation to large-scale industrial development in India's domestic context (Davison, 2011; Roychoudhury, 2013; Vidal, 2013), for example, the Special Economic Zones in areas such as West Bengal, Goa and Maharashtra (Sampat, 2010; Parwez and Sen, 2016).

A major reason for such criticism is India's inability to devise a coherent, integrated strategy for engaging with recipient countries (Roychoudhury, 2015). In 2003, India made its first move to promote its economic interests through a dedicated development cooperation vehicle, the Indian Development Initiative (Price, 2004; Roychoudhury, 2015), by disbursing loans and grant assistance through its Export-

Import Bank. However, Chanana (2009) and Mawdsley (2010) point to India's unimpressive history of leveraging strategic advantage from its hard power, including in its development assistance programme. Part of the reason is India's low capital availability for financial assistance to partner countries due to which it gets out-competed by China (Chanana, 2009). Adhikari (2014) argues that India's objectives are diverse, vague, and often contradictory when it comes to aid delivery, leading to more damage than benefit. Along with policy incoherence, constant rearrangement of the planning and delivery of programmes (Chaturvedi, 2012) and the absence of clear monitoring and evaluation processes (Roychoudhury, 2013) have hurt performance, giving rise to questions about India's role as a responsible development actor.

The dominant discourse in India has positioned development cooperation as a mutually beneficial partnership driven by shared experience, in contrast to Western conceptions of aid which see development assistance as compassionate 'charity' (Mawdsley, 2014). Since the 1980s, India's bilateral associations have clearly taken a turn towards commercial and geographically strategic priorities and have been framed as working to support India's economic and political interests abroad (Mawdsley, 2012; Roychoudhury, 2015). India resists using the term 'donor', given its neo-imperial connotations (Mawdsley, 2012), and its assistance is often packaged under claims of solidarity, justice, shared experience, empathy and respect for the sovereignty and autonomy of its partner countries. However, as noted by some critical scholars (Chanana, 2009; Chaturvedi, 2012; Mullen, 2014), India cannot entirely evade scrutiny as it does share similarities with other donors such as using development cooperation as an instrument of foreign policy (de Haan, 2009; Mawdsley, 2016), whether it calls itself a donor or not.

With this background, there is a compelling case for examining India's overseas activities for any patterns of hierarchy, extractive accumulation or exploitative practices, which have historically characterised the traditional donor-recipient relationship involving rich Western nations. In the context of increasing transnational mobility of capital, does India's development cooperation reflect a new centre-periphery relationship based on domination, exploitation and dependence? Or is the 'internationalisation' of India's economic interests an example of a more balanced power-sharing arrangement that is designed for positive outcomes? Currently, there is scant evidence either way. In relation to other such development partnerships, scholars have explored questions regarding the agency of recipient countries (Carmody and Kragelund, 2016; Phillips, 2019) and the impacts of development (McCormick, 2008; Six, 2009). Rather than addressing that debate and taking a position on the intent, effectiveness and outcome of India's development cooperation programmes, this paper focuses on the experiences and evolving perceptions in the recipient country, Bhutan, of the nature of Indian assistance.

### **INDIA'S RELATIONS WITH BHUTAN: A BRIEF BACKGROUND**

Diplomatic relations between India and Bhutan were formally initiated in 1968 with the establishment of a special office in Thimphu (Ministry of External Affairs, 2014). Shared history, culture, geographical proximity and trade and investment interests encouraged ties between the two countries (Belfiglio, 1972). Political leaders in both countries sustained the bilateral relationship through regular visits and extensive exchange of views. Bhutan's geostrategic position and military concerns with China, particularly after the annexation of Tibet in 1951, also fostered friendship between the two nations.

The ambiguity of 'friendship' between India and Bhutan has been long debated. Long before the establishment of diplomatic ties in 1968, India's relative influence in Bhutan was marked by the historic India-Bhutan Friendship Treaty, signed at Darjeeling in August 1949. The treaty gave India (in Article 2) the right to 'guide' Bhutan in foreign matters, including military and economic assistance from other countries, in return for an annual subsidy to Bhutan from India (Ahsan and Chakma, 1993). As Poulouse (1971: 203) notes, "Under international law when one State assumes control over the foreign relations of another, the latter *ipso facto* becomes a semi-sovereign State". Some scholars, particularly on the

Indian side, have suggested that Bhutan functioned as an Indian protectorate until 2007 (Stobdan, 2017).<sup>4</sup> Others have acknowledged the "imperial relic" of Article 2 in the 1949 treaty (Tobgye, 2019), insisting that Bhutan only agreed to be guided in its external relations (Belfiglio, 1972; Lamsang, 2017g), not to be bound by such advice. Lamsang (2017a) argues that any assertion that India controls Bhutan shows a lack of understanding of the "increasingly complex and diversified nature of the relations between the two countries". Given the complex nature of the political arrangement, this debate reflects an important caveat in Indo-Bhutanese relations and in the examination of the perceptions of India's role as a development partner, in the latter part of the paper.

In any case, due to multiple strategic and economic considerations, Bhutan assumed importance for India, as reflected in the high priority given to exchanges between the two governments. Historic precedents were set by Jawaharlal Nehru, India's first prime minister and, in 1958, the first foreign dignitary to visit Bhutan. Nehru's foreign policy priorities were marked by idealism and a belief in collective security arrangements and strong international institutions (Nehru, 1961; Das, 1996; Kennedy, 2015). He believed that India's successful struggle against colonialism gave it 'special responsibilities' that extended beyond its international borders (Singh, 2011; Mohan, 2015). This partly explains his interest in extending a hand of friendship towards Bhutan. His move to sign India's first three bilateral treaties – with Bhutan, Sikkim and Nepal in 1949-50 – was perhaps driven by his vision for India as an important player in world affairs. However, there was also a pragmatic need for strong security arrangements in the Himalayan region in the face of a newly unified, belligerent China that threatened to extend its territorial influence (Mansingh, 1994; Economic Times, 2018).

### **INDIA'S ASSISTANCE TO BHUTAN**

India's profile and agenda as a development partner to Bhutan have been significant ever since diplomatic relations were formed. A few of the earliest interventions aimed at modernising Bhutan include the development of communication lines (some of which were used as flood warning systems), construction of roads by India's Border Road Development Organisation, and improvement of Bhutan's education system, including scholarships for Bhutanese students to study in Indian institutions of higher education (Belfiglio, 1972).

Today, India continues to serve as Bhutan's largest and most diverse foreign development partner, aiding in sectors such as education, human resources development, health, hydropower development, agriculture, and roads. Bhutan's first Five Year Plan (1961-66) (Gross National Happiness Commission, 2017) was created in negotiation with the Indian Planning Commission and financed solely by India. India's assistance of several of Bhutan's Five Year Plans is shown in Table 2.

In 1962, India invested Rs300 million (US\$63 million, at the 1962 exchange rate) in the construction of roads linking the Bengal-Assam plains to Phuentsholing, and Phuentsholing to Thimphu and Paro (Gross National Happiness Commission, n.d.). This laid a foundation for trade connectivity between the two countries and provided duty free transit of Bhutanese exports to India and third countries, opening up Bhutan's access to the world. It also gave India a new market for exported goods, such as mineral products, machinery and mechanical appliances, electrical equipment, base metals, vehicles, and vegetable products (Embassy of India in Thimphu, 2014), facilitating access to investment opportunities for Indian players.

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<sup>4</sup> Broms (1991) explains that protectorates may be divided into three categories: protected states, international protectorates and colonial protectorates. In relation to Bhutan and India's relations after the 1949 treaty, Broms refers to Bhutan as a 'protected state' of India, which had a loose relationship with its protecting state. In 2007, as Bhutan was preparing to usher in democracy, the two countries signed a new treaty that modernised their ties, giving Bhutan autonomy in foreign policy and allowed it to purchase non-lethal military equipment while keeping India's strategic interests in mind (Ministry of External Affairs, n.d.; Tobgye, 2019).

Table 2. Government of India's assistance to Bhutan (excluding hydroelectric projects).

Year	Total allocations (US\$ million)	India's contribution (US\$ million)	India's contribution (%)
1961-1966 [1st Five Year Plan]	22.5	22.5	100
1966-1971 [2nd Plan]	31.8	31.8	100
1971-1976 [3rd Plan]	63.43	59.94	90
1976-1981 [4th Plan]	122.77	94.67	77
1981-1987 [5th Plan]	513.35	154.91	30.2
1987-1992 [6th Plan]	738.15	310.8	42.1
1992-1997 [7th Plan]	820.24	261.78	31.9
1997-2002 [8th Plan]	1116.38	293.05	26
2002-2008 [9th Plan]	1838.87	539.29	29.33
2008-2013 [10th Plan]	3445.35	786.19	23
2013-2018 [11th Plan]	3577.16	839.71	23

Note: Exchange rate is taken for the first year of the Five Year Plan, ie. for 1961-66 period, the rupee-US dollar exchange rate is calculated for 1 July 1961. Source: Embassy of India in Thimphu (2014a).

For Bhutan's 12th Five Year Plan, India has committed Rs/Nu45 billion (US\$657.3 million, at the 2018 exchange rate) in addition to Rs/Nu4 billion (US\$58.43 million, at the 2018 exchange rate), spread over the five years, for a transitional Trade Support Facility that would strengthen bilateral trade and economic linkages between the two countries.

The nature of assistance has changed, with India's proportional contribution to Bhutan's budgetary plans declining over the years. On the other hand, the value of loans and grants to Bhutan grew steadily until 2016, after which allocations have declined (Table 3). Even though India's proportional contribution to Bhutan's national budget has decreased, Bhutan's share of Indian assistance has been on the rise relative to all other countries, particularly in favour of Bhutan's energy sector. This theme is pursued in the next section.

Table 3. Bilateral loans and grants extended by India to Bhutan, 2011-2012 to 2019-2020.

Fiscal Year	Total allocations (Rs billions)	Total allocations (US\$ million)
2011-2012	20.21	453.39
2012-2013	34.11	612.44
2013-2014	39.27	659.51
2014-2015	43.95	731.59
2015-2016	53.68	843.96
2016-2017	34.41	511.08
2017-2018	25.9	400.8
Revised estimates (2018-2019)	25.1	366.63
Commitment (2019-2020)	26.15	372.48

Note: Rupee-US dollar exchange rates corresponding to the year. Source: Ministry of Finance (2013, 2014, 2015, 2016, 2017, 2018, 2019).

In addition to programme-based development assistance for various activities in Bhutan, India trains Bhutanese civil servants and policymakers in finance, information technology, agriculture and energy as part of ITEC. Bhutan received the largest shares of ITEC funds in FY 2017-2018, amounting to Rs37.14 billion (US\$574.74 million, at the 2017 exchange rate), constituting 58.34% of the total aid budget for the demand-driven ITEC scheme (Ministry of External Affairs, 2017a) which is designed to provide technical assistance to developing countries. India has shared its experience and expertise with Bhutan and provided consultancy services, with the major focus on Bhutanese sectors that would later export to the Indian market, a win-win situation for both countries. The next section considers India's development assistance in Bhutan, focusing on the hydropower sector where India has made large inroads over the last three decades.

### **INDIAN DEVELOPMENT ASSISTANCE IN BHUTAN'S HYDROPOWER SECTOR**

In the Indian budgetary assistance to Bhutan, the proportion of loans over grants has been steadily rising, and most of these loans are for hydropower projects (Mullen, 2014). Early on, Bhutan recognised the value of its immense hydropower potential of 23,760 MW, with a mean annual energy production capacity close to 100,000 GWh (Gross National Happiness Commission, 2013). So far, only about 5% of this potential has been harnessed (Bisht, 2012a), and yet hydropower exports already provide more than 40% of Bhutan's domestic revenues and constitute 25% of its GDP (Embassy of India in Thimphu, 2014b). The importance of the hydropower sector to Bhutan's economy is reflected in its Eleventh Five Year Plan, which calls the thrust area "energy security for sustainable development" (Gross National Happiness Commission, 2013).

The foundation of hydropower development cooperation between India and Bhutan was laid on 23 March 1974, when the two governments signed an agreement on the Chukha Hydropower Project in Western Bhutan (Ministry of External Affairs, 1974).<sup>5</sup> The project was heralded as a historic landmark that paved the way for a self-sufficient economy in Bhutan (Tamang, 2007; Dorji, 2008). As both governments had hoped, by exporting all of its surplus power (more than 75% of its total energy production) to India, the Chukha hydropower project contributed much of the revenue needed to support socioeconomic development in Bhutan, including provision of free basic healthcare to all its citizens (Adhikari, 2016; Personal communication, 2019).

The initial capital investments in Bhutan's hydropower sector spearheaded infrastructure development such as roads, schools, hospitals and residential development (Druk Green, n.d.-b; Personal communication, 2019). The success of the Chukha power plant set in motion the planning and implementation of two more hydropower projects entirely backed by Indian funds and expertise. These are the 60 MW Kurichhu and the 1020 MW Tala hydropower plants, the financing of both being based on the Chukha export-oriented model.<sup>6</sup> In 2009, a memorandum of understanding was signed between India and Bhutan on the generation of a minimum of 10,000 MW of additional power by 2020 from ten more projects (Ministry of External Affairs, 2017b; Tortajada and Saklani, 2018), mostly to feed India's

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<sup>5</sup> The cost of the Chukha hydropower project, Rs/Nu2.47 billion (US\$174 million, at the 1988 exchange rate), was fully financed by the government of India, with 60% of the project cost as a grant and 40% as a loan. The loan was repayable over a period of 15 years in 30 instalments, at an interest rate of 5% per year (Druk Green, n.d.-a).

<sup>6</sup> The cost of the Kurichhu project, including 68 km of 132 kV transmission line from Gyalpozhang to Nanglam, was Rs/Nu5.6 billion (US\$115 million, at the 2002 exchange rate). The Indian government funded the project with the same 60:40 ratio, at 10.75% per year interest (Druk Green, n.d.-c). The cost of the Tala project was Rs/Nu41.26 billion (US\$1.02 billion, at the 2007 exchange rate), fully financed by the government of India with the same 60:40 ratio, the loan repayable in 12 equal annual instalments with simple interest of 9% per year (Druk Green, n.d.-d).



energy deficit.<sup>7</sup> Three projects are under construction: Punatsangchhu-I, Punatsangchhu-II and Mangdecchu, all initially scheduled for completion by 2017-2018 but delayed. The other seven projects are in various stages of preparation.

The official discourse on the bilateral cooperation, as put forward by the political elites in both countries, is almost always framed around strong commercial interests and mutual benefit (The Hindu, 2011; Royal Bhutanese Embassy, n.d). Both countries have consistently acknowledged that they have benefitted commercially, which has also provided a strong base for future cooperation. Bhutan has seen revenues increase from Rs/Nu2.3 billion (US\$49 million,<sup>8</sup> at the 2003 exchange rate) in 2003, to Rs/Nu10 billion (US\$209 million, at the 2009 exchange rate) in 2009 thanks to Indian-assisted projects such as Tala and Kurichhu (Bisht, 2012a). The commissioning of the three power plants under the 2020 memorandum is projected to increase Bhutan's income by another 55% (Gross National Happiness Commission, 2013). Bhutan's Eleventh Five Year Plan (2013-2018) predicted an overall future decline in development assistance from bilateral partners with the sole exception of India (Gross National Happiness Commission, 2013), which supports multiple planned hydropower projects through loans and grants.

A number of ancillary benefits flow directly from capital investments in hydropower, including industrial development, poverty alleviation, self-reliance and skill-based training (Bisht 2012a). ITEC has also played a significant role by offering Bhutanese officials a wide exposure to fields of specialisation including information technology, technical expertise and management skills, as well as gifting equipment and providing feasibility studies and consultancy services (Personal communication, 2017). The Bhutanese parliament noted that much of Indian assistance to Bhutan has been channelised not only towards building hydropower plants but also to smaller development initiatives such as the expansion of the Samdrup-Jongkhar-Trashigang highway, which benefits the population of the six densely populated eastern districts (National Assembly of Bhutan, 2009). Hence, there is a strong argument for the direct and indirect benefits of Indian hydro investments for Bhutan's economy and development plans. According to Chanana (2009), compared to traditional Western donors, India attaches significantly less conditionality to its grants and gives beneficiaries a greater voice in the process. Several Bhutanese and Indian officials have indicated that the ITEC programmes, loans and grants are sanctioned through a mutually agreed process, depending on the development and technical needs of Bhutan (Personal communication, 2016). An important characteristic of India's engagement with Bhutan is claimed to be its use of 'soft power', which relies on the ability to attract or co-opt rather than coerce or threaten (Chanana, 2009). However, there is some divergence in opinion regarding the degree to which the Bhutanese are actually able to exercise agency over the terms of engagement with India within the sociomaterial context. This is discussed in the next section.

India's contribution to Bhutan's development is critical in terms of the volume of financial disbursement that has flowed into Bhutan over the years. Bhutan's financial plan for the fiscal year 2018-2019 projects Rs/Nu8.68 billion (US\$126.79 million, at the 2018 exchange rate) in total external grants, of which 83.5% is expected from India and the remaining 16.5% from other development partners (National Assembly of Bhutan, 2017: 11). Thus, financial assistance from India continues to play a major role in supporting the Bhutanese economy and future growth plans.

## **CHANGING DOMESTIC LANDSCAPE AND PUBLIC PERCEPTIONS IN BHUTAN**

In the last decade, the nature of bilateral assistance flows has changed, with the India-Bhutan partnership entering a new phase in terms of scope, as reflected in the nature of projects and the structure of

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<sup>7</sup> It is reported that it was at the request of the first elected government of Bhutan that the earlier agreement between India and Bhutan for production of an additional 5000 MW of hydropower was increased to 10,000 MW, as hydropower was recognised as a central pillar of Bhutan's economic development (Lamsang, 2017a).

<sup>8</sup> The Bhutanese Ngultrum (Nu) is currently pegged to the Indian rupee (Rs) at parity.

investments (Bisht, 2012a). India has moved away from a 60: 40 model (60% grants and 40% loans) to a 30: 70 model (30% grants and 70% commercial loans) for the hydropower projects covered by the 2020 agreement (except for Punatsangchu-I, which retains the 60: 40 model). These changes are bound to increase the financial burden for the Bhutanese government. Moreover, in return for the 70% loan offered by Indian public-sector units, India has sought 51% ownership in the upcoming projects (we discuss this in further detail below), raising serious concerns in Bhutan regarding the intent and modalities of Indian assistance (Bisht, 2012a; Lamsang, 2017a; Personal communication, 2016, 2017). Such arrangements have opened India to criticism for increasing conditionality and undermining the interests of the Bhutanese (Ranjan, 2018a).

The beginning of the 21st century brought many structural changes to Bhutan's economy and polity, contributing to a growing public engagement in the country, including public debates on Indian assistance to Bhutan. Indian grants and loans have been directed largely towards energy and infrastructure development, with the resulting development of hydropower, construction and energy-intensive industries. Bhutan's dependence on Indian agricultural imports (World Bank, 2011; Bisht, 2012b) has contributed to a significant decline in its domestic agriculture sector.<sup>9</sup> It has also reduced food stability, as Bhutan has become vulnerable to changes in India's trade and foreign policy (Feuerbacher et al., 2018).

Another important development has been the 2008 transition of Bhutan's political regime from a monarchy to a multiparty democracy. As democratisation usually results in greater openness and scrutiny, the educated Bhutanese population has begun to raise questions about the changes unfolding in their country. Debate has arisen regarding the nature and intent of Indian investments, the rate at which new hydropower projects are being initiated, and the narrative of mutual benefit and equality in bilateral relations in the context of Bhutan's critical dependence on Indian lines of credit, loans and grants (Bisht, 2012b; Dorji, 2017a; Subba, 2017a; Subba, 2017b; Ranjan, 2018b). Domestic concerns include the rapid influx of Indian labour and private companies for the construction of hydropower dams, which is seen as benefitting Indian interests rather than generating local employment and other direct economic benefits for Bhutan (Bisht, 2012b; Jacob, 2013). While the hydropower and power-related sectors have been powerful engines of growth, their employment elasticity is low and they do not provide jobs for the tens of thousands of young people entering the labour market or migrating to urban areas, which includes increasing numbers of educated youth (ADB, 2005, 2007, 2014).

The Tenth Five Year Plan identified job creation as one of the greatest challenges for Bhutan's social and economic stability; modest projections indicate a need to create approximately 93,000 jobs, which is more than the total number of people employed in the formal sector at the beginning of the plan period (Gross National Happiness Commission, 2009). Many critics argue that the auxiliary economy created by the hydropower industry in Bhutan is limiting the space for domestic stakeholders. There is a growing understanding that Bhutan's hydropower potential belongs not only to the government but also to the people of Bhutan (Subba, 2017b). Thus, the influx of Indian labour in the form of contract workers and consultants has been criticised in Bhutanese newspapers (Lamsang, 2017b; Syrus, 2017), as some sections of the Bhutanese population are looking for jobs in the hydropower sector but cannot get them due to the predominance of Indian construction firms, which prefer to hire Indian labour and technical consultants.

A large part of the explanation lies in the bilateral agreements between the two governments on hydropower cooperation. In the memorandum of understanding for the Punatsangchhu-II hydropower plant project, there is a clear specification that restricts recruitment of labour and technical and administrative services, as well as suppliers and contractors for material, between India and Bhutan. Such a condition undoubtedly benefits the Indian private sector, offering a way for Indian companies to enter Bhutan's market through provision of raw materials and services without competition (Tortajada and

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<sup>9</sup> Bhutan's agriculture sector has declined rapidly, with its share of Bhutan's gross domestic product falling from 25% in FY 2002-2003 to 14% in FY 2010-2011 (World Bank, 2011).

Saklani, 2018). As a result, many believe that hydropower has not created the right kind of jobs for the Bhutanese youth, who would rather be part of a vibrant local economy than play a limited role in the hydropower industry (Dorji, 2015; Walker, 2015; Walker, 2016; Personal communication, 2016, 2017).

Another major concern is related to India's strong negotiating power in fixing low average tariffs for the energy imported from Bhutan (Dorji, 2015), given its greater domestic power production and generally low electricity tariffs (Lamsang, 2017c; Lamsang, 2017d). The Bhutanese have often pointed out that the power bought by India at market price is cheaper than the hydropower domestically available within India (Personal communication, 2016; 2017). For example, in 2017 when India was buying power from Bhutan at Rs1.80 per unit (US\$0.03, at the 2017 exchange rate), the domestic cost of power in India reached around Rs7-8 per unit (US\$0.11-0.12, at the 2017 exchange rate) (Chophel, 2015; Tortajada and Saklani, 2018), indicating that Bhutan did not have an equal say in setting the power tariff.

India argues that the earlier projects were built with a large grant component (60%) and tariffs were regularly revised. Indeed, as seen in the case of the Chukha hydropower plant, (the earliest hydropower project, commissioned in 1988), the bilateral agreement mentioned that tariff revision would be made after every four years and would include the increase in the operations and maintenance charge. Most often, however, the tariff was revised in less than four years, amounting to a total of seven revisions since 1989 (Dorji, 2018). The issue came up in 2009 when India decided not to adhere to the tariff revision, demanding a new protocol from 2016 onwards that was seen as less advantageous for Bhutan (Bhaskar, 2013). In the new wave of hydropower projects (under the 2007 agreement), Bhutan holds greater leverage to negotiate the export price of electricity as the projects are being built on a higher loan share of 70% of funding, compared to 40% in Tala and Chukha. The tariff negotiations between India and Bhutan over the new Mangdecchu plant seem to point in a positive direction. A recent joint statement from the two governments suggests that the tariff for the Mangdecchu project was reached through a mutually beneficial understanding between the two sides (Ministry of External Affairs, 2018). However, it remains to be seen how this arrangement plays out in the long run.

### **Official narratives of the Bhutanese government**

The official narrative in Bhutan of India's role in its development has been almost entirely favourable towards India. Parliamentary discussions laud India's role in generating employment opportunities by investing in Bhutan's hydropower sector and in helping the Bhutanese population gain the experience and skills to execute similar large-scale infrastructure projects in the future (National Assembly of Bhutan, 2016). One reason for the favourable attitude towards India is its strategic and geopolitical importance in relation to Bhutan's border disputes with China. Also, unlike Western attempts at the promotion of democracy, India has never pressured Bhutan to adopt democratic norms and institutions, and has generally maintained its long-standing policy of non-intervention (Kaul, 2008). When asked, India did extend security and financial assistance to help Bhutan transition into democracy in 2008, a fact that was noted by the Bhutanese parliament (ibid, 2009).

Another reason is historical. Immediately after Nehru's first visit, Bhutan began extending exclusive privileges to India despite the relatively closed nature of its culture and economy until the 1970s. Scholars have remarked on Bhutan's long quest for sovereignty and its traditional affinity for isolationism (Belfiglio, 1972). China added an urgency that ultimately led to Bhutan's transition out of its closed-door policy in the 1960s. It was India's economic assistance to Bhutan which formally launched a regular, official channel for bilateral diplomatic relations between the two countries in the form of an Indian Embassy in Thimphu. Newspapers have commented on the close ties between the Nehru and Wangchuck families which were instrumental in cementing the bilateral relations (Namegi, 2013; Tashi, 2018).

Several other factors have contributed to the continued trust of Bhutan's top political leaders in the economic and strategic engagement with India. Bhutan's inclusion in the Colombo Plan group under Indian sponsorship in 1962 (Belfiglio, 1972), and India's support and sponsorship of Bhutan to the United

Nations in 1971 at the request of King Wangchuk, helped lay the foundation for mutual trust and respect that was grounded in India's acknowledgement of Bhutan's need for sovereignty (Personal communication, 2016). According to some scholars, India expressed some hesitation at Bhutan becoming a member of the United Nations given that it meant greater foreign involvement in the country (ibid), but it eventually backed Bhutan's membership, which was an important milestone that opened the door for Bhutan to receive increased development assistance from more diverse sources (Dorji, 2008). In a recent article, Sonam Tobgye (2019), who was chief justice of the newly created Supreme Court of Bhutan from 2010 through 2014, claims that "it was with India's support that Bhutan was able to progress so quickly from a 'hermit kingdom' to a full-fledged and active member of the international community".

Until 1971, India funded almost 100% of Bhutan's development. Even in the late 1970s, India contributed more than 95% to the Bhutanese Five Year Plan. In general, Bhutan's pattern of foreign relations has not changed since the 1960s, still showing a heavy tilt towards maintaining diplomatic ties with India (Holsti, 2015). In the 1960s, the world witnessed Bhutan's initial shift into modernisation supported by India's economic assistance, which paved the nation's way out of seclusion and facilitated its emergence onto the global stage (Dorji, 2008). Perhaps this is one of the reasons why India remains the largest trade and funding partner of Bhutan (National Assembly of Bhutan, 2008), which gives it a critical edge in negotiating its commercial interests and finding trust and support in the Bhutanese leadership. Between 2001 and 2012, Indian assistance comprised 66% of the total official development assistance to Bhutan across projects, programmes and tied-aid categories (Marshall, 2013).

### **Emerging concerns: Public debt**

Despite the strong intergovernmental relations between the two countries, there are some persistent concerns about Bhutan's economy, and the public perception of Indian involvement in Bhutan is reflected in parliamentary debates on whether India is to some extent to blame for Bhutan's economic problems. Bhutan's public debt is mounting, caused in part by much-reduced hydropower revenue, due to rising costs and delays in hydropower construction. Despite the strong potential for additional revenue from the new projects, there are serious concerns about how Bhutan can fulfil its debt-financing commitments in the future (Dorji, 2017b; Subba, 2017a; Personal communication, 2016, 2017). A study by Kojo (2016) shows that the performance of Bhutan's hydropower sector has been on a decline since 2007, with a sharp fall in net profit (before tax) per unit of electricity sold, as a result of escalating costs and declining revenue. Also, according to a recent report by the Bhutan Electricity Authority (2017), the cost overruns are almost 40% for the Mangdecchu project (720 MW), 166% for the Punatsangchu-I project (1200 MW), and 93% for Punatsangchu-II project (1020 MW). As a result, more than a quarter of the revenue from Bhutan's hydropower exports is spent on debt servicing (Dorji, 2017a). The International Monetary Fund backs this data, reporting Bhutan's debt service ratio as 24% for the financial years 2017 and 2018, which shows that Bhutan does breach external debt thresholds over the medium term (IMF and IDA, 2016). The World Bank (2017a) reported Bhutan's external debt to GDP ratio as 99% in March 2017, making Bhutan one of the ten most indebted among the 73 low-and-middle-income International Development Association countries.

The Royal Government of Bhutan has duly noted these concerns and seconded a need for caution in handling external financing risks. It has stated that pegging the ngultrum to the Indian rupee has proven "extremely challenging" given the magnitude of macroeconomic imbalances, along with the "alarming increase" in short-term debt instruments such as the State Bank of India overdraft and Government of India standby credit financing, both of which have a high interest rate of 10 percent (Gross National Happiness Commission, 2013: 10). In its 2018 election manifesto, the newly elected government of Bhutan, led by the Druk Nyamrup Tshogpa<sup>10</sup> (2018: 28), mentioned the "mountain of debt" that successive democratic governments in Bhutan had left for "future generations to bear". The party also

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<sup>10</sup> Druk Nyamrup Tshogpa translates into Bhutan United Party in English.

highlighted the "limited youth employment opportunities" caused by the high importance given to the electricity sector, suggesting a need to "enhance in-country capacity building of hydropower construction" (ibid). Ranjan (2018b) notes that the defeat of Tobgay, the pro-India Bhutanese prime minister, is mostly a reflection of anti-incumbency resulting from public distrust of Bhutanese leaders. Still, the mention of hydropower infrastructure and its negative impact on Bhutan's economy in an election manifesto illustrates the growing concerns about, and political relevance of, India's activities in Bhutan.

The World Bank and the IMF acknowledge the steady rise of Bhutan's public debt, but they are less worried about Bhutan's external debt and categorise its risk as moderate rather than high (IMF and IDA, 2016; World Bank, 2017a). These multilateral lending institutions argue that current and future revenues from hydropower exports will improve Bhutan's debt situation in the long run. However, the World Bank's position on hydro financing and its dam-building practices have been severely criticised ever since India's Sardar Sarovar project controversy (Bosshard et al., 2003; Goodland, 2010). Hence, while few take the high commercial profitability of Bhutan's hydropower sector for granted (Kojo, 2016; Premkumar, 2016), there has been a significant rise in demand for a debt-management strategy and movement towards diversifying Bhutan's economy (Gross National Happiness Commission, 2013; Personal communication, 2017; World Bank, 2017a). Bhutan's Eleventh Five Year Plan states that "lack of economic diversification has resulted in a situation of high growth rates driven by the hydropower sector without a commensurate increase in gainful employment for a rapidly growing and educated labour force, which poses significant macroeconomic challenges" (Gross National Happiness Commission, 2013: 81).

There are also concerns that the expanding revenue base from hydropower exports could increase demand for public spending on housing, health, education, etc.; which could hamper the ability of Bhutan's economy to service its external debt in the long term. The response to this concern is that the loans being offered are directed towards creating assets and the resulting revenue will service the debt in the future (Dorji, 2017c). But not everybody is so optimistic. There are those who feel that the sustainability of Bhutan's overall external debt is closely linked to its external hydro debt as the latter constitutes such a large share of the total (Personal communication, 2016; World Bank, 2017a). About 90% of Bhutan's hydro external debt is financed by India, with "excessively high" interest rates (Khan and Robson, 2015: 86) of 9 to 10% for the Punatsangchhu- I and -II and Mangdecchu projects (World Bank, 2017a).

Concerns regarding a fiscally insecure future have been raised in parliamentary discussions (National Assembly of Bhutan, 2015). Of the 33 recommendations by the Royal Audit Authority, many were related to public debt management. Some of these included reviewing the level of public debt, setting a maximum debt threshold, addressing the rollover risk of the Indian rupee debt, and reducing the high dependence on grants, concessional loans and short-term borrowing.

### **Project implementation**

A major issue that has erupted in the new wave of hydropower development in Bhutan is the enormous delays in projects, which have inflated project costs (Emerson, 2017; Personal communication, 2016, 2017; The Bhutanese, 2018b). The construction of Tala hydropower was delayed from 2005 to 2007 due to geological problems, resulting in the escalation of cost from Rs/Nu14 billion (US\$331.84 million, at the 2005 exchange rate) to Rs/Nu41.26 billion (US\$1.02 billion, at the 2007 exchange rate) (Premkumar, 2016; Ghalley, 2018). Media coverage has highlighted numerous problems that the Punatsangchu-I and -II projects have run into, supposedly due to negligence on the part of the Indian consultant (Premkumar, 2016; Lamsang, 2017b). A joint audit by the Royal Audit Authority of Bhutan and the Comptroller and Auditor General of India (Lamsang, 2015) confirmed India's role in the escalating costs and the delays in project development. The planned completion date of November 2016 for the Punatsangchu-I project

has been moved back to December 2022 – a six-year delay – while the Punatsangchu-II project has also been delayed until 2021 (Lamsang, 2017b; Dema, 2019). This has raised many questions about Bhutan's strategy of putting "all its eggs in one hydropower basket", even though hydropower has been recognised as "the only basket" available at this time (Dorji, 2015, 2017; Seth, 2015; Personal communication, 2016, 2017).

In the parliamentary deliberations, the issue of project implementation delays and their significant spillover effects on the Bhutanese economy has come up on multiple occasions. This is crucial because such delays are considered to impede the development of the private sector and raise the unemployment rate, besides jeopardising Bhutan's plan to achieve energy self-sufficiency by 2020 (National Assembly of Bhutan, 2015). Another point of disquiet is the lack of accountability in hydropower projects. In 2015, the first phase of auditing for three hydropower projects, Mangdecchu, Punatsangchu-I and Punatsangchu-II, found that no irregularity of more than Rs/Nu500 million (US\$7.43 million, at the 2016 exchange rate) had been successfully resolved (Dorji, 2016; National Assembly of Bhutan, 2016). The parliament notably identified "non-fixation of accountability to specific individuals" as the reason for the failure (National Assembly of Bhutan, 2016: 79).

### **Cross-border trade of electricity**

A more recent development that reportedly fuelled confusion and apprehension in Bhutan's official circles is the Government of India's Guidelines on Cross Border Trade of Electricity, issued by the Ministry of Power in December 2016. Media reports showed that these guidelines were responsible for halting the construction of the 600 MW Kholongchhu hydropower project, owned equally by Bhutan's Druk Green Power Corporation Limited and India's Satluj Jal Vidyut Nigam Limited (Yangdon, 2017). It also called into question the future of the 1125 MW Kuri-I project (Dorji, 2018), as some clauses in the notification had adverse ramifications for Bhutan, such as limiting its ability to set power tariff rates, restricting its access to India's primary power market and type of hydropower investments, and requiring a minimum 51% ownership by an Indian entity in order for Bhutan to undertake power trading (Lamsang, 2017e). Bhutanese officials feared losing control over hydropower projects and trading companies to Indian entities (Personal communication, 2017; Pillai and Prasai, 2018). These clauses were considered to be in violation of the intergovernmental agreement between Bhutan and India on Joint Venture Hydropower Projects (Lamsang, 2017f). Bangladesh and Nepal also opposed India's non-consultative approach in formulating the guidelines, which poses India as the principle decision-maker for all future trilateral energy cooperation deals (Personal communication, 2017).

India's exclusionary move towards deciding the rules of energy trading in the region without involving other stakeholders was perhaps guided by its treatment of energy as a strategic resource, rather than a development input (Pillai and Prasai, 2018). The delay in amending the guidelines despite continued objections from Bhutan, Nepal and Bangladesh risked jeopardising India's reputation of keeping to its bilateral commitments, and fuelling distrust. However, in December 2018, the Indian government removed the discriminatory provision from the guidelines to allow more space for power exporters to participate in electricity trading in the region (Giri, 2018; Ministry of Power, 2018), quelling much of the criticism from its neighbours.

### **Bhutan's 'middle path' approach to development**

Bhutan follows a development strategy which seeks moderation to achieve overall developmental goals without causing irreversible damage to the environment (Rinzin et al., 2007: 54) or compromising its deeply cherished values of self-sufficiency and sovereignty (The Bhutanese, 2018a). Devised in 1990, the middle path approach reflects the spirit of Gross National Happiness and is considered intrinsic to the

Bhutanese value system (National Environment Commission, 1998).<sup>11</sup> In this context, the current economic concerns over debt are valid for the Bhutanese people. Hydropower projects are often blamed for this; the Royal Monetary Authority reported that Bhutan's hydro debt, which quadrupled to US\$1.95 billion between FY 2010-2011 and FY 2016-2017 (Poindexter, 2018), formed 83.3% of GDP, amounting to 76.67% of total external debt liability, and was mostly linked to hydropower loans from the Government of India (Royal Monetary Authority of Bhutan, 2017: 53). There is a concern that continued hydropower construction at the same pace could put future generations of Bhutanese deep in debt.

Some scholars and government officials on both sides of the India-Bhutan border argue that India has a much smaller role in Bhutan's current economic instability than Bhutan's own domestic monetary and fiscal policies (Personal communication, 2017). However, negative perceptions of India, as portrayed in the Bhutanese media, are driven by India's large economic presence as a major trade and development partner of Bhutan (Bisht, 2012b; Personal communication, 2016). Regarding Bhutan's concerns over the mounting debt that is due to loans and project implementation delays, India seems to lean towards inaction. While no official statements have been made to quell Bhutan's concerns, the narrative that is used to push India's agenda is focused on how most developing nations on the path to high economic growth and development grow on the backbone of large public debt, and so public debt in itself should be not a matter of huge concern (Personal communication, 2015, 2016, 2017). These statements are strongly supported by international financial institutions such as the World Bank and the IMF, which contributes to Southern governments taking on unsustainable debt burden for high-risk infrastructural projects (Bosshard et al., 2003). In making such arguments, it is important for India to remember that Bhutan was a traditional rural society that followed a strict self-imposed isolationist policy until 1960 (Royal Government of Bhutan, 2000). Bhutan has transitioned to a modern state by resisting a growth-led development model (Bisht, 2013) while cautiously adopting policies that would not impinge on its traditional values, culture and freedom (Dorji, 2008; Topping, 2014).

### Other concerns

In addition to the above, other concerns that have remained unaddressed include the lack of equal opportunity for domestic workers and private companies in Bhutan, the need for regular audits of hydropower plants constructed by India, the adverse spillover effects of Indian investments on Bhutan's macroeconomic stability, and the lack of clarity on future regional energy trading regulations. Bhutan planned to speed up hydropower development in the country by implementing several of the projects covered by the 2020 agreement simultaneously, instead of one at a time. However, in the prevailing context, many people, including a member of the Hydropower Committee formed in May 2017, emphasize that Bhutan must reconsider this decision, citing the possible adverse impact on Bhutan's relatively small economy (Haider, 2017; Personal communication, 2017; Rinzin, 2017). The policy discourse in Bhutan has shifted towards re-strategising the country's energy policy, with a call to revisit the Sustainable Hydropower Development Policy of 2008 which centred on attracting funds to accelerate hydropower development. Bhutanese authorities are focusing on comprehensively reviewing investments and related hydrological risks, as well as planning for the long-term sustainability of Bhutan's energy sector. For instance, given climate-change-related uncertainties, one of the ideas is to focus on building reservoirs, which would improve water security (Haider, 2017; Rinzin, 2017). Reservoirs would ensure that water is available for energy production throughout the year instead of Bhutan having to import expensive electricity from India, as it does at present in low-flow seasons. Reservoirs would also provide water for irrigation and would allow better flood control.

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<sup>11</sup> The term Gross National Happiness, coined in 1972 by Jigme Singye Wangchuck, then king of Bhutan, emphasises accumulation of knowledge and personal development over a more commercialised, material definition of development. The term was embedded in the Constitution of Bhutan that was enacted in 2008.

In response to these developments, in May 2017 the Bhutanese Cabinet issued an executive order establishing a Hydropower Committee with a mandate to develop a clear, robust and consistent policy driven by the overall long-term interest of the country (Dorji, 2017e; Embassy of India in Thimphu, 2014c). In November 2018, soon after the newly elected government took charge, the Hydropower Committee submitted its recommendations to the cabinet. According to media reports, some of the key recommendations included slowing hydropower construction in Bhutan by keeping the Chamkarchu and Amochu basins free of hydro projects till 2030 and finishing the ongoing projects before commencing work on new ones (The Bhutanese, 2018c, 2018d). The committee addressed the issue of project delays and cost overruns, discussed allegations of poor construction quality and equipment, and acknowledged that Bhutan now held a higher stake in the hydropower construction as a result of the greater loan component of 70% at 10% interest (The Bhutanese, 2018b). In the near future, the new terms of engagement on hydropower projects could be a basis on which to argue for greater participation of Bhutanese nationals in decision-making and project management (ibid).

Few people deny that Indian investments have substantially contributed to Bhutan's economy and provided a significant boost to the industrial and service sectors, making Bhutan one of the fastest-growing economies in the world (ADB, 2017; Dorji, 2017d; Kojo, 2002; World Bank, 2017b). A study of public perceptions of Bhutan's sustainable-development approach found many Bhutanese to be positive about Bhutan's economic achievements over the past decade, acknowledging better social conditions and wanting the national economy to grow further (Rinzin et al., 2007). In the hydropower sector, an important benefit is the 10,000 units of free electricity per year per acre of land lost that is received by households, which can be taken as free electricity, or as cash at the project's export rate (Premkumar, 2016). Some people acknowledge the role of cheap hydropower in setting up local energy-intensive industries and lowering the pricing of industrial output, in effect boosting Bhutan's economy (Yangka, 2015). If democracy is seen not as an event but as a journey, then what Bhutan is witnessing today can be explained as an evolution of its political landscape as it completes a decade since the end of absolute monarchic rule. The processes of democratisation are reflected in the official acknowledgement of various challenges affecting dam construction and hydropower generation, and the willingness of the national government to re-evaluate its hydropower strategy to accommodate the demands of its citizens (The Bhutanese, 2018e). This may drive a change in popular perceptions and media coverage of Bhutan's hydropower sector activities, while possibly opening doors for renegotiations with the Indian government and the hydropower industry on the terms of hydropower generation in Bhutan.

## CONCLUSIONS

This article provides an overview of India's development cooperation activities in Bhutan, highlighting the latest trends and developments in India's assistance. By focusing on recent events, the paper attempts to contribute to the growing literature on the nature and profile of emerging powers like India as development actors, and to encourage more detailed, empirical studies and systematic analyses on this topic in the future.

Based on the available evidence from media reports, government documents and observations from a wide range of engaged stakeholders, our paper attempts to highlight India's role as a development partner with respect to other developing countries, with a focus on Bhutan. It seems likely that public awareness and opinion in Bhutan regarding Indian assistance policies will increase in the coming years as India expands its presence in the country through hydropower projects and other investments. We see a growing concern regarding the effects of foreign capital and labour on Bhutanese territory. It seems unlikely that this concern will impede India's bilateral engagement with Bhutan, given the strong historic, political and cultural closeness of the people and the governments of the two countries. Yet, it is likely that India's political leaders will increasingly have to engage with various stakeholders, and will have to factor in their concerns and apprehensions regarding the economic, social and environmental impacts of



expanding cooperation, particularly in the hydropower sector. For India to occupy a stronger geostrategic position regionally and globally, it will have to work harder to promote more inclusive and sustainable development overseas, keeping its foreign assistance closely aligned with the interests of the beneficiary country.

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## APPENDIX

### Appendix A: Historical exchange rates: INR to USD

Year	INR to USD exchange rate
1958	1 INR=0.21 USD
1961	1 INR=0.21 USD
1962	1 INR= 0.21 USD
1966	1 INR=0.157254 USD
1971	1 INR=0.133477 USD
1976	1 INR=0.110988 USD
1981	1 INR=0.115607 USD
1987	1 INR=0.0777 USD
1988	1 INR=0.070721 USD
1992	1 INR=0.034904 USD
1997	1 INR=0.02791 USD
2000	1 INR=0.022644 USD
2002	1 INR=0.020662 USD
2003	1 INR=0.021673 USD
2008	1 INR=0.023123 USD
2009	1 INR=0.020914 USD
2011	1 INR=0.022429 USD
2012	1 INR=0.017955 USD
2013	1 INR=0.016794 USD
2014	1 INR=0.016646 USD
2015	1 INR=0.015722 USD
2016	1 INR=0.014853 USD
2017	1 INR=0.015475 USD
2018	1 INR=0.014607 USD
2019	1 INR=0.014244 USD

Note: For each year, the date for calculating INR to USD exchange rate is taken as July 1. Source: <https://fxtop.com/>

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## Appendix B: Overview of primary sources of information

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Jawaharlal Nehru University, New Delhi, India  
 South Asian University, New Delhi, India  
 TERI University, New Delhi, India  
 Integrated Research and Action for Development, New Delhi, India  
 Indian Foreign Service, Government of India, New Delhi  
 Central Board of Irrigation and Power, New Delhi, India  
 Centre for Policy Research, New Delhi, India  
 Central Water Commission, Government of India, New Delhi  
 Ministry of Water Resources, Government of India, New Delhi  
 Ministry of Power, Government of India, New Delhi  
 WAPCOS, New Delhi, India  
 AECOM, New Delhi, India  
 Druk Green Power Corporation, Thimpu, Bhutan  
 Ministry of Energy, Thimphu, Bhutan  
 Ministry of Economic Affairs, Thimphu, Bhutan  
 National Environment Commission, Thimphu, Bhutan  
*The Bhutaneses*, Bhutan  
 Centre for Bhutan Studies, Thimpu, Bhutan  
 International Society for Bhutanese Studies  
 Bhutan Society of the United Kingdom  
 Asian Development Bank, Manila, Philippines  
 International Centre for Integrated Mountain Development, Kathmandu, Nepal  
 Asian Institute of Technology, Khlong Luang, Thailand  
 Lee Kuan Yew School of Public Policy, National University of Singapore

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