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THE ROLE OF ECONOMIC DEVELOPMENT INTERESTS OF BHUTAN AND NEPAL IN DETERMINING THEIR FOREIGN POLICY STRATEGIES

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Abstract. The article provides a comprehensive analysis of the economic situation in two small countries of South Asia – Bhutan and Nepal. The author has studied the agricultural sector, industrial, tourist, hydroelectric industries of their national economies, the range of goods produced by Bhutan and Nepal, as well as the circle of their main trade and economic partners. The role of income from labor migration for improving the well-being of the population of both states is considered separately. The author analyzes Bhutan's and Nepal's indicators of socio-economic development according to the UN classification. Based on the work carried out, the author comes to the conclusion that for both countries their economic and social interests play the key role in determining their foreign policy strategy. As landlocked countries with a complex and ambiguous history, their relations with two neighbors, India and China, are their priority. Taking into account the Indo-Chinese competitive interaction, it becomes obvious that the Governments of both Bhutan and Nepal are trying to find a balance between the two rival countries and their own national interests. However, they choose different balancing scenarios. Nepal is characterized by a clearly represented course towards the sovereignization of the country and its foreign policy with the creation of positive neutrality in relations with both neighbor states. The leadership of Bhutan, from the other side, traditionally chooses a pro-Indian course with cautious steps towards resolving contradictions in relations with China.

Keywords: economic development, least developed countries, trade and economic relations, Bhutan, Nepal, India, China, foreign policy of the countries.

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РОЛЬ ИНТЕРЕСОВ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ БУТАНА И НЕПАЛА В ОПРЕДЕЛЕНИИ ИХ ВНЕШНЕПОЛИТИЧЕСКИХ СТРАТЕГИЙ

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Аннотация. В статье проводится комплексный анализ экономической ситуации в двух малых странах Южной Азии – Бутане и Непале. Исследуются сельскохозяйственная, промышленная, туристическая, гидроэнергетическая отрасли национальных экономик, спектр производимых ими товаров, а также круг их главных торгово-экономических партнеров. Отдельно рассмотрена роль доходов от трудовой миграции для повышения уровня благосостояния населения обоих государств. Автором проанализированы показатели социально-экономического развития согласно классификации ООН. На основе проведенной работы делается вывод о ключевой роли экономических и социальных интересов гималайских государств в определении их внешнеполитической стратегии.

Ключевые слова: экономическое развитие, наименее развитые страны, торгово-экономические отношения, Бутан, Непал, Индия, Китай, внешнеполитический курс стран.

INTRODUCTION

India and China remain Russia's key partners in the international system that is currently undergoing fundamental changes. Within the complex of Indo-Chinese contradictions, the interaction in the border area is the most complicated and pressing issue. The dynamics of bilateral contacts depend, among other things, on two small Himalayan countries – Bhutan and Nepal. These states' sustainable development needs predetermine their course on the international stage. For the foreign policy agenda of Thimphu and Kathmandu, building relations with India and China is the key priority. Nevertheless, the authorities of Nepal and Bhutan, despite the similarity of their tasks, choose different strategies. Bhutan, while generally following a pro-Indian course, takes completely cautious actions in interstate interaction with other actors, including China. Nepal's commitment to balance and equally friendly relations with both neighbors enhances its opportunities to develop bilateral ties with other states as well.

The paper aims to analyze the specifics of the economic development of two small countries – Bhutan and Nepal and the role that their trade and economic relations play in shaping a foreign policy strategy. In order to achieve the set goals, the author sequentially solves the following tasks:

- 1) characterizes the two countries' economies according to internationally accepted classifications and categories;
- 2) outlines the development level of the leading sectors in Bhutan and Nepal's economies; defines the range of the key economic partners of both states and the specifics of their interaction;
- 3) identifies the national priorities of Bhutan and Nepal's economic development;
- 4) draws a conclusion about the role of national economic, food, and other interests in determining the foreign policy course of Thimphu and Kathmandu.

The research relies on a comprehensive interdisciplinary approach based on qualitative and interpretative analysis, as well as elements of

comparative and historical sociology methods. The work uses data from international organizations such as the UN Conference on Trade and Development (UNCTAD) and the World Bank, as well as information from open sources of specialized national agencies.

The interrelation between the current state of economic and social development of Bhutan and Nepal and the impact of these states' national interests in these areas on their foreign policy course has received little attention in Russian-language scientific papers. The available works, as a rule, focus solely on studying the corresponding areas from the perspective of economic science¹. To fully understand the issue of shaping a foreign policy strategy for these countries, one should consider the current situation, their specifics and interests in terms of socio-economic development, the vision of national security, and the general climate of interaction with the external environment.

GENERAL CHARACTERISTICS OF THE COUNTRIES IN THE UNITED NATIONS CLASSIFICATION SYSTEM

According to the United Nations data, Bhutan and Nepal remain categorized as least developed countries (LDCs), denoting low-income countries encountering serious structural obstacles in achieving sustainable development. They remain vulnerable to economic and environmental shocks and have low levels of human capital [source 1]. The status of LDCs is revised every three years based on three key criteria:

- 1) average gross national income per capita in US dollars. In 2021, values for inclusion in the category were from \$1018 to \$1222;
- 2) human assets index, which includes statistical indicators regarding health (taking into account the mortality rate of children under five, maternal mortality and delayed development

¹ For example: Myagotina E.D., Tregub I.V. Application of the Samuelson-Hicks model in the conditions of modern economy of Bhutan. *International Economics*, 2021, no. 5, pp. 391-403. DOI: 10.33920/vne-04-2105-06, EDN: SXKEYW; Melnikova A.A., Melnikova E.V. Cooperation in the hydropower sector as a key aspect of Indian development assistance to Bhutan. *Economic Sciences*, 2019, no. 175, pp. 165-168. DOI: 10.14451/1.175.165, EDN: AXJXHX

rates) and education (levels of secondary education coverage, adult literacy, as well as gender equality in terms of access to secondary education). The threshold values for this criterion range from 60 to 66 points;

3) economic and environmental vulnerability index, which includes two categories of indicators. The first category includes: the share of agriculture, hunting, forestry, and fishing in GDP; remoteness of territories and landlockedness; concentration of commodity exports; instability of exports of goods and services. The second group includes the population shares living in coastal and arid areas, agricultural production instability, and victims of natural disasters. The threshold values of this index are from 36 to 32 points [source 2].

According to the threshold values established by the Committee for Development Policy of the UN Economic and Social Council (ECOSOC), Bhutan and Nepal exhibit relatively high indicators across all three criteria (see the table). The main challenge for both countries remains their environmental and economic vulnerability.

Table. Indicators of Bhutan and Nepal in the LDC category

Bhutan	2021, LDC thresholds	Nepal
Gross national income per capita, US dollars		
2982	From 1018 to 1222	1027
Human assets index		
79.5	From 62 to 66	74.9
Economic and environmental vulnerability index		
25.7	From 36 to 32	24.7

Source: UNCTAD data [sources 13, 14].

The classification system suggested by UNCTAD implies the existence of common indicators of vulnerability in national economies facilitating the monitoring of their development dynamics and, as a result, providing exclusive access to specific international support measures in corresponding areas. Although, this system does not reflect all the specifics of implementing economic activities in these two countries. Concerning Bhutan, international experts have maintained an optimistic forecast in recent years, despite the persistent challenging socio-economic situation

in the country. It is expected that the Himalayan kingdom will graduate from the LDC category as early as 2023. However, regarding Nepal, experts from the Committee for Development Policy, citing potential delayed risks from the COVID-19 pandemic, recommend continued cautious monitoring and analysis of the economic situation [source 2, p. xii].

Despite varying assessments of the economic development prospects of Bhutan and Nepal, these countries' national economies share common and specific traits. In both states, similar climatic and geographical conditions have significantly influenced the pace of socio-economic and political development within local communities. The limited potential resources for prosperity continue to exert a significant impact on their future prospects. Both countries have adopted the method of five-year economic planning and experience complex dependence on external assistance and the development of ties with other states, primarily with India.

ACHIEVEMENTS AND PRIORITIES OF BHUTAN'S NATIONAL ECONOMY

For a considerable period, agriculture remained the primary determinant of Bhutan's economic activity, while the level of industrial development remained extremely low. The country's physical and geographical constraints—such as limited arable land area, low fertility, and the necessity for a more advanced irrigation system—resulted in relatively low efficiency in the agricultural sector. These terrain-specific characteristics limit Bhutan's self-sufficiency, contributing to its ongoing dependence on imports of agricultural products, machinery, and fertilizers.

The progress in the industrial sector has been slow. Most enterprises were established either by native Indians or with the involvement of Indian capital, primarily focusing on medium-sized or small-scale organizations engaged in producing handicrafts from various materials (leather, wood, cane, copper, iron, bronze, brass, or silver) and homespun textiles. Industrial establishments in Bhutan are primarily concentrated in the southern part of the country, along the border with India. However, after the commissioning of Bhu-

tan's first hydroelectric power plant, Chukha, in 1988, and subsequent integration into the global economy, the national economy has experienced gradual yet consistent growth over the past three decades. Presently, the prominent sectors of Bhutan's industry include mining, construction, and electric power engineering.

The development of *hydropower engineering* is considered a priority. This sector has not only been a significant driver of economic growth but has also had a substantial impact on the development of critical social infrastructure. Other industrial enterprises involved in construction (such as cement production) and transportation have also experienced positive growth. The availability of relatively inexpensive electricity has contributed to reducing production costs and continues to play a crucial role in the development of energy-intensive industries, the expansion of various sectors of the economy, and households as well as other industrial enterprises. Moreover, surplus electricity sales to India have augmented revenue inflow into the budget. During 2020–2022, amidst the general negative economic conditions primarily due to the COVID-19 pandemic, revenue from this sector prevented a severe recession in the Bhutanese economy. Bhutan's limited access to other energy resources, which additionally require substantial investments and advanced technological solutions, has largely influenced the country's approach towards utilizing available renewable resources. This strategy emphasizes the development of hydropower engineering, consequently shaping the economic development of the state. However, the Bhutanese government acknowledges the limitations in obtaining further revenues from hydropower due to several factors: the lengthy duration involved in constructing and commissioning hydropower plants; the complexities and significant investment requirements, often necessitating highly skilled foreign specialists; seasonal variations in obtaining maximum electric power; and declining electricity export prices due to India's progressive energy sector development, which currently holds a monopoly on purchasing electricity produced in Bhutan.

The introduction of the concept of Gross National Happiness (GNH) in 1972 marked a sig-

nificant stage in state management and planning, although it did not provide a panacea for chronic problems. The GNH index incorporates both the subjective assessment of traditional socio-economic indicators (such as healthcare, education, standard of living, and government efficiency) and additional parameters like psychological well-being, cultural and ecological diversity and development, community vitality, and the balance between leisure and labor distribution [source 3].

The concept of Gross National Happiness (GNH) has evolved into a distinctive and appealing marketing strategy, serving both to promote the traditional cultural image of the state on the international stage and to attract tourists to the country as it opens up to the world. Tourism has emerged as a primary revenue source for Bhutan's budget over recent decades. The government has maintained a conservative approach toward receiving foreigners and developing the tourism sector. Embracing a High Value, Low Volume policy positions the country as an exclusive and consequently expensive tourist destination globally. This strategy aligns with Bhutan's objectives of preserving environmental, social, and cultural equilibrium while fostering sustainable economic development [source 4]. However, the pandemic dealt a severe blow to the sector, impacting it more significantly than other segments of the economy. Budget revenues from tourism sharply declined during 2020–2022. To illustrate, there was a drastic decrease from \$225 million in 2019 to only \$19 million in 2020 [1]. Furthermore, the incomes of employees within the tourism sector also decreased. Bhutan reopened its borders to foreign tourists in late September 2022, yet the Sustainable Development Fee charged to tourists increased from \$65 to \$200. This change is likely to restrict inbound tourism volume, which the Bhutanese government aims to control, resulting in persistently low budget revenues from this sector. Consequently, it appears that fully restoring tourism in Bhutan to pre-pandemic levels will require a considerable amount of time.

On the whole, the economic situation in the country in 2022 was aggravated by a number of factors, such as:

- 1) rising energy prices;

2) the resulting drop in the exchange rate of the Indian rupee and the Bhutanese ngultrum pegged to it against the US dollar;

3) restriction of wheat export by the Indian side.

The cumulative effects led to a general increase in the cost of imported products amid a chronic trade balance deficit and a reduction in foreign currency receipts.

Bhutan's trade and economic partners are limited in scope. According to the World Bank and UNCTAD, South Asian countries, on average, constitute 98% of the country's exports and 80% of its imports [source 5]. The Republic of India traditionally serves as Bhutan's primary partner, accounting for 79% of both its exports and imports [source 6]. Bhutan's major exported items include electric power, mineral raw materials (primarily for construction and metallurgy), agricultural products (such as cardamom, cordyceps, juices, oranges, ginger, betel nut, and various others), as well as handicrafts (including jewelry, handmade paper, soap, and tanka painting). Conversely, Bhutan imports a broad spectrum of goods, ranging from agricultural products and consumer goods to petroleum products, fuel, machinery, and communication devices. This extensive list of imported products objectively indicates the national economy's dependence and the society's reliance on external sources.

Bhutan's embrace of the global community created an additional source of revenue in the Bhutanese economy – remittances from migrant workers, with popular destinations including Kuwait, UAE, Bahrain, Qatar, as well as India, Thailand, Japan, Malaysia, and Israel [source 7, p. 30]. Since 2013, the country has implemented measures for the systematic development of outbound labor migration. In 2022, Bhutan adopted the National Strategy on Overseas Employment for 2022–2030. This strategy focuses not only on creating mechanisms for employing citizens in safe and satisfactory conditions but also on equipping them with skills and experiences beneficial for the growth of Bhutan's own economy upon their return. The majority of labor migrants find employment in industries such as tourism, wholesale and retail trade, education, advanced training, and

information technology [source 7, p. 31]. Remittances from abroad stand as one of the primary sources of replenishing Bhutan's foreign exchange reserves, critical for servicing foreign debt and covering import costs (given the chronic negative trade balance with India mentioned earlier). They also contribute to enhancing the overall standard of living of the population. From January 2016 to December 2022, Bhutan's economy received \$439.27 million through these remittances [2]. Acknowledging the significance of maintaining foreign exchange earnings, especially in the absence of tourists during 2020–2022, authorities implemented measures to incentivize remittances from abroad through official channels. An incentive increase of 2% was introduced for the amount in foreign currency remitted by Bhutanese individuals working or studying abroad when converted into ngultrums.

NATIONAL ECONOMY OF NEPAL: SPECIFICS AND DEVELOPMENT HORIZONS

The percentage distribution of Nepal's economy among its main sectors is as follows: agriculture – 24%, industry – 14%, and services – 62% [source 8]. Despite its relatively low profitability, agriculture remains the primary sector employing the majority of Nepal's population. Nepal specializes in cultivating rice, wheat, millet, corn, potatoes, sugar cane, and livestock breeding. The country's complex climatic and geographical conditions contribute to low productivity. Nepal's reliance on imports of fertilizers, agricultural crop seeds, and machinery mirrors the situation in Bhutan. The Terai region², bordering India in the south, is most suitable for agricultural activity. Conversely, inadequate transport infrastructure in the other two regions, the *Hills* and the *Mountains*, coupled with geographical conditions, causes their overall lag and leads to food shortages [3, pp. 52-53].

2 Terai is a lowland region in the south of Nepal, at the southern foothills of the Himalayas, characterized by swampy soils and wet tropical thickets of trees and shrubs.

The industrial sector in Nepal is relatively underdeveloped, with most enterprises being small-scale operations engaged in processing agricultural products, textiles, and construction materials, among others. Historically, the initial enterprises were established by Indians due to Nepal's close economic ties with India. Joint Indian-Nepalese enterprises only emerged in the 1980s [4, p. 223]. Presently, Nepalese industry is predominantly concentrated in cities located near the Indo-Nepal border.

Although Nepal boasts considerable *hydropower potential*, estimated at up to 42 MW (with a theoretical ceiling of 83 MW), the industry is currently stagnating, generating less than 1.2 MW [5, p. 3]. The primary impediments to the sector's development include a lack of significant investments, technical complexities in project implementation, and the seasonality affecting the maximum productivity of run-of-river power plants. Despite private hydropower plants operating alongside those under the Nepal Electricity Authority, the country grapples with chronic electricity shortages. Nepal has to import electricity from India to supply the private sector and industrial enterprises, either in ready-to-use electricity or fossil fuels.

Nepal's bilateral trade and economic relations encompass a broader spectrum, extending beyond its South Asian neighbors. These relations include trade connections with the People's Republic of China (accounting for up to 2% of exports and 16% of imports), the United States of America (constituting 10% of exports and 1% of imports), the United Arab Emirates (representing 0.3% of exports and 2% of imports), and the Federal Republic of Germany (contributing 3% of exports and 0.5% of imports). However, despite this diversification, South Asia remains a dominant factor, accounting for 70% of Nepal's exports and 64% of imports, with India alone accounting for 69% of exports and 63% of imports [source 9]. This trend is shaped by geographical and historical factors. Geographically, trade through India's territory is both feasible and economically viable. Historically, centuries-old economic ties, influenced by cultural and historical commonalities, rely significantly on personal relationships, often

stemming from cultural and historical bonds, and prevailing due to the lack of actual border control.

Nepal primarily exports agricultural products (such as soybean, ghee and palm oil, spices) and textiles (including carpets, yarn, jute, and wool). Simultaneously, the country heavily relies on the import of essential commodities, including food, consumer goods, fuel and oil products, construction materials, vehicles, and various equipment.

Remittances from labor migrants play a crucial role in supporting both households and the national economy. In 2021, remittances accounted for 24% of Nepal's GDP, amounting to 7.5 billion dollars [source 10, p. 119]. Traditional destinations for labor migration include six countries in the Persian Gulf (Bahrain, Qatar, Kuwait, UAE, Oman, and Saudi Arabia), alongside Malaysia and India. While specific numbers and proportions of Nepalese migrants to the first seven countries are ascertainable (comprising 85% of the total migrant population), determining accurate figures for India remains challenging due to open borders and closely-knit grassroots-level ties. According to estimates from the Nepalese government, the number of labor migrants is around 1 million, excluding those departing for seasonal work [source 10, p. 4]. The vast majority of labor migrants are engaged in agriculture, fishing, animal husbandry, and service-oriented roles in production, trade, and services [source 10, pp. 77-86].

SPECIFICS AND VULNERABILITIES OF THE ECONOMIES OF BHUTAN AND NEPAL

A comprehensive study of the economic activities of Bhutan and Nepal allows for several conclusions about their current situation and the specifics of their economic development.

Similar physical and geographical conditions in both countries result in comparable characteristics and shared challenges. Despite progress since their establishment within modern borders, Bhutan and Nepal still grapple with weak national economies characterized by limited resources, restricted opportunities, and low adoption of advanced technologies that could bolster produc-

tivity in agriculture and industrial production. Inefficient operational organization and administration represent key developmental obstacles in both small nations.

Both countries exhibit a deep reliance on trade and economic relations with India. This reliance manifests through comprehensive integration across various economic facets: bilateral trade, international transit through Indian territory, investments, budgetary support from New Delhi, labor migration, and earnings from it. This integration is facilitated by bilateral treaties established in the mid-twentieth century, enabling free movement of goods and people across the border.

Bilateral trade between Nepal and Bhutan with India consistently registers deficits. For instance, in the 2021-2022 fiscal year, Nepal-India trade amounted to about 1.045 billion Nepalese rupees³, while for Bhutan, it was 44.8 billion ngultrums⁴. Both small Himalayan nations primarily import a wide range of goods from their southern neighbor, including food products, household items, vehicles, machinery, industrial equipment, and components. They export agricultural products, handicrafts, and mineral resources.

4. The development plans of Bhutan and Nepal follow a five-year planning framework, initiated in collaboration with India, to implement significant national projects in healthcare, education, transportation, and other socially critical sectors. Even today, budgetary assistance from New Delhi plays a pivotal role in both countries. Development assistance remains a distinct expenditure item in the Indian federal budget for Thimphu and Kathmandu. In the current fiscal year starting April 1, 2023, the Indian government plans to allocate 24.1 billion rupees⁵ to Thimphu (including grant funds and loans) and 5.5 billion rupees⁶ to Kathmandu [source 11, p. 19].

³ As of October 4, 2022, it corresponds to 11,104,100 US dollars.

⁴ As of October 4, 2022, it corresponds to 550,592,000 US dollars.

⁵ As of March 15, 2023, it corresponds to 288,120,000 US dollars.

⁶ As of March 15, 2023, it corresponds to 66,000,000 US dollars.

INTERRELATION BETWEEN THE ECONOMY AND FOREIGN POLICY

Under current conditions, Nepal and Bhutan cannot be considered entirely self-sufficient. Limited resources and specific natural conditions significantly complicate the task of sustainable development for these small states. The imperative to improve economic systems, social security, and meet modern international relations requirements necessitates raising additional funds within foreign and international aid programs. Overall, the foreign policies of Bhutan and Nepal are primarily centered on seeking appropriate funding sources and establishing relations with new investors. India remains the primary sponsor of their development initiatives, despite an increasing involvement of external actors like the People's Republic of China, the USA, Japan, and EU countries in the regional relations configuration.

In the current context, economic aid tools from India have become effective leverage to influence the governments of Bhutan and Nepal. Given the significance of the Himalayan barrier in the India-China border area, New Delhi closely monitors any external activities of these small states, be it political engagement on the international stage, bilateral contacts, or implemented development projects by their governments. India's inclusion of both states among its priority partnership countries underscores its intent not just to maintain and strengthen political connections but also to expand Indian capital and company presence while fostering grassroots-level ties. This comprehensive engagement ensures India's full consideration of its national interests amid the ongoing territorial dispute with China.

However, this long-term strategy of control and containment isn't universally effective. The potency of stringent economic tools diminishes when alternative sources of economic benefits are available. India's attempts to exert a comprehensive political, economic, and cultural influence on the internal political agenda of Nepal and Bhutan elicit an expected reaction from their elites: an attempt to balance between the competing neighbors while employing different models to achieve equilibrium.

To understand the current regional situation, one must acknowledge that in the mid-20th century, Himalayan countries were primarily driven by economic development interests alongside concerns for national security and statehood preservation. The swift and successful incorporation of Tibet into the People's Republic of China raised significant apprehensions among the Bhutanese and Nepalese governments regarding their territories due to the expanding borders and territories area controlled by the Communist China compared to its imperial period. These concerns, coupled with New Delhi's aspirations to control borders and dominate the border region, led to the signing of friendship agreements between India and both states in 1949–1950. These agreements not only shaped the trajectory of economic ties but also contributed to the formation of an integrated security system, slightly modified and persisting to the present day. Though, by 1960–1961, the Nepalese leadership took steps to normalize relations with China, primarily focusing on border delineation. Warmed political dialogue between Kathmandu and Beijing opened prospects for expanded trade, economic relations, and development projects. Notably, the Chinese side participated in developing Nepal's road and transport infrastructure. With Nepal's participation in the Belt and Road Initiative, which connected China with South Asia, the potential of utilizing the small state's transit position on one of these routes became evident.

The pragmatic approach of Nepal's leadership, adhering to the one-China policy, contributed to improved political dialogue between Kathmandu and Beijing. Measures aimed at tightening conditions for Tibetan refugees in Nepal also played a significant role, drawing criticism from India and several Western nations that persist in attempts to internationalize the Tibetan issue.

In addition to socio-economic interests, the prevailing internal political agenda and the balance of national political forces remain decisive factors in Nepal's foreign policy direction. In the current multi-party setting, the Nepali Congress, Nepal's oldest party, traditionally focuses on ties with India, while left-wing parties advocate for an independent stance in relations with New

Delhi, promote closer ties with China, and seek alternative partnerships. The perception of active Indian policy as a manifestation of regional hegemonism, a characteristic to some extent for all small South Asian states, makes distancing from India a subject of Nepali expert and public debates, resulting in periods of warming and cooling in bilateral relations. During cooling periods, politicians tend to raise the complex issues existing in Indo-Nepalese relations. Primarily, these issues revolve around territorial disputes, notably the conflict over territories in the Kalapani areas with the Lipulekh mountain pass, as well as Limpiadhura, Susta, and Mechi. Secondly, concerns arise over Indian interference in Nepal's internal affairs, directing its foreign policy by pressuring the interests of Madhesi peoples residing in the Terai area and imposing economic blockades, with the 2015 political, economic, and humanitarian crisis being a notable result of such interference. The third significant issue remains the ongoing dispute over the utilization of transboundary river waters.

Seeking to distance itself from Indo-Chinese rivalry, Nepal has adopted a policy of neutrality, endeavoring to expand partnerships that could potentially offer development assistance. In line with this approach, the country's leadership attempted to gain broad international recognition as a 'zone of peace,' aligned with Kathmandu's overall pursuit of sovereignty and detachment from New Delhi. This was seen as a strategy to avoid entanglement in a potential armed conflict between the neighboring powers. However, as this proposal did not align with Indian interests, it lacked support from India and did not progress further.

The issue of security remained pertinent for Bhutan's political leaders for an extended period. The country lacked a capable military to resist the PLA, compelling it, under India's pressure, to accept both military and economic aid from New Delhi. Bhutan was also guided in its foreign policy activities by the recommendations of its stronger southern neighbor, as legally established in the 1949 bilateral Treaty of Perpetual Peace and Friendship. This provision meant India's direct representation of Bhutan's inter-

ests in negotiations or participating in as a third party. This colonial-era relic was only revised in 2007, replacing the clause in the new friendship treaty with a commitment to close cooperation in matters related to their national interests and preventing their territories from being used to harm national security and interests [source 12]. While Thimphu managed to revise the necessity of coordinating its foreign policy with New Delhi, Bhutan's economic and military dependence on India remained significant. This dependency was evident during the 2017 Doklam Plateau standoff when Chinese construction activity in the disputed area prompted a two-month border confrontation between Chinese and Indian armed forces. This incident demonstrated that Bhutan, while no longer a formal Indian protectorate, retained its essence as such. Consequently, despite Bhutan's shift from isolationism and the transition of negotiations with China into bilateral discussions on territorial settlement, the negotiation pace with Beijing did not accelerate. Nonetheless, Bhutan's achievement of the right to independently conduct negotiations and foreign policy represented a significant milestone, allowing Thimphu to intensify diplomatic activities establishing diplomatic relations in 2009.

RESEARCH FINDINGS

Comprehensive economic dependence on India has significantly shaped the predictable foreign policy orientations of Bhutan and Nepal. Despite attempts by both countries to diversify their range of foreign economic partners, these efforts have encountered several challenges. Objective issues such as problems with the transit of goods through Indian territory, limitations in volume and cost of supplying a wide range of products, and a limited list of exportable goods suitable for international markets have contributed to this situation. Subjective factors including historically established relations, established logistics, and prevailing economic practices with Indian partners, as well as a relatively low level of legal awareness and readiness among Bhutanese and Nepalese entrepreneurs to explore partnerships in other countries, have also played a role.

While Bhutan and Nepal are recognized as sovereign political entities within the modern international system, analyzing only the economic aspect of their development suggests a continuity of the colonial-era pattern of "patron-client" relationships in this new political context, indicating a strong influence and reliance on India in their economic affairs.

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