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EDITORIAL ANALYSIS

Power as Partnership — What India-Bhutan Hydropower Cooperation Tells Us About Neighbourhood Policy

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GS2



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MAINS RELEVANCE:

GS Paper 2



INTERVIEW ANGLE

"How does India use energy cooperation as an instrument of neighbourhood diplomacy? What lessons does the India-Bhutan model offer for India-Nepal and India-Bangladesh energy relations?"

WHY IN NEWS

The Adani Group commenced the 570 MW Wangchhu Hydropower Project in Chukha district, Bhutan — a private Indian company entering the traditionally government-led India-Bhutan hydropower partnership, highlighting the evolving architecture of India's neighbourhood energy diplomacy.

THE TEMPLATE OTHERS ENVY

In South Asia — a region defined more by its diplomatic disputes than its cooperation — the India-Bhutan bilateral relationship stands apart. No border disputes, no cross-border terrorism concerns, no Sino-Indian competition for influence that has distorted India-Nepal relations. And at the economic heart of this relationship sits **hydropower** — a natural resource Bhutan has in abundance, an energy need India has in surplus.

The model is elegant: India finances and helps build hydropower projects in Bhutan's steep river valleys. Bhutan exports the surplus electricity to India's eastern grid at a negotiated rate. Bhutan earns hard currency — in some years, hydropower revenues constitute close to 25–30% of GDP. India gets clean, dispatchable baseload power. Both governments call it friendship; it is also, candidly, self-interest that happens to align.

The Wangchhu project — and the first entry of a private Indian conglomerate into this framework — is worth examining not just as an energy project, but as a window into how India thinks about neighbourhood economic diplomacy.

THE GEOPOLITICAL CONTEXT: CHINA'S BHUTAN GAMBIT

India-Bhutan energy cooperation does not exist in a vacuum. China has been making territorial claims on portions of Bhutan's northern and western borders — part of its broader strategy of using border disputes to create leverage over Himalayan states. Chinese infrastructure is creeping toward Bhutan's claimed territories in Doklam (the site of the 2017 India-China standoff) and other disputed areas.

Bhutan's response has been careful — it maintains no diplomatic relations with China, and its security framework is deeply interwoven with India's. But China's economic overtures are real, and Bhutan's government has been engaged in border negotiations with China that India watches closely.

In this context, India's continued investment in Bhutan's economic development — including the hydropower projects — serves a strategic purpose beyond energy: it deepens Bhutan's economic dependence on the Indian market and keeps Bhutan firmly in India's strategic orbit. The Wangchhu project, whatever its commercial logic, also has a geopolitical dimension.

THE ADANI ENTRY — WHAT IT SIGNALS

The traditional hydropower architecture in Bhutan involved government-to-government frameworks: India's SJVN or NHPC would partner with Bhutan's Druk Green Power Corporation, with financing from Government of India grants and soft loans.

The Wangchhu project marks a departure: **private Indian capital** directly entering Bhutan's infrastructure. This is significant for several reasons.

First, it signals maturation of the bilateral relationship. When private companies are willing to invest in a neighbour's infrastructure based on their own commercial calculations (without needing government guarantees for every project), it indicates that the bilateral business environment is stable enough for private risk appetite.

Second, it signals India's **Neighbourhood First policy going commercial**. Previously, neighbourhood diplomacy was largely government-to-government with private sector as an implementing contractor. The Wangchhu model suggests private capital can be a lead investor — potentially replicable in Nepal, Bangladesh, and Sri Lanka.

Third, it raises questions about **accountability and regulatory oversight**. When a public entity like SJVN builds in Bhutan, parliamentary committees and CAG audits provide some accountability. A private conglomerate operates under commercial law. Who ensures that a private project respects Bhutan's environmental and social standards? The bilateral treaty framework needs to evolve to accommodate private players.

THE NEPAL COMPARISON — AN INSTRUCTIVE CONTRAST

Nepal also has enormous hydropower potential — the Himalayan rivers (Kosi, Gandaki, Karnali) are among the world’s highest-gradient river systems. India-Nepal hydropower cooperation has, however, been plagued by delays, disputes, and political friction.

The **Arun-III project** (900 MW) in Nepal, being developed by SJVN, has faced repeated delays. Nepal’s hydropower sector is embroiled in complex royalty arrangements, power purchase agreements, and disputes over who gets first right to buy power. The **Power Trade Agreement** between India and Nepal — allowing Nepal to export power to India — was a step forward but has not fully unlocked the potential.

The contrast with Bhutan is instructive: Bhutan’s smaller size, political cohesion, and absence of competing external bidders (China is absent from Bhutan’s energy sector) made cooperation simpler. Nepal’s complexity — larger, more politically volatile, with China actively competing for influence — means India’s hydropower diplomacy there faces structural headwinds.

THE BANGLADESH DIMENSION

Bangladesh has recently emerged as a new frontier for India’s hydropower diplomacy. India exports power to Bangladesh from its northeastern grid — Tripura, Assam, Meghalaya — and there is growing interest in a **tripartite arrangement** where Bhutanese or Nepali power could transit through Indian territory to reach Bangladesh.

This cross-border electricity trade model — often called BBIN (Bangladesh-Bhutan-India-Nepal) power trade — could transform the regional energy market. For India, it positions India as the **transit hub** for South Asian electricity — a role that generates both economic returns and geopolitical influence.

UPSC RELEVANCE

Prelims: Wangchhu 570 MW; Chukha district; run-of-river; SJVN; DGPC; Tala HEP 1,020 MW; India-Bhutan Friendship Treaty 2007; Doklam; BBIN energy trade.

Mains GS-2: India’s neighbourhood first policy — hydropower as instrument; India-Bhutan vs India-Nepal hydropower cooperation (comparison); private sector in bilateral energy projects; China’s Bhutan border claims and India’s strategic response; BBIN power trade framework.

★ FACTS CORNER — KNOWLEDGEPEDIA
INDIA-BHUTAN HYDROPOWER PARTNERSHIP:

- Legal basis: India-Bhutan Friendship Treaty, 2007 (revised from 1949 treaty)
- Power exports: Bhutan to India (eastern grid: West Bengal, Assam, Sikkim, J'khand)
- Revenue share: Hydropower ~25–30% of Bhutan's GDP in peak years
- Target: 10,000 MW of hydropower capacity (bilateral agreement)
- Key implementing bodies: SJVN (India), NHPC (India), DGPC (Bhutan)

INDIA-NEPAL HYDROPOWER:

- Key project: Arun-III (900 MW) by SJVN (under construction)
- Power Trade Agreement (India-Nepal): 2014; allows Nepal to export power to India
- Challenge: Political friction, royalty disputes, China's competing presence

DOKLAM STANDOFF:

- Year: June–August 2017
- Issue: Chinese road construction in Doklam (Bhutan claims; India intervened)
- Outcome: Both sides withdrew without formal resolution
- Significance: Showed India would militarily intervene to protect Bhutan's territorial interests

BBIN POWER TRADE:

- BBIN: Bangladesh-Bhutan-India-Nepal
- India as transit hub for cross-border electricity trade
- Status: Conceptual framework; being developed under BIMSTEC and SAARC energy frameworks

NEIGHBOURHOOD FIRST POLICY:

- Launched by PM Modi in 2014
- Prioritises SAARC neighbours in India's foreign policy
- Instruments: Energy cooperation, connectivity, development assistance, people-to-people ties

Sources: Indian Express, Ministry of External Affairs

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