



# Bhutan: The Land of the Thunder Dragon

## *Diversification and Modernization*

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This paper expresses the views of the author and not the views of the European Institute for Asian Studies.

## **Bhutan: The Land Of The Thunder Dragon**

### **Diversification and Modernization**

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### **Abstract**

This paper examines the prospects for the diversification and modernization of Bhutan's economy, focusing in particular on the private sector, the IT/ICT sector, digital connectivity, the financial sector, and the strategies employed to reach this goal. At the same time, this development is juxtaposed with preserving the country's unique cultural heritage and environmental sustainability, which have been constant and consistent goals throughout all the Five Year Plans, and will be implemented in the latest twelfth Five Year Plan in 2018 as well. This paper is divided into six sections, titled as follows: Introduction; Country Overview; Diversification and Modernization; External factors; Recommendations, and Conclusion. Smaller subgroups are included in the diversification section, along with a section on Bhutan's regional cooperation.

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## List of abbreviations

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ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BBINGQ	Global Agriculture Food Security Program
BDFCL	Bhutan Development Finance Corporation
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOB	Bank Of Bhutan
CIRT	Computer Incident Response Team
DHI	Druk Holding and Investment Ltd.
ECHO	European Civil Protection and Humanitarian Aid operation
EEM	Election Expert Mission
e-GDDS	Enhanced General Data Dissemination System
EIB	European Investment Bank
EOM	Election Observation Mission
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FAO	Food and Agriculture Organization
FYP	Five Year Plans
GAFSP	Global Agriculture Food Security Program
GDP	Gross Domestic Product
GNH	Gross National Happiness
GSP	Generalized System of Preferences
IBRD	International Bank for Reconstruction and Development
ICA	The Investment Climate Assessment
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ISP	Internet Service Providers
IT	Information Technology
ITES	Information Technology Enabled Services
LDC	Least Developed Country
MEP	Members of the European Parliament
MIGA	Multilateral Investment Guarantee Agency
NSDP	National Summary Data Page
RGoB	Royal Government of Bhutan
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SARTTAC	South Asia Training and Technical Assistance Centre
SBI	State Bank of India
SDMX	Statistical Data and Metadata Exchange
SME	Small and Medium-Sized Enterprise
SPC	Strategic Program for Climate Resilience
TA	Technical assistance
TPP	Thimphu Tech Park
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USD	US Dollar

WB            World Bank  
WBG          World Bank Group  
WTO          World Trade Organization

## 1 Introduction

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"Druk Yul," the "Land of the Thunder Dragon", popularly known as Bhutan to the rest of the world, is a remote Himalayan kingdom landlocked between two giants: China to the North and India to the South. On its northern border, Bhutan is flanked by some of the highest mountains in the world. Bhutan takes pride in the preservation of its traditional culture, its pristine environment, and its official policy of Gross National Happiness (GNH). With a population of approximately 800,000, this tiny kingdom is on its way to becoming the first carbon negative country in the world.<sup>1</sup> After a century of Monarchy rule, Bhutan became a democracy in 2008 after the fourth king of Bhutan, Jigme Singye Wangchuck, handed over the throne to the crown prince - now the fifth king of Bhutan – Jigme Khesar Namgyal Wangchuck, who transformed Bhutan into a democracy. Being landlocked puts this young democratic nation at a huge disadvantage in terms of trade, modernization, and diversification of its economy. However, Bhutan aims to build its economy around the concept of GNH, which is justified by the harmonious balance between material well-being, the spiritual, the emotional, and the cultural needs of its society; as well as a strong governance foundation. Bhutan ranked 27<sup>th</sup> out of 168 countries on the World Bank's Worldwide Governance Indicators in 2015, Bhutan even exceeded the average in four out of six dimensions of governance, including: governance effectiveness, political stability and the absence of violence.<sup>2</sup>

Hydropower accounts for one third of total good exports and is thus, the main source of export. Bhutan's numerous Five Year Plans focused on attaining self-sufficiency, economic diversification, modernization, social sector, and equity. Each Five Year Plan (FYP) from the 7th FYP (1992) through to the 11th FYP (2018) emphasizes the importance of economic diversification, increasing human capital, proper enhancement and usage of hydropower, conservation of cultural heritage, and preserving the environment. The 12th FYP that is currently being put together seeks to build on these concepts, with the addition of improving the people's standard of living, and improving the judicial system in Bhutan<sup>3</sup>.

The imbalance of the economy has been the biggest challenge, as the private sector in Bhutan is still in its infancy, vis-à-vis the relatively large public sector. Subsequently, this imbalance has slowed the process of diversification and modernization, and caused an increase in the youth unemployment. For a country's economy to grow, a balance between the private and the public sector is crucial, and this can be done through diversification.

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<sup>1</sup> Bhutan: the world's first carbon-negative country. (2017). Retrieved July 2, 2017, from [http://www.climateactionprogramme.org/news/bhutan\\_the\\_worlds\\_only\\_carbon\\_negative\\_country](http://www.climateactionprogramme.org/news/bhutan_the_worlds_only_carbon_negative_country)

<sup>2</sup> Ishihara, Y. (2016). Evaluating Bhutan's development. Retrieved June 28, 2017, from <http://www.eastasiaforum.org/2016/09/24/evaluating-bhutans-development/>

<sup>3</sup> Royal Government of Bhutan, United Nations. (2017). *Gross National Happiness for Global Goals*. Pdf. Pg. 43. Retrieved from [http://rtm.gnhc.gov.bt/wp-content/uploads/2017/03/RTM\\_Technical-Paper\\_Final\\_web.pdf](http://rtm.gnhc.gov.bt/wp-content/uploads/2017/03/RTM_Technical-Paper_Final_web.pdf).

## 2 Country Overview

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With a landmass of 38,394 square kilometres,<sup>4</sup> of which 70 per cent is covered by forest, Bhutan's constitution obligates at least 60 per cent of the nation must remain covered by forests.<sup>5</sup> Bhutan has a GDP per Capita of USD 2,719 (2015)<sup>6</sup> and a population of 768,577, of which 65 per cent live in rural areas and depend on agriculture as their principal source of livelihood. As the agricultural sector has recorded very little overall growth in recent years, and only accounts for less than 20 per cent of the GDP,<sup>7</sup> Bhutan's economy is overwhelmingly dependent on its public sector. This imbalance between the different sectors of the economy hampers the overall growth of the Bhutanese economy.

Macroeconomic stability and diversification of economy is much needed in order to maintain its trifecta of growth, equality, and poverty reduction. In Bhutan's context, diversification means the development of the private and non-hydropower sectors. Even though the hydropower sector has played a key role in increasing the country's GDP, it has limited job creation capacity, as it is a low employment sector. Addressing these challenges will likely play a key role in Bhutan's 12th Five Year Plan, due to be released in 2018.<sup>8</sup>

The World Bank Investment Climate Assessment (ICA) found that new firms dominated the tourism, transport, and information and communication technology (ICT) sectors, such as in the manufacturing sector. The private sector in Bhutan is hampered by multiple factors, such as the size of the market, lack of infrastructure, and financial constraints; which is why the public sector plays such a dominant role in the major economic operations.<sup>9</sup> In both the 10<sup>th</sup> (2008-2013) and 11<sup>th</sup> (2013-2018) FYPs, the government identified the private sector as the engine of growth for Bhutan, acknowledging and pushing for a balance between public and private sectors.<sup>10</sup> Bhutanese leadership has also acknowledged that the sources of growth must be more varied and diverse, than in the past. However, Bhutan's private sector development is faced with constraints in its ambitions for development. Bhutan's geographical location, lack of infrastructure, financial development, and skilled workers are the major reasons that affect the private sector development in regards to making it "technically sound and climate resilient".<sup>11</sup>

Slow growth of the private sector and the fast paced rise of fresh graduates are increasing the rate of unemployment in youth. The schools and tertiary institutions are producing a growing number of graduates every year. Many reject employment in agriculture and drift into the towns, where youth unemployment rates are already high. However, it was noted that the quality of education differed between the rural and urban areas. There is also a mismatch between the products of the education system, as well as the present and future needs and the demands of the market.<sup>12</sup> The national unemployment rate decreased from 2.9 per cent (2013) to 2.5 per cent (2015). However, the

<sup>4</sup> National Statistics Bureau.(2016).*Bhutan at a Glance*. Pdf. Retrieved from <http://www.nsb.gov.bt/publication/files/pub3kg7317hg.pdf>

<sup>5</sup> Kunzang. (2015). Bhutan's Environmental Laws: Global Training Programme on Environmental Law and Policy. Nairobi: 5-13. Retrieved from <http://staging.unep.org/delc/Portals/119/documents/bhutan-presentation.pdf>

<sup>6</sup> National Statistics Bureau.(2016).*Bhutan at a Glance*. Pdf. Retrieved from <http://www.nsb.gov.bt/publication/files/pub3kg7317hg.pdf>

<sup>7</sup> Ibid.,para 6

<sup>8</sup> Ishihara, Y. (2016). Evaluating Bhutan's development, para 8. Retrieved June 28, 2017, from <http://www.eastasiaforum.org/2016/09/24/evaluating-bhutans-development/>

<sup>9</sup> World Bank.(2010). *Bhutan Investment Climate Assessment report: Vitalizing the Private Sector, Creating Jobs*,1, para 9. Retrieved from <http://siteresources.worldbank.org/BHUTANEXTN/Resources/306148-1288813971336/BhutanICAVolume1.pdf>

<sup>10</sup> Asian Development Bank. (2014). *Country Partnership Strategy: Private Sector Assessment*, p.3. Retrieved from <https://www.adb.org/sites/default/files/linked-documents/cps-bhu-2014-2018-psa.pdf>

<sup>11</sup> Turner, M. (2016, January 20). Is Bhutan on the Cusp of a Revolution in Private Sector Growth?para 12. Retrieved July 3, 2017, from <http://thediplomat.com/2016/01/is-bhutan-on-the-cusp-of-a-revolution-in-private-sector-growth/>

<sup>12</sup> Asian Development Bank. (2014). *Country Partnership Strategy: Private Sector Assessment*, p.4.Retrieved from <https://www.adb.org/sites/default/files/linked-documents/cps-bhu-2014-2018-psa.pdf>

unemployment rate, when segregated by gender, showed a decrease in male youth unemployment rate from 8.6 per cent in 2014 to 8.2 per cent in 2015, whilst displaying an increase in female youth unemployment rate from 10 per cent in 2014 to 12.7 per cent in 2015.<sup>13</sup> In order to accelerate the development of the private sector and to allow it to play a more pivotal role in the Bhutanese economy, Bhutan needs to create a flourishing environment for private investment.

### **3 Private Sector**

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The imbalance between the private and public sectors in Bhutan's economy hinders the potential for the private sector to bloom. Since Bhutan's development is still in its infancy, positive changes can easily be made to spur on the modernization of its economy. Easy access to Indian trade puts the private sector in Bhutan at an advantage. A combined mixture of stable labour relations; low electricity costs; flexible labour laws; and political stability amongst other things, all provide the public sector with opportunities to grow.<sup>14</sup>

Bhutan's borders are home to its main advantages: easy access to the Indian market, for raw materials and finished products; more reliable and affordable transportation; and the access to electricity grids is better.

Areas of Bhutan where transport and labour are costly should instead focus on providing services to the industries along the southern border, such as accounting, management, financial and information technology services. These areas should also provide other services, for example, transport, tourism, and construction; as well as, developing specialized products for niche markets, such as mushrooms, handicrafts, furniture, essential oils, traditional medicines.<sup>15</sup>

Despite the many positive developments, Bhutan still faces several challenges. Bhutan, being a landlocked nation, is perhaps one of the main factors explaining the weak development of the private sector. Other factors include the lack of skilled labour in appropriate fields, along with its extremely small domestic market. In addition, limited trade links to other foreign countries and a lack of foreign direct investment (apart from India) are the major challenges faced by the country in developing a robust private sector.<sup>16</sup>

The public sector absorbs the most skilled and educated workers, and most educated Bhutanese have a strong preference for working in the public rather than the private sector.<sup>17</sup>

### **4 Diversification and Modernization**

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Another prominent sector in Bhutan's economy is the hydropower sector. The hydro sector generates the majority of the country's GDP and is Bhutan's largest export, with India being the leading destination. Whilst the hydro sector provides some much-needed diversification to the Bhutanese economy, further diversification in other sectors is needed to spur on growth in the private sector.

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<sup>13</sup> National Statistics Bureau.(2016).*Bhutan at a Glance*. Pdf.Retrieved from  
<http://www.nsb.gov.bt/publication/files/pub3kg7317hg.pdf>

<sup>14</sup> World Bank. (2002). *Pilot Investment Climate Investment: Challenges and Opportunities for the Private Sector Development in Bhutan*, p.ix. Retrieved from  
<http://documents.worldbank.org/curated/en/168351468200943151/pdf/336900BHU0ICA.pdf>

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Tshedup, Y. (2016). Bhutan's private sector underdeveloped: WB, para 4. Retrieved July 8, 2017, from  
<http://www.kuenselonline.com/bhutans-private-sector-underdeveloped-wb>.

## **Information and Communication Technologies (ICT)**

In most countries, the development of Information Technologies helps boost the economy. It is either used as a business tool in firms or as a tradable service.<sup>18</sup> However, in Bhutan the IT sector faces several challenges, including comparatively high connectivity charges and a lack of IT professionals, currently most professionals come from India. Additionally, the undeveloped regulatory and financial systems have a comparatively high labour cost. On the bright side, since <sup>4.1</sup>Bhutan's IT sector is still in its infancy stage, more fundamental changes can be made to ensure it can deliver internationally competitive services. Changes can include: increasing the use of information technology in the public and private sectors; developing a pool of skilled IT workers; introducing appropriate regulations, for example, to support online businesses; and building a data network.

For Bhutan in particular, digital connectivity would be most beneficial. It would provide cyber security for Bhutan and would enable easy data sharing and processing of cross border trade transactions. At the same time, it has to be complemented with robust cyber security infrastructure, policies, protocols, and human resources. The Computer Incidence Response Team (CIRT) is a foundation that implements cyber security initiatives and it is key to strengthening national cyber security programs, which in turn help facilitate the trade of goods and services.<sup>19</sup>

CIRT is important to Bhutan because it will strengthen Bhutan's cyber security assets and also strengthen the regional cooperation between Bhutan, India and Bangladesh, as it will establish a cyber security framework that will enable secure regional trade integration. Bhutan ranked 103<sup>rd</sup> out of 147 countries in terms of low innovation in the region firm level of technology absorption.<sup>20</sup> Combined with Bhutan's landlocked status, international telecommunication connectivity is a major challenge for Bhutan from a perspective of reliability and affordability.<sup>21</sup> This explains why the Internet connection is so slow in Bhutan compared to other South Asian countries. Internet Service Providers (ISPs) and operators at the submarine cable landing stations find it challenging to access low cost bandwidth in Bhutan. Currently, Bhutan's telecommunication connectivity is provided internationally through two gateways: Phuentsholing-Siliguri and Gelephu-Bongaigaon, both of which have a single point of potential failure at the narrow Siliguri Corridor (also known as *Chicken's Neck*). This unreliable international broadband service in Bhutan is nearly ten times more expensive than that of India, and double that of Nepal's. This represents a key discouragement to improve digital connectivity, digitally enabled trade in both goods and services, the private sector development as well as, job creation.<sup>22</sup>

The benefit of having digital connectivity is that it would not only provide Bhutan with a stronger cyber security, and faster Internet service, but it will facilitate future trade development and economic growth in Bhutan. Both will depend on digital connectivity to compliment physical connectivity, particularly in landlocked countries such as Bhutan. Such connectivity will further add to the existing broadband infrastructure networks, whilst also helping to facilitate the automation of border management and the development of the industrial parks along the border.<sup>23</sup>

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<sup>18</sup> Tshedup, Y. (2016). Bhutan's private sector underdeveloped: WB, para 4. Retrieved July 8, 2017, from <http://www.kuenselonline.com/bhutans-private-sector-underdeveloped-wb>.

<sup>19</sup> Royal Government of Bhutan. (2016).Regional Connectivity Project Digital Connectivity Component, para 2. Retrieved from <http://documents.worldbank.org/curated/en/692641474280943819/pdf/SFG2438-EA-P157726-Box396308B-PUBLIC-Disclosed-9-16-2016.pdf>

<sup>20</sup> Ibid.,p.7

<sup>21</sup> Ibid., p.7-8

<sup>22</sup> Ibid., p.8

<sup>23</sup> Royal Government of Bhutan. (2016).Regional Connectivity Project Digital Connectivity Component, p.8. Retrieved from <http://documents.worldbank.org/curated/en/692641474280943819/pdf/SFG2438-EA-P157726-Box396308B-PUBLIC-Disclosed-9-16-2016.pdf>

The Royal Government of Bhutan (RGoB) has taken measures to improve the ICT sector. These include the establishment of Thimphu Tech Park (TTP) in the capital and providing a provision of rental training subsidies, which encourage the youth to seek employment in the ICT sector. The Universal Service Fund obtained is then used to finance the expansion of fibre backbone networks domestically along power transmission networks.<sup>24</sup> Today, despite a majority of villages in Bhutan having access to telecommunications, Bhutan still finds itself at the bottom of the ranks in South Asia in terms of telecommunication penetration.

Bhutan's telecommunication service could be routed from the submarines via Cox Bazaar in Bangladesh, because it will be faster and cheaper. Not only would Bangladesh be well connected to the international telecommunications highway that serves Asia, the Middle East, and Europe, but also the telecommunication would strengthen the overall network and provide Bhutan with greater competition between alternative transit/access routes for international connectivity in Bhutan.<sup>25</sup> Furthermore, strengthening the existing cyber security arrangement in the country would help make this regional connectivity between Bhutan, India and Bangladesh more secure. This is necessary to modernize and promote regional trade and also to attract private sector investment in Bhutan and the region.<sup>26</sup>

Internet connectivity through satellite connectivity could benefit Bhutan, especially in terms of cost, affordability, and accessibility. Satellite Internet connectivity through Bhutan's Broadband connection could be powered with the help of hydropower, similar to NerveNet connection, which is powered through solar power in Cambodia.<sup>27</sup> The NerveNet connection is a regional network, which aims at providing Internet at a low cost. It also provides security against disasters and sensing/alert services, and simultaneously allows local communication without cell phone network and Internet.<sup>28</sup> The NerveNet connection aims to provide ICT trainings to government staff and students, as well as promoting the entrepreneurial skills and innovation for better academic and social services. Implementing something along the lines of Cambodia's NerveNet could provide Bhutan with high-speed data communication, which is suitable for deployment across rural and remote areas, schools, universities, libraries, and health institutions. It would also provide trainings and create new jobs for young graduates. Satellite internet has been present for years, and companies like OneWeb<sup>29</sup>, claim that by placing satellites roughly 100-1,250 miles overhead in low-earth can provide faster internet access than traditional satellite internet, with less latency.<sup>30</sup>

Moreover, ICT is an important sector for Bhutan's economic diversification because it could be used for Good Governance; Information Society; and also act as a key enabler for Sustainable Economic Development.<sup>31</sup> The RGoB along with the Indian Government has worked on a five-year capacity building initiative, called Chiphen Riggel, which started in May 2010 and lasted until April 2015. The initiative was a comprehensive programme that included ICT training for government and local leaders, senior and middle level managers, ICT professionals, teachers, youth, monks, entrepreneurs, and children in the rural communities. It involved equipping schools with computer laboratories, setting up of ICT training centres in the University, vocational Institutes, youth centres,

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<sup>24</sup> Ibid.

<sup>25</sup> Ibid., p.8-9

<sup>26</sup> Ibid., p.10.

<sup>27</sup> Philbeck, I. (2017). Connecting the Unconnected: Working together to achieve the 202 Connect Agenda Targets. International Telecommunication Union, p.13. Retried from [http://broadbandcommission.org/Documents/ITU\\_discussion-paper\\_Davos2017.pdf](http://broadbandcommission.org/Documents/ITU_discussion-paper_Davos2017.pdf)

<sup>28</sup> NICT. (2015).NerveNet: A Conventional Network connection for rural Areas. ASEAN IVO Forum. Retrieved from [https://www.nict.go.jp/en/asean\\_ivo/4otfsk000029wocm-att/Rapid\\_Sun.pdf](https://www.nict.go.jp/en/asean_ivo/4otfsk000029wocm-att/Rapid_Sun.pdf)

<sup>29</sup> OneWeb. (n.d.). Retrieved August 18, 2017, from <http://oneweb.world/>

<sup>30</sup> Finley, K. (2015, September 16). Here's the Real Way to Get Internet to the Next 4 Billion People. Retrieved August 18, 2017, from <https://www.wired.com/2015/09/heres-real-way-get-internet-next-4-billion-people/>

<sup>31</sup> Royal Government of Bhutan. (2014). *Bhutan e-Government Master Plan*, p. 17. Retrieved from [http://www.moic.gov.bt/wp-content/uploads/2016/05/bhutan\\_e\\_gov\\_master\\_plan\\_14953.pdf](http://www.moic.gov.bt/wp-content/uploads/2016/05/bhutan_e_gov_master_plan_14953.pdf)

as well as learning stations in Community Centres.<sup>32</sup> However, the RGoB does not have data hubs for its people, businesses, and land.<sup>33</sup>

In the area of infrastructure and applications, all Ministries run their own ICT infrastructure in Bhutan. There are government-wide shared application systems such as HR, Finance, and Procurement that have been developed so that all ministries can make use of these shared systems to perform their business operations. Most governments are looking for ways to reach out to the public, trying to keep them informed and well engaged in the policy making process. The RGoB has yet to leverage on ICT extensively to engage citizens and business. The RGoB could consider implementing initiatives such as a policy consultation portal and use social media to start engaging the public and businesses.<sup>34</sup>

Proper and strong use of ICT can hold great promises for all sectors in Bhutan. New communications technologies can take phone lines and data into remote valleys. ICT can improve the operations of the government institutions, increasing integrity, accountability, and transparency. ICT can also increase productivity and create high value private sector jobs.<sup>35</sup>

ICT plays an important role in Bhutan's political evolution. By improving access to information and services in remote areas, the policy of decentralization can be enhanced. Additionally, democratisation improves when citizens have greater access to information and are able to participate in the political process. ICT can connect all areas, including the most isolated communities in the national development; and by improving services to remote communities, rural-urban migration can be minimised.<sup>36</sup> Demand for the ICT sector is steadily increasing in Bhutan, yet a lack of expertise/exposure to information systems is affecting the growth of the ICT sector. Therefore, pressuring the government to take up international experts and consultants to execute national and regional ICT projects is essential for the development of the domestic ICT industry.<sup>37</sup>

Meeting the growing demands can be done through establishing a strong, vibrant, and competitive ICT Industry in the private sector through Foreign Direct Investment (FDI) and Joint venture models. At present, 3.5 per cent of the country's workforce works in ICT and it only generates 3.7 per cent of its GDP, which is too low compared to the other countries in the region.<sup>38</sup> Thimphu Tech Park (TTP) is the country's first IT Park. At present, the park has few domestic companies and five international IT/ITES companies.<sup>39</sup> Singapore owned and operated a joint venture with the Druk Holdings and Investment Ltd. (DHI),<sup>40</sup> the commercial arm of the RGoB, and Assetz Property Group (APG), before DHI assumed full ownership in October 2014.<sup>41</sup> TTP has 700 employees, with an incubation centre for Bhutanese entrepreneurs to avail furnished workstation and where foreign companies can run a pilot operation to test the opportunities offered by Bhutan.<sup>42</sup>

ICT is being recognised as a priority sector by the government to transform Bhutan into a knowledge-based society. The government offers attractive incentive packages to ensure rapid and steady growth in the ICT sector. The World Bank Group (WBG) ranked Bhutan amongst the Top 100 most business friendly countries. The World Bank (WB) has ranked Bhutan 71<sup>st</sup> among 189 economies around the world in its Annual Doing Business 2016 report. Bhutan has jumped 54

<sup>32</sup> Royal Government of Bhutan. (2014). *Bhutan e-Government Master Plan*, p. 14. Retrieved from [http://www.moic.gov.bt/wp-content/uploads/2016/05/bhutan\\_e\\_gov\\_master\\_plan\\_14953.pdf](http://www.moic.gov.bt/wp-content/uploads/2016/05/bhutan_e_gov_master_plan_14953.pdf)

<sup>33</sup> Ibid.,p. 15

<sup>34</sup> Ibid.

<sup>35</sup> Bhutan ICT and Training Association. (2017). *ICT for development for Bhutan*, para 2. Retrieved from <http://bictta.org.bt/wp-content/uploads/2017/05/Overview-of-ICT-Industry-in-Bhutan002.pdf>

<sup>36</sup> Ibid.,para 3

<sup>37</sup> Ibid.,para 5

<sup>38</sup> Ibid.,para 6

<sup>39</sup> Ibid.,para 8

<sup>40</sup> Dhi. (n.d.).Profile. Retrieved July 28, 2017, from <http://www.dhi.bt/company-profile1>

<sup>41</sup> TTP. (n.d.), para 7-8. Retrieved July 28, 2017, from <http://www.thimphutechpark.com/about-us.html>

<sup>42</sup> Ibid., para. 7-8

rankings to become the best in South Asia<sup>43</sup> thanks to digital connectivity and the ICT training programs carried out by the RGoB and the external sectors.

Bhutan has not yet been able to capitalise on the growing information technology (IT) sector, let alone make a profit out of it. Bhutan's poor Internet connection is one of the many technical and professional constraints, and Bhutan's geography adds to the difficulty in providing consistent connectivity to the customers.<sup>44</sup> Diversifying Internet connection routes will be indispensable to save connectivity costs. In other words, a country with multiple connection points would receive Internet at a much cheaper rate.<sup>45</sup> The ICT sector in Bhutan has the potential to address the growing unemployment problem in the country. If Bhutan can maximise its ICT usage, it has huge potential for economic growth. Once the initiative is materialised, negotiations in Internet deals could be conducted in an orderly manner. The UNESCAP, as a neutral body, could also facilitate Bhutan's dialogue with its Indian counterpart and Bangladesh on the import of Internet bandwidth. Two hundred gewogs (counties) are now connected with optic fibres, and Bhutan's ICT sector should improve, provided the investment is utilised optimally.<sup>46</sup>

A recent Economic and Social Commission for Asia and the Pacific (ESCAP) study<sup>47</sup> on broadband networks in the Association of Southeast Asian Nations (ASEAN) sub-region, showed that the lack of diversity in ICT internet connectivity reduces the competition and increases the cost of access to global internet networks, including via submarine cables. The study found a varied level of costs for Internet transit connectivity, which is correlated with the cost of fixed broadband subscriptions. Landlocked developing countries, where other constraints such as power supply are prominent, have particularly been vulnerable to this challenge.<sup>48</sup> The emphasis needs to be put on how to design and implement more resilient ICT infrastructure, given the increasing exposure these countries have to natural disasters. Resilient ICT infrastructure and effective use of ICT at all phases of disaster management has the potential to reduce disaster risks and improve disaster risk reduction.<sup>49</sup>

#### 4.2 Financial and Banking Sectors

The financial sector of Bhutan consists of five commercial banks, a pension fund, and two insurance companies. The banking sector in Bhutan, dominates the financial system. Druk Punjab National Bank and T Bank are the two new additions, both established in 2010, to the existing three banks: Bhutan National Bank, Bank of Bhutan, and Bhutan Development Bank. Institutions like the Royal Monetary Authority (RMA), the Royal Insurance Corporation of Bhutan (RICB), Bhutan Insurance (BI), and the National Pension and Provident Fund comprise the nonbank financial institutions. The insurance sector is still in an early stage of development according to international standards. RICB and BI operate like commercial banks, providing consumer loans on vehicles purchase, loans, and credit cards due to limited capital market investments.<sup>50</sup>

The Royal Securities Exchange of Bhutan Limited (RSEBL) is Bhutan's only stock exchange. The Asian Development Bank (ADB) has been providing assistance in helping Bhutan improve its

<sup>43</sup> Bhutan ICT and Training Association. (2017). *ICT for development for Bhutan*, para 9. Retrieved from <http://bictta.org.bt/wp-content/uploads/2017/05/Overview-of-ICT-Industry-in-Bhutan002.pdf>

<sup>44</sup> ICT&DRR.(2016).*ICT has potential to address Bhutan's unemployment*, para 4.Retrieved July 8, 2017, from <http://drrgateway.net/information-communications-technology/ict-addressing-unemployment-bhutan>

<sup>45</sup> Ibid., para 6

<sup>46</sup> Ibid., para 8

<sup>47</sup> ESCAP. (2016). *A Pre-Feasibility Study on the Asia-Pacific Information Superhighway in the ASEAN Sub-region*. <http://www.unescap.org/resources/pre-feasibility-study-asia-pacific-information-superhighway-asean-sub-region>

<sup>48</sup> ICT&DRR. (2016).Sub-Regional Workshops on Internet Traffic Management and E-resilience for the Asia-Pacific Information Superhighway, para 4. Retrieved June 28, 2017, from <http://drrgateway.net/information-communications-technology/workshops-internet-traffic-management-e-resilience-bhutan>

<sup>49</sup> Ibid., para 5

<sup>50</sup> Asian Development Bank. (2014). Country Partnership Strategy: Bhutan Sector Assessment: Finance, p.2. Retrieved from <https://www.adb.org/sites/default/files/linked-documents/cps-bhu-2014-2018-ssa-02.pdf>.

financial sector since 1988. It approved a loan that supported the government's effort towards industrialization and private sector development, through Bhutan Development Finance Corporation – the only development finance institution.<sup>51</sup> The ADB assisted in strengthening economic management programs, which in turn supported the public sector's capacity in macroeconomics and fiscal management<sup>52</sup>. Moreover, the ADB also provided Technical assistance (TA), which helped further stabilize the development of the financial sector by enhancing the RMA's capacity for financial sector regulation and supervision.<sup>53</sup>

The biggest long-term constraint the financial sector in Bhutan faces is a shortage of sufficient technical capacity. However, a Technical Assistant (TA) project, which created a permanent financial training institute, was provided by the Financial Sector Development Program to institutionalize skills and capacity development during 2006–2012.<sup>54</sup>

The Bhutanese economy relies heavily on the Indian economy to such an extent that stronger economic growth in India translates into stronger growth in the Bhutanese economy. The inflation in Bhutan will closely track the inflation in India and India's monetary policy is effectively Bhutan's monetary policy because of the peg.<sup>55</sup>

Bank Of Bhutan (BOB) was the first commercial bank in Bhutan, established in 1968 as a joint venture between the government and a Chartered Bank. BOB served as the Bhutan's central bank until RMA was established in 1983. RMA functions as the primary regulator of financial institutions, in addition to its responsibilities for the country's monetary policy. State Bank of India (SBI) and BOB reorganized and SBI invested capital and helped in management, in exchange for 40 per cent of the BOB's equity in 1972. Later in 2002, SBI ownership was reduced and the management was returned to Bhutan.<sup>56</sup>

4.3 RGoB along with the ADB established Bhutan Development Finance Corporation (BDFCL) to serve the needs of small and medium-sized enterprises (SMEs) in the private sector – especially those in the agricultural sector. BDFCL served as a commercial bank, and was later renamed as Bhutan development Bank (BDBL).<sup>57</sup> Much of the financial sector's growth comes directly or indirectly from funding investments in the hydroelectric power projects, many of which have come online in recent years.<sup>58</sup> The financial sector still remains, highly liquidated, because of the deposits belonging to the government and the state-owned enterprises. Grants received by the government are deposited into commercial banks, and banks are eager to fund new hydro plants as well as new housing and consumer goods, rather than sit on liquid assets that earn little or no interest.<sup>59</sup>

### **Other Sectors**

Agro processing, wood-based industries, tourism, and information technology have been identified as potential sources of comparative advantage and employment growth in Bhutan by the government. Agro processing has high potential, due to the development of high-value, low-volume products (incense, mushrooms, essential oils, traditional medicines) in niche markets, courtesy of

<sup>51</sup> Asian Development Bank. (2014). Country Partnership Strategy: Bhutan Sector Assessment: Finance, p.2. Retrieved from <https://www.adb.org/sites/default/files/linked-documents/cps-bhu-2014-2018-ssa-02.pdf>.

<sup>52</sup> ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Grant to the Kingdom of Bhutan for Strengthening Economic Management Program. Manila

<sup>53</sup> ADB. 2012. Technical Assistance to the Kingdom of Bhutan for Supporting Financial Stability in Bhutan and the Maldives. Manila, para 12.

<sup>54</sup> ADB. 2006. Technical Assistance to the Kingdom of Bhutan for Institutionalizing Skills and Capacity Development Manila.

<sup>55</sup> Cole, A., & Carrington, S. (n.d.). *An Assessment of Financial sector Development in Bhutan*, ADB: 44, p.2. Retrieved from <https://www.adb.org/sites/default/files/publication/190216/sawp-044.pdf>

<sup>56</sup> Ibid., p.4

<sup>57</sup> Ibid., p.5

<sup>58</sup> Ibid.

<sup>59</sup> Cole, A., & Carrington, S. (n.d.). *An Assessment of Financial sector Development in Bhutan*, ADB: 44, p.11. Retrieved from <https://www.adb.org/sites/default/files/publication/190216/sawp-044.pdf>

Bhutan's biodiversity, organic production, and range of microclimates. At the same time, it could attract large-scale businesses with foreign ownership in border areas, based on the competitive advantages of a flexible labour force, a stable political environment, and competitive infrastructure, by focusing on imported raw materials.<sup>60</sup>

Similarly, wood-based industries have the potential to serve regional markets, particularly Bangladesh, in specialist categories not adequately served by local producers or by the growing imports from Europe and Southeast Asia. This sector could penetrate some niche markets with easily transported, high-value, low-volume products; however, realizing this potential will require some changes. Firms must gain access to single-species timber in appropriate sizes and quality. The government ban on semi-finished products needs to be relaxed so that firms can gain experience and gradually move downstream to more finished products. Productivity must be raised through better management, the use of appropriate equipment, and properly trained labour. In Bhutan's goal of preserving, sustaining, and conserving the environment – Bhutanese forests should be certified as being sustainably managed to provide a selling point for Bhutanese wood products.<sup>61</sup>

Tourism has been one of the most popular sectors in the Bhutanese economy and has further potential for growth. Developing an appropriate strategy with policies and regulations for adjusting the pricing policy (particularly non-peak pricing), undertaking active marketing (by both firms and the government), improving access to Bhutan and the standard of service and accommodation, as well as addressing and creating awareness about the seasonality issues would be required in realization of this potential.<sup>62</sup>

### **Major Constraints on Diversification**

4.4

In order to diversify the Bhutanese economy beyond hydropower, the RoGB has promoted agricultural production such as oranges, apples, and other temperate commodities; whilst, also strategically positioning itself in a number of high-value niche exports, such as mushrooms and lemon grass oil in which Bhutan has, within South Asia, some comparative advantage. Aside from agriculture, the RoGB is particularly looking to promote trade as a long-term strategy – particularly trade in the knowledge based economy and cultural industry goods and services, in order to broaden its economic and export base and to generate quality employment.<sup>63</sup> The Department of Commerce has identified export priority sectors, for example handicrafts and wood-based products within the framework of the European Commission-sponsored Trade Development Project in Bhutan.<sup>64</sup>

Geography remains Bhutan's main constraint when it comes to diversification and competition in agricultural trade. The climatic and soil differences, including limited availability of arable land, the rough terrain, and poor soil quality all contribute to Bhutan's disadvantage.<sup>65</sup> Similarly, other factors such as infrastructural or institutional deficiencies – particularly with relation to inadequate rural facilities; low-yielding seedlings; the low adoption level of modern technologies; insufficient support services; limited access to finance; and poor farmer linkages all come together and contribute to Bhutan's geographical disadvantage.<sup>66</sup>

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<sup>60</sup> World Bank. (2002). *Pilot Investment Climate Investment: Challenges and Opportunities for the Private Sector Development in Bhutan*, p.xiv. Retrieved from <http://documents.worldbank.org/curated/en/168351468200943151/pdf/336900BHU0ICA.pdf>

<sup>61</sup> Ibid., p.xiv-xv.

<sup>62</sup> Ibid.

<sup>63</sup> Royal Government of Bhutan (2009b). *Keeping Promises. A Report on the Status of Implementation of the Brussels Programme of Action in Bhutan for the Decade [2001–2010]*.

<sup>64</sup> European Commission (2003). Country strategy paper. Bhutan and the European Community co-operation strategy. C(2003)826 – E/309/2003.

<sup>65</sup> UNCTAD. (2011). Who is Benefiting from Trade Liberalization in Bhutan, p.16. Retrieved from [http://unctad.org/en/PublicationsLibrary/osg2011d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/osg2011d1_en.pdf)

<sup>66</sup> Ibid.

This is amplified by factors such as weak transportation and communication infrastructure, and high transaction costs associated with custom clearance. These form the main constraints to Bhutan's export diversification. However, the overall main constraint and challenge in Bhutan would be the low level of technological base and weak education or schooling record, particularly among women.<sup>67</sup>

## 5 External Sector

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The external sector is of extreme importance for Bhutan especially since it provides the two most important sources of growth – exports and foreign aid. Bhutan depends on its imports for its requirements of capital goods, raw materials, basic consumer goods, and medicines and pharmaceuticals. Bhutan has a moderately low-level tariff structure that is lower, relative to India's or any other South Asian countries.<sup>68</sup>

RGoB approved the Foreign Direct Investment (FDI) Policy in December 2002, which became a significant landmark in Bhutan's gradual process towards economic liberalization. Bhutan implemented broad objectives to support their private sector development; generate employment; facilitate transfer of capital; improve technology and skills; and broaden the revenue base to a number of areas in the manufacturing and service sectors, where foreign investors can hold up to 70 per cent of the equity that has been identified.<sup>69</sup> It was later observed that the FDI's conservative policy presented several constraints to potential foreign investors, as it had been developing along cautious lines. Relaxing the ceiling on foreign equity participation investment and a further simplification of the regulatory framework for private investment, particularly industrial licensing, should be considered an essential element of future reforms.<sup>70</sup>

### 5.1 The European Union (EU) and Bhutan

Bhutan and the EU established diplomatic relations in 1985. However, the EU's presence was present long before the 1982. The EU was instrumental in helping Bhutan achieve the MDG goals. EU support projects operate in the fields of renewable Natural resources, trade, and economic capital.<sup>71</sup> Since Bhutan's economy is predominantly rural – where most small and isolated communities lack the access to roads, markets, and modern communication altogether – the foremost challenge has been to bring health, education, higher agricultural productivity, and rural development to these rural areas.<sup>72</sup> There have also been multiple EU Parliament visits from Bhutan over the past few of years. The EU and Bhutan initiated a Multi Indicative Plan (MIP) from 2014 to 2020. The main objectives being to support the democratization and modernization processes with RGoB's development plan.

In December 2015, the EU and Bhutan signed a joint declaration on cooperation and climate policies to express their common intention of mitigating the effects of climate change. A new project known as the Rural Development and Climate Change Response Programme is expected to continue the support for the environmental sector, starting in 2017. The programme supports Bhutan's 11<sup>th</sup> FYP objectives, by: enhancing food and nutrition security; improving rural livelihoods and generating employment; accelerating sector growth through commercial farming and enterprises; and

<sup>67</sup> UNCTAD. (2011). Who is Benefiting from Trade Liberalization in Bhutan, p.16. Retrieved from [http://unctad.org/en/PublicationsLibrary/osg2011d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/osg2011d1_en.pdf)

<sup>68</sup> Economic And Political Relations Between Bhutan and the Neighbouring Countries. (n.d), p.102.Retrieved from [http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132\\_3.pdf](http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132_3.pdf).

<sup>69</sup> Ibid., p.106.

<sup>70</sup> Ibid., p.105.

<sup>71</sup> Bhutan and the EU - EEAS - European External Action Service - European Commission. (n.d.), p.3. Retrieved July 28, 2017, from [https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu_en)

<sup>72</sup> Ibid., para 1- Developmental cooperation

promoting sustainable use of natural resources.<sup>73</sup> The EU project helped promote low carbon development in the tourism sector after EU assistance has ended.<sup>74</sup>

Bhutan and the EU also share a higher education exchange program called Erasmus Mundus, providing scholarships to selected universities in the EU.<sup>75</sup> Fundamentally, this programme provided Asian scholars with a full scholarship to EU partner universities; and 98 per cent of the targeted mobility plan for both undergraduate and postgraduate students, as well as for the academic staff was achieved through this programme.<sup>76</sup> The EU provides Bhutan with Humanitarian Aid, European Civil Protection, and Humanitarian Aid Operation (ECHO), which aims to enhance the local community to mitigate and minimise the rise of future natural disasters, especially in areas prone to natural disasters. This is done through creating awareness and organizing workshops in schools and healthcare institutes.<sup>77</sup> The EU programmes are currently focused on the following sectors: Climate Change; Cultural Diversity; Education; Local Authorities & Civil Society; Sustainability; Agriculture and Forestry; and Sustainable Tourism.<sup>78</sup>

#### The European Investment Bank (EIB) - Bhutan

The RGoB and the EIB signed an agreement in 2011 that enabled the EIB to finance capital investment in the country. In December 2014, both parties signed a Framework Agreement in the capital, Thimphu, which, once ratified by the Parliament of Bhutan, will enable the EIB to start financing capital investments in the country.<sup>79</sup> The targeted objectives of the financial aid are on social and economic infrastructure; local private sector development; and climate change mitigation and adaptation.<sup>80</sup> With an available source for soft loan financial aid, the EIB also serves as a bridge towards international markets.

The Members of the European Parliament (MEP) delegation funded 2.5 Million Euros to support civil society in Bhutan.<sup>81</sup> This project is one of the first components under the three major agreements that the EU and Bhutan signed in 2014 to honour the implementation of the Multi-annual Indicative Programme (MIP) of 2014-2020.<sup>82</sup> Two focal sectors have been identified for support: Local Authorities & Civil Society, and Sustainable Agriculture & Forestry.<sup>83</sup> However, the EU-Bhutan relationship is not limited to development cooperation as it extends as it also extends to certain related issues.<sup>84</sup>

5.2

#### **International Monetary Fund (IMF) and Bhutan**

Bhutan joined IMF on 28<sup>th</sup> September 1981, becoming its 147<sup>th</sup> member. The IMF executive Board endorsed and assisted Bhutan with the implementation of the Enhanced General Data Dissemination System (e-GDDS) in May 2015, which helped Bhutan develop their National Summary Data Page

<sup>73</sup> Bhutan and the EU - EEAS - European External Action Service - European Commission. (n.d.), para 2. Retrieved July 28, 2017, from [https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu_en)

<sup>74</sup> Ibid.

<sup>75</sup> The 5th EU Erasmus Mundus IDEAS Meeting in Bhutan. (n.d.). Retrieved July 28, 2017, from <http://www.utm.my/international/event/the-5th-eu-erasmus-mundus-ideas-meeting-in-bhutan/>

<sup>76</sup> Ibid., para 2

<sup>77</sup> Bhutan and the EU - EEAS - European External Action Service - European Commission. (n.d.), para 9. Retrieved July 28, 2017, from [https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu_en).

<sup>78</sup> Ibid., para 4

<sup>79</sup> Ibid., para 6

<sup>80</sup> Bhutan: EIB and Bhutan sign a Framework Agreement for capital investments. (2014), para 1-6. Retrieved July 28, 2017, from <http://www.eib.org/infocentre/press/releases/all/2014/2014-274-eib-and-bhutan-sign-a-framework-agreement-for-capital-investments.htm>.

<sup>81</sup> Wangchuk, R. Kuensel. (2017.). *Bhutan – EU relations beyond development cooperation*, para.1. Retrieved July 28, 2017, from <http://www.kuenselonline.com/bhutan-eu-relations-beyond-development-cooperation/>

<sup>82</sup> Ibid., para.3

<sup>83</sup> Bhutan and the EU - EEAS - European External Action Service - European Commission. (n.d.), para 13. Retrieved July 28, 2017, from [https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/2062/bhutan-and-eu_en)

<sup>84</sup> Wangchuk, R. Kuensel. (2017.). *Bhutan – EU relations beyond development cooperation*, para.11. Retrieved July 28, 2017, from <http://www.kuenselonline.com/bhutan-eu-relations-beyond-development-cooperation/>

(NSDP), by utilizing the Statistical Data and Metadata Exchange (SDMX). This made Bhutan one of the first countries in the Asia and Pacific Region to implement the recommendations of the e-GDDS.<sup>85</sup> The NSDP provides national policy makers, as well as domestic and international stakeholders – including investors and rating agencies – with easy access to information, which the IMF's Executive Board has identified as critical for monitoring economic conditions and policies. By making this information easily accessible, it allows all users to have simultaneous access to timely data, which helps bring out greater data transparency.<sup>86</sup>

The South Asia Training and Technical Assistance Centre (SARTTAC) is a collaborative venture between the IMF, the member countries (Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka), and the development partners,<sup>87</sup> which aims at helping its member countries strengthen their institutional and human capacity to design and implement macroeconomic and financial policies that promote growth and reduce poverty.<sup>88</sup> The SARTTAC will allow the IMF to meet more of the high demand for technical assistance and training from the region.<sup>89</sup> The IMF provides both short and long term Technical Assistance (TA) to the RGoB, Royal Monetary Authority (RMA), Ministry of Finance, and SARTTAC (New Delhi).<sup>90</sup> The development of TA and vocational and skill development trainings have been an objective for majority of the FYPs of Bhutan, especially since Bhutan turned its focus to developing and diversifying its private sector.

### **The World Bank (WB) and Bhutan**

5.3 The World Bank Group (WBG) has been supporting the Royal Government of Bhutan through financing, technical assistance, and analytical work. The WB's collaboration is critical to achieve Bhutan's commitments in the 11<sup>th</sup> FYP as well as to kick-start implementation of the 12<sup>th</sup> FYP.<sup>91</sup> Bhutan and WBG have had a long-standing relationship, culminating in the establishment of the Country Office in 2011. Bhutan became a member of the World Bank's International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) in 1981, followed by its membership with the International Finance Corporation (IFC) in 2003 and the Multilateral Investment Guarantee Agency (MIGA) in 2014. The WBG's partnership with Bhutan is fully aligned with the country's development vision as envisioned in its Constitution, Bhutan Vision 2020, and the 11<sup>th</sup> FYP.<sup>92</sup>

The RGoB and the World Bank signed a USD 24 million credit that is expected to help promote fiscal discipline, an increase in access to finance for enterprises, and to improve the climate for business entry and investment in Bhutan in Thimphu, on March 12, 2017.<sup>93</sup> The WB's investments made on hydropower projects and on the fiscal and monetary policy have also contributed to the momentum in growth. The USD 24 million credit is the second of two World Bank-supported initiatives to support Bhutan's 11<sup>th</sup> FYP (2013–2018) targeting the goals of promoting green socio-economic

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<sup>85</sup> IMF. (2017). *Bhutan Implements the International Monetary Fund's Enhanced General Data Dissemination System*, para 1. Retrieved July 28, 2017, from <http://www.imf.org/en/News/Articles/2017/06/12/pr17215-bhutan-implements-the-imf-enhanced-general-data-dissemination-system>

<sup>86</sup> Ibid., para 3

<sup>87</sup> Ibid., para 1

<sup>88</sup> Ibid., para 2

<sup>89</sup> Ibid., para 3

<sup>90</sup> Ibid.

<sup>91</sup> Bhutan and World Bank Group Strengthen Partnership for Sustainable and Inclusive Development. (2017), para 6. Retrieved July 28, 2017, from <http://www.worldbank.org/en/news/press-release/2017/06/15/bhutan-and-world-bank-group-strengthen-partnership-for-sustainable-and-inclusive-development>

<sup>92</sup> Ibid., para 7

<sup>93</sup> Bhutan, World Bank Sign \$24 Million Loan to Improve Growth Quality. (2017), para 1. Retrieved July 28, 2017, from <http://www.worldbank.org/en/news/press-release/2017/03/12/bhutan-world-bank-sign-24-million-loan-to-improve-growth-quality>.

development and achieving self-reliance.<sup>94</sup> The Global Agriculture Food Security Program (GAFSP), a USD 8 million project grant was signed between the RGoB and the WB, which is expected to help increase the agricultural productivity of farmers, and give farmers better market access in selected gewogs (districts) in Southwest Bhutan. Furthermore, this project is also designed to develop IT skills and strengthen the financial sector through information technology. The WB also supported the development of the first IT Park in Bhutan, Thimphu Tech Park (TTP).

While the United Nations Food and Agriculture Organization (FAO) will provide technical assistance for the project, the World Bank will be the supervising entity.<sup>95</sup> The RGoB and the WB signed the Strategic Program for Climate Resilience (SPCR) on 2 March 2017, which will provide Bhutan with a grant of USD 1.5 million to formulate a long-term plan to improve climate resilience.<sup>96</sup>

### **Asian Development Bank (ADB) and Bhutan**

The ADB's presence since 1982 has supported Bhutan through various programs, mainly in energy, transport, finance, and urban development. The ADB has approved loans totalling USD 498.81 5.4 million, grants of USD 222.4 million, and USD 73.48 million in technical assistance for Bhutan.<sup>97</sup> The ADB helped expand economic opportunities in Bhutan by supporting infrastructure development, trade facilitation, and the development of the finance sector. Together, the ADB and Bhutan also strongly emphasised green energy production, transport connectivity, and key urban infrastructure projects.<sup>98</sup> As one of the primary concerns of the FYP, the ADB will help improve Bhutan's national and cross-border connectivity, infrastructure in regional growth centres, skills development, and agriculture; as well as assisting the government in achieving self-reliance, and inclusive and green socioeconomic development. The ADB has also helped enhance the cooperation between Bhutan and its neighbours.<sup>99</sup>

ADB has been providing assistance in helping Bhutan improve its financial sector since 1988. It approved a loan that supported the government's effort towards industrialization and private sector development, through the Bhutan Development Finance Corporation – the only development finance institute in Bhutan.<sup>100</sup> The ADB assisted in strengthening the economic management programs, which strengthened the public sector's capacity in macroeconomics and fiscal management, and also provided Technical assistance (TA), which helped further stabilize the development of the financial sector by enhancing the RMA's capacity for financial sector regulation and supervision.<sup>101</sup>

5.5

### **Indo-Bhutanese Economic Relationship**

India is Bhutan's oldest and strongest ally. India paved the way for modernization in Bhutan and since then, the friendship between the two nations has blossomed. India being Bhutan's biggest

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<sup>94</sup> Bhutan, World Bank Sign \$24 Million Loan to Improve Growth Quality. (2017), para 1. Retrieved July 28, 2017, from <http://www.worldbank.org/en/news/press-release/2017/03/12/bhutan-world-bank-sign-24-million-loan-to-improve-growth-quality>.

<sup>95</sup> Ibid.

<sup>96</sup> Project Signing: Royal Government of Bhutan and World Bank Sign US\$1.5 Million Grant to Prepare Program to Improve Bhutan's Climate Resilience. (2017). Retrieved July 28, 2017, from <http://www.worldbank.org/en/news/press-release/2017/03/02/bhutan-grant-prepare-program-improve-climate-resilience>

<sup>97</sup> Asian Development Bank. (2017). Asian Development Bank and Bhutan: Fact Sheet, para 1. Retrieved July 28, 2017, from <https://www.adb.org/publications/bhutan-fact-sheet>.

<sup>98</sup> Ibid., para 2-3

<sup>99</sup> Ibid., para 2-3

<sup>100</sup> Asian Development Bank. (2014). Country Partnership Strategy: Bhutan Sector Assessment: Finance, para 2. Retrieved from <https://www.adb.org/sites/default/files/linked-documents/cps-bhu-2014-2018-ssa-02.pdf>.

<sup>101</sup> Asian Development Bank. (2014). Country Partnership Strategy: Bhutan Sector Assessment: Finance, para 12. Retrieved from <https://www.adb.org/sites/default/files/linked-documents/cps-bhu-2014-2018-ssa-02.pdf>.

exporter and importer, the two nations share the Indo-Bhutan trade and Transit Agreement of 1972 that was established to promote free trade between the two countries.<sup>102</sup> One third of Bhutan's electricity export goes to India and other items of export, such as minerals, ferro-silica, cement, and dolomite as well. Hydro capacity is expected to increase from 1600 MW currently to nearly 5000 MW within the next five years. More than 90 per cent of the power generated will be exported to India.<sup>103</sup>

Lately, there has been a growing demand for exports of cardamom and Bhutanese farmers are increasingly eager to sell their off-season vegetables in neighbouring Indian markets as well.<sup>104</sup> Building mini dry ports in the border town of Phuentsholing to promote exports is one of the RGoB's possibilities; however, due to the difficult terrain and poor connectivity, the project will be challenging.<sup>105</sup> Aside from being Bhutan's biggest importer and exporter, India is also a big investor in Bhutan, especially with regards to sectors such as infrastructure; power; education; healthcare; IT; and financial services. Indian companies, including Tata Power, Punjab National Bank, and General Insurance Corporation, have already invested in Bhutan.<sup>106</sup> India's main exports to Bhutan include petroleum products, automobiles, machinery, and agro-products, whilst, imports include power, minerals, wooden products and fresh fruits.<sup>107</sup>

### **Regional Economic Cooperation**

<sup>5.6</sup> Bhutan became a member of the SAARC in 1988, and now is a member of the BBIN-GQ and a party to the Growth Quadrangle Initiative. Bhutan being a small and landlocked geographically, it can be questioned whether or not Bhutan can really benefit much from regional and international integration. In this regard, there are a few arguments that need to be considered.<sup>108</sup> The BBIN-GQ was formed to accelerate the pace of economic development in member countries through the identification and implementation of specific projects. The sectors identified for priority attention are multi-modal transportation and communication, energy, optimal sustainable utilization of natural resource endowments, trade and investment facilitation and promotion, tourism, and environment.<sup>109</sup>

The South Asian Association for Regional Cooperation (SAARC) and The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) are the two trade treaties Bhutan is affiliated with. Both SAARC and BIMSTEC are regional economic grouping under which members will progressively reduce and ultimately eliminate tariffs and non-tariff barriers for virtually all goods. The groups help promote progress in the liberalization of trade and services, and further open a competitive investment region that helps promote foreign direct investment.<sup>110</sup>

India, Pakistan, Nepal, Bangladesh, Sri Lanka, the Maldives, and Bhutan signed the South Asian Free Trade Agreement (SAFTA) on 6 January 2004, which came into effect on 1 January 2006. The SAFTA committed to phase out tariff cuts for intra-SAFTA trade over a ten-year period starting in January of 2006.<sup>111</sup> This tariff reduction process is expected to proceed at two speeds – a different speed is required for the least developed member and non-least developed members. This covers all tariff lines except those kept in the sensitive list (Negative list) negotiated by the member States and

<sup>102</sup> (n.d.), para.1. Retrieved July 28, 2017, from <https://www.indianembassythimphu.bt/pages.php?id=42>

<sup>103</sup> (n.d.), para.4. Retrieved July 28, 2017, from <https://www.indianembassythimphu.bt/pages.php?id=42>

<sup>104</sup> Ibid., para 3

<sup>105</sup> Ibid.

<sup>106</sup> Ibid., para 5

<sup>107</sup> Ibid., para 11

<sup>108</sup> Ibid., p.107

<sup>109</sup> Ibid., p.111

<sup>110</sup> UNCTAD. (2011). Who is Benefiting from Trade Liberalization in Bhutan, p.13-14. Retrieved from [http://unctad.org/en/PublicationsLibrary/osg2011d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/osg2011d1_en.pdf)

<sup>111</sup> Ibid.

subject to periodic reviews. Bhutan has about 150 goods listed as sensitive, exempted from reduction commitments.<sup>112</sup>

Since the majority of all of Bhutan's imports are sourced from India, there is very little protection of the domestic economy in the form of import tariffs. However, Bhutan should start focusing on its trade diversification, namely imports from preferential foreign partners, apart from India. Nevertheless, logistics seems to remain a major obstacle to trade diversification.<sup>113</sup> Bhutan's accession to the World Trade Organization (WTO) is expected to add some momentum to Bhutan's aim towards trade diversification and a higher inflow of hard currency.

Bhutan, as a Least Developed Country (LDC) and irrespective of its WTO status, currently enjoys duty-free access to large export markets. One example of this is the "Everything But Arms" European Union (EU) initiative, which gives Least Developed Countries (LDC) duty-free access to the EU for all products, except arms and ammunition.<sup>114</sup> Similarly, exports of some textiles, such as those of potential export interest to Bhutan, such as cotton, wool, man-made fibre, other vegetable fibre, were excluded from the list of Generalized System of Preferences (GSP)-eligible articles in the United States.<sup>115</sup> However, fabrics certified by the beneficiary country as handmade or folkloric, such as wall hangings, pillow covers and textiles handicrafts, were allowed to be imported duty free in the United States under bilaterally negotiated, GSP-certified, textile handicraft arrangements. Furthermore, Bhutan enjoys duty-free access trade in Canada under the General Preferential Tariff and Least Developed Country Tariff schemes.<sup>116</sup>

At the sub-regional level outside of the SAARC, Bhutan and Nepal are soon to join the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC), where members aim to cooperate mainly in areas of trade and investment; technology; communication and transportation; energy; tourism; and fisheries.<sup>117</sup> A large volume of unofficial/informal border trade had been noted as a part of Bhutan's official trade with India, which has been growing. These unrecorded transactions are influencing the variability of prices of essential items in Bhutan, as well as leading to price distortion and a diversion of trade. This can be removed only by strengthening regional cooperation. Enhancing intra-South Asian & South-East Asian trade flow can have rich potential as long as it keeps up with trends in the global trade flow of the intra-industry variety.<sup>118</sup> By identifying similar areas in production and promoting intra-industry trade flow, such as textiles, readymade garments, and fusion designs production, Bhutan can look into such possibilities for future trade diversification.<sup>119</sup>

Protection of the environment is to Bhutan's distinct advantage. By identifying similar areas in production and promoting intra-industry trade flows can help Bhutan facilitate this idea. Textiles, readymade garments, and fusion designs productions can be used for future diversification programmes.<sup>120</sup> It has also been debated that Bhutan's own domestic production capabilities, industrial diversification, and private sector initiatives would be needed in order to support Bhutan's benefits from liberalization trade regime.

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<sup>112</sup> Ibid., p.13

<sup>113</sup> Ibid., p.15-16

<sup>114</sup> Ibid., p.15

<sup>115</sup> Ibid.

<sup>116</sup> Ibid., p.15-16

<sup>117</sup> Ibid., p.112.

<sup>118</sup> Economic And Political Relations Between Bhutan and the Neighbouring Countries. (n.d), p.108-112..Retrieved from [http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132\\_3.pdf](http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132_3.pdf).

<sup>119</sup> Economic And Political Relations Between Bhutan and the Neighbouring Countries. (n.d), p.108-112..Retrieved from [http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132\\_3.pdf](http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132_3.pdf).

<sup>120</sup> Ibid., p.107

Bhutan should take advantage of the huge Indian Market under free trade agreement by following up on the policy of "export-oriented production, based on import-substitution."<sup>121</sup> Substitution of garments and other imports can be done from Bangladesh, Nepal, and Thailand. Regional integration can effectively help Bhutan deal with the constraint that its own domestic market size imposes on its development. Lastly, 'green trading' would be extremely crucial for Bhutan, especially in terms of hydropower, medicine, and organic agro trade.<sup>122</sup>

Within SAARC, the South Asian Preferential Trading Arrangement (SAPTA) initiative, 1991, is based on a commodity-to-commodity approach.<sup>123</sup> SAFTA has been formulated to broaden trade relations within the region and to lower import tariffs among the member countries. The main aims of this arrangement include liberalizing trade and removing; promoting welfare of people in South Asia; broadening economic cooperation; ensuring the equitable distribution of trade; and catering to the special needs of small and least developed members by providing them special and differential treatment.<sup>124</sup>

Bhutan's trade is mostly directed towards India. In 2001, about 94 per cent of exports went to, and 78 per cent of imports came from India. Within the sub-region, Bhutan has also developed some trade links with Bangladesh and Nepal. However, they only make up a small share of Bhutan's total trade: Bangladesh constitutes about 5 per cent of Bhutan's total trade, including both exports and imports, whilst Nepal only accounts for 1 per cent of total trade.<sup>125</sup>

Bhutan's lack of capital, technical expertise, technology, and her constrained geographical location pose a big challenge to the country's attempt to diversify and grow. Bhutan explores the possibility of removing such hurdles through regional cooperation. The small market size can be solved by taking advantage of the readily available large market in the neighbouring border towns, which will also ensure a timely and reliable delivery of goods with minimum transit loss. However, Bhutan has comparative advantages in certain areas like hydropower, tourism potential, textiles and herb-based pharmaceuticals among others.<sup>126</sup>

One of the main aims of Bhutan's FYPs is to develop their green goals. Bhutan's experiences suggest that achieving a higher standard of living for its citizens, whilst also adhering to green goals, is a difficult endeavour. However, trade continues to play as vital role in achieving rest of the FYP goals. With environmental concerns becoming more pressing and gradually gaining ground, the issue of linking trade with environment will be of utmost significance for Bhutan. Bhutan can seek expertise in its own development of eco-labelling and initiate the process of producing Sanitary and Phytosanitary (SPS) measures compliant products. Since Bhutan has already obtained codex membership, it can closely follow the developments and make arrangements for its compliance.<sup>127</sup>

Bhutan used SAARC to fulfil its objective to promote a trade balance with India and expand trade relations with other SAARC countries.<sup>128</sup> As one of the least developed countries (LDCs) along with Maldives, Nepal, and Bangladesh, Bhutan receives special preferences in the form of deeper tariff cuts. The guiding principles of SAPTA, which provides LDC members the special concessions and additional measures to train and enhance export capabilities are facilitators to Bhutan in its trade with India, Bangladesh, and Nepal.

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<sup>121</sup> Ibid.p.108

<sup>122</sup> Ibid.

<sup>123</sup> Ibid., p.109

<sup>124</sup> Ibid., p.110-111

<sup>125</sup> Ibid., p.112

<sup>126</sup> Ibid., p.117

<sup>127</sup> Economic And Political Relations Between Bhutan and the Neighbouring Countries. (n.d), p.122.Retrieved from [http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132\\_3.pdf](http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132_3.pdf).

<sup>128</sup> Ibid., p.158

Other supplementary measures such as upgrading and modernizing the region's infrastructure like seaports, airports, railways, roads, custom clearances, and import trade financing facilities, should prove useful to Bhutan to expand intra-SAARC trade. Expansion of the Asian Clearing Union to Asian Payments Union, the creation of export-import Banks, and export trade risk insurance under the aegis of SAARC have all helped Bhutan to alleviate bilateral balance of trade.<sup>129</sup>

In spite of a controlled tourist policy, Bhutan has looked favourably towards increasing the number of tourists from India and tour packages from other SAARC countries to promote regional tourism under SAARC. Bhutan's Tourism Corporation provides special discounts and concessions to children and students under twenty-five from within the region. Travel agents in Bhutan allow regional tourists the use of their own currencies. There is also a special arrangement for travel vouchers through the Bank of Bhutan. Under the SAARC agreement, Druk Air provides a 25 per cent discount to a group of ten or more tourists organized by Bhutan Tourism Corporation on round trips covering a minimum of two SAARC countries.<sup>130</sup>

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<sup>129</sup> Economic And Political Relations Between Bhutan and the Neighbouring Countries. (n.d), p.158-159.Retrieved from [http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132\\_3.pdf](http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132_3.pdf).

<sup>130</sup> Ibid.,p.160

## **6 Recommendations**

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### **Recommendations on Education**

- 1) School curriculum promoting life skill based education should be strengthened in the education policy. Life skills are not academic skills, but aid in the adaptive and positive behaviour that enable individuals to deal effectively with the demands and challenges of everyday life. In particular, life skills are a group of psychosocial competencies and interpersonal skills that help people make informed decisions, solve problems, think critically and creatively, communicate effectively, build healthy relationships, empathize with others, and manage their lives in a healthy and productive manner.
- 2) Enhance education opportunities for children, who are not in school and are already in the labour market.
- 3) Create an inclusive learning environment at primary school (building classrooms, adequate desks etc.) to reduce school dropout. Raise parents' awareness on the importance of schooling for their children and their responsibilities, including negative impact of child labour as distinct from child work.
- 4) Capacity building and Skill Development trainings have become one of the most influential ways to empower women and youth all over the world. It increases their employment opportunities, career development opportunities, and personal growth. These trainings also help build one's networking, time management, communication, and negotiation skills.
- 5) Limited entrepreneurial skills and lack of employment opportunities and jobs for youths pose as a vast disadvantage to the advancement and diversification of the Bhutanese economy. Creating employment that matches the qualifications of school-leavers, while at the same time adjusting the school system and vocational training to better match the skills needed by the private sector. For example, enhancing skills for computer science and IT college students to ensure that they are industry ready when they graduate; skills development for unemployed IT and computer science graduates; training of youth to become online outsourcers; training for Government officers in middle management, including the development of IT skills to support their Chief Information Officer/ IT Parenting role; and cyber security capacity building. Given the links between worker training, worker productivity, and firm growth, putting in place incentives for firms to provide more training is critical. These incentives could include levies on industries to support training, greater transparency in the tax regulations on writing off training expenses, and matching grant schemes and access to retired executives to assist in training.

### **Financial and Economic Recommendations**

- 1) There is a need to review the current banking practices with respect to conditions for credits and lobby for changes, if necessary. Financial services provided by formal institutions do not reach all segments of population due to constraints such as collateral, and high interest rates; marginalised groups poor cannot access these services. Hence, they do not have the opportunity to make use of their skills.
- 2) Establishing a transparent system of tax relief, and possibly a system of industry levies, to support radically increased worker and management training could help create greater productivity. Developing a transparent, time-bound policy for recruiting non-national highly

skilled workers to ensure the continued innovation oriented competitiveness of Bhutanese industry is also of importance. Including leasing finance, factoring services, automated teller machines, and a greater use of credit cards (with lower transaction fees), while also promoting greater competition in financial sector with more flexible interest rates could encourage the development of innovative financial instruments and payments.

- 3) Lack of proper technology and machines also hinder Bhutan's diversification process. Most companies and corporations operate with equipment brought in from India, which are considered out-dated and inefficient. In order for better competition and growth, firms and corporations would need to acquire the best equipment available internationally. In other words, leapfrogging the simpler technologies available from India. Firms in Bhutan have few contacts with external buyers and markets, resulting in their poor marketing and design technologies. One of the most powerful ways of transferring technology, foreign direct investment, is almost non-existent in Bhutan.
- 4) Establishing a matching grant scheme, (such as those relying on retired executives) and by providing incentives such as tax breaks for research and development can help support technology transfer in Bhutan. In other words, strengthening and supporting learning mechanisms is therefore, critical for the growth and diversification of the Bhutanese economy. By establishing matching grant schemes; making visas for technical experts easier to obtain; providing tax incentives for technical improvements, and liberalizing foreign direct investment could help firms improve their technology, increase their productivity, and their competitiveness.
- 5) Bhutan's environmental policy is something that has been consistently addressed in all their FYPs. Within the context of the 9<sup>th</sup> FYP, development of a clear, consistent, and transparent environment policy for the private sector that takes into account its views, and ensure that laws and regulations affecting the private sector are clearly and properly codified when necessary. Dialoguing is another great way of extending hands towards international markets and relations. By bringing in experienced professionals from external chambers of commerce and the private sector to strengthen mechanisms for representing private sector interests (such as the Bhutan Chamber of Commerce and Industry and trade associations).<sup>131</sup>

6.3

### **IT and Telecom Recommendations**

- 1) IT and digital connectivity are important for Bhutan's diversification; however, not only is the Internet connection really expensive, but also due to its landlocked status, the connection is diverted through India. By changing the Internet connection and diversifying it through different routes, Bhutan can attain better and faster Internet connection, as well as improve relations with other foreign powers, besides India. Connecting the Internet connections via hydropower through satellite connection could provide Bhutan faster, easily accessible and affordable Internet throughout the country – connecting even the most remote and rural areas. Also, the Internet connection through Cox Bazar in Bangladesh would be cheaper, faster, and will have links to other parts of Asia, the Middle East and Europe.
- 2) TTP is Bhutan's first IT Park, located in Babesa, Thimphu, with 700 employees, and located 50,000 sq ft on 5 acres of government land leased for 30 years renewable by two more 30-year terms based on mutual agreement. Bhutan should expand their economic zones further by extending their IT Park to different locations. It is understood that Bhutan being a mountainous region, pose as a major challenge. Perhaps, the IT Park could be built in levels, for example, using the terrace method, rather than stretched across a huge span of land. The location is also

<sup>131</sup> World Bank. (2002). *Pilot Investment Climate Investment: Challenges and Opportunities for the Private Sector Development in Bhutan*. Retrieved from <http://documents.worldbank.org/curated/en/168351468200943151/pdf/336900BHU0ICA.pdf>

a very important attraction investors and possible partnerships. Planning and finding a location that is easily accessible, in terms of convenience, as well as most logical in terms of future investment, attraction and international relations is an important factor as well.

### 3) 5G to Bhutan

- a. Bhutan could start off strong and introduce 5G. Not only is 5G 10 times faster than 4G LTE, it also has lower latency in network communication. Operating in high frequency band of wireless spectrums between 30 GHZ-300 GHZ, these 5G waves carry data at a very high speed providing the same level of internet speed and communication connectivity to all rooms and not just the one closest to the router. 5G also supports more concurrent users and devices, and serves them all at the same time.<sup>132</sup> This could provide opportunities from all over the world. Through this Bhutan can look at strengthening other aspects of her economy; especially, using their advantages of having a close market service with India and with access to hydropower.
- b. The RGoB can establish an investing board where the control still stays within Bhutan's government, and have a mix of international telecommunication players. For example, a mixture of Indian, Chinese, U.S, or European telecommunication services - interested in funding the 5G project in Bhutan – should all be encouraged to do business in Bhutan, so as to avoid sole dependency on just one country. The 5G project could help bring in faster, cheaper and better publicity for Bhutan, as well as provide Bhutan with a good track record. Thimphu, the capital can act as the testing site for this, and by doing so Bhutan can still hold up to its goal of preserving its cultural and heritage in the other parts of Bhutan.
- c. Bhutan can look at examples from Estonia and Sweden, which are introducing 5G in 2018, among the first countries in Europe to do so.<sup>133</sup> Another example would be Malta. Giant telecom Huawei along with the Maltese government has signed a memorandum to test 5G in Malta. The Maltese government sees this as an opportunity and a stepping stone towards not only improving their foreign investment, but also as a door to unique education and employment opportunity for the future generations and students interested in the ICT field.<sup>134</sup>

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<sup>132</sup> Duran, M., Moynihan, T., & Calore, M. (2017, July 17). What Is 5G, and When Do I Get It? Retrieved August 18, 2017, from <https://www.wired.com/2017/02/what-is-5g-and-when-do-i-get-it/>

<sup>133</sup> Sweden and Estonia to receive 5G networks by 2018. (2016), para 5. Retrieved July 28, 2017, from <https://www.metering.com/news/sweden-and-estonia-get-5g-networks/>

<sup>134</sup> Telecoms giant Huawei signs MoU with Malta to test 5G. (2016, August 17). Retrieved August 22, 2017, from <http://www.maltaway.com/internet-malta-5g-huawei/>

## **Conclusions and Steps forward**

Bhutan has huge potential to grow, especially because of its small size, and with its development process still being in its infancy, it has plenty of room for manoeuvre. The balance between the sectors in the economy needs to be found – the private sector needs to be allowed to prosper, without undermining the public sector. Increasing productivity can improve the standard of living. Diversification can happen with an increase in the domestic investor, an increase in consumer spending, and manufacturing boost.

Foreign aid and exports from hydropower production are the two major sources of development and growth in Bhutan, to the extent that the national economy is excessively dependent on these sources. Bhutan finds itself at a crossroads and it needs to make the most of the opportunities that trade expansion and diversification provide. However, limiting factors such as manpower development, technical knowledge acquisition, fund mobilization, database creation and inventories, furthering cooperation in trade, etc. continue to undermine Bhutan's capacity to reap the full benefits of such opportunities and moves.<sup>135</sup>

The role of government is extremely important in Bhutan given the limited, almost invisible, capacity of other stakeholders and the private sector. Therefore, the government should aim to increase the capacity of their agencies to address impediments to diversification efforts. Increased cooperation between the government and other stakeholders can help identifying new products or sectors of strategic economic value, and facilitate the implementation of the action plans. Creating an enabling business climate and relevant regulatory frameworks to allow enterprises to shine is also needed for an economy's diversification process. Bhutan should focus on what they have, for example, hydropower, minerals, agribusiness sectors, and textiles and make better use of these resources. Expanding trade and partnership with other neighbouring countries regionally and internationally could help in the diversification process. The international community on the other hand must ensure that its actions are supportive of diversification efforts in Bhutan. It is essential that developmental partners strive for improved harmonisation of their policies to support Bhutan's priorities in for example, development assistance. Natural and human resources play a crucial role in economic diversification; and infrastructure – especially transport – is a key factor that underpins this diversification.

It is imperative that the government prioritise enhanced regulatory frameworks and policies in order to improve the business market environment. Additionally, national policies and regulatory frameworks should be integrated at regional level. Functioning financial markets, accessible financial services, and increased domestic resource mobilisation are key aspects of the business environment. The creation of innovation centres to support economic diversification at a national and at a regional level offers an opportunity for the government to drive the process. Comparative market analysis and trade will improve governments' capacities for understanding national, regional, continental, and international markets, in order to help Bhutan achieve and maintain comparative advantages and explore new market opportunities.

Since the Private sector is still at an early stage in development, the government has an important role to play in facilitating further development of the private sector's activities that will help increase the productivity economy. That should entail the support of both the emulation and the product innovation strategies. However, the balance between them depends on the level of diversification and productive capacities. The private sector is the core driver of economic diversification, and thus all actions taken by the government and the stakeholders should aim to strengthen the support to the private sector, by creating a business-enabling environment. Trade and investment flows are

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<sup>135</sup> Economic And Political Relations Between Bhutan and the Neighbouring Countries. (n.d), p.175-176. Retrieved from [http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132\\_3.pdf](http://www.ide.go.jp/library/English/Publish/Download/Jrp/pdf/132_3.pdf).

also crucial and relevant for strengthening of the economy. The implementation of international trade agreements, enhancement of IT and digital communication, capacity building mechanisms for the private sector, and partnerships with donors and trading partners are some of the key ways governments can enhance this business-enabling environment.

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