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BHUTAN

THE FIRST DRAFT OF THE NATIONAL PROGRAMME OF ACTION

Summary of Chapters I – III

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I. INTRODUCTION

1. The Kingdom of Bhutan is a small least developed land-locked country in the Eastern Himalayas with total GDP of US \$ 338 million. Agriculture is the main sector of the economy, which accounted for 34.8 per cent of the GDP. The manufacturing sector accounted 10 per cent of GDP. The country is relatively well endowed with mineral resources that include limestone, dolomite, gypsum, coal, copper, talc, marble, quartzite, zinc and lead. The forest covers 72.5 per cent of the land. Its pristine nature, bio-diversity and unique cultural heritage make Bhutan an attractive and exotic tourist destination. The powerful and fast flowing rivers afford the country enormous hydropower potential estimated at 30,000 MW, which remains still largely untapped. The share of electricity in GDP increased from 0.2 per cent to almost 12 per cent. The country has introduced schemes to expand the economy and the welfare of the people. This has been backed by generous foreign aid, which largely contributed, to remarkable progress achieved during the last decade.

II. PERFORMANCE OF SOCIO-ECONOMIC DEVELOPMENT IN THE 1990s

2. In the 1990s the country has made tremendous headway in achieving social and economic transformation. The economy of Bhutan has emerged from a rudimentary economically base to a relatively modern one, although it is still among the world's weak countries with special structural constraints and vulnerabilities. Real GDP growth in the 1990s averaged at 5.8 per cent per annum. Bhutan has been able to sustain high level of capital investment through the decade at an average of 40 per cent of GDP. However, capital development expenditures have largely been met due to ODA from donor countries and international organizations.

3. Bhutan's international reserves have been growing steadily in the 1990s. Indian Rupee reserves as of June 1999 stood at Rs. 2,725 million and other foreign exchange reserves grew to US \$ 195 million, which are estimated to cover over 19 months of imports. In comparison, at the end of the 1980s, foreign reserves stood at US\$ 51 million and Rupee reserves at 659 million at about 10 months of imports. The Royal Monetary Authority (RMA) has recently introduced several key reforms such as deregulation of foreign exchange, the establishment of a stock exchange, and the introduction of bankruptcy laws to improve the financial system in Bhutan.

4. Given its preference for grant aid and caution about incurring debt even on concessional terms, Bhutan's overall debt situation has remained at manageable levels. Indebtedness, however, has increased over the 1990s as has debt servicing requirements. In 1989, debt liability was at 28 per cent of GDP, which by 1999 had increased to 39.2 per cent due to increased borrowing for the construction of power and other infrastructure projects. Although the level of debt service is manageable, there is growing concern that the convertible currency payments in future will outweigh Indian Rupee payments, especially as grace period will soon run out. This is because, while Bhutan's Indian Rupee export is increasing on account of higher hydropower generation capacity, there is

a limited scope to increase convertible currency exports to support future repayment of convertible currency debt. This mismatch of balance of payments is expected to bring increasing pressures on convertible currency reserves.

5. Bhutan's total exports grew 3.4 times between 1990 and 1998. Ten commodities of minerals, agro and forest based products, and horticulture items constituted as high as 90 per cent of total exports. In addition, electricity remained predominantly the top export item throughout the decade. Total imports also grew 4.6 times between 1990 and 1998. The main import items comprised of essential food commodities, petroleum products, construction materials, capital goods, automobiles and spares. The prominent sources of imports besides India were Japan, Singapore, Thailand, the EU and Bangladesh. Total trade for Bhutan has consistently been in the deficit. Trade deficit increased almost 12 times during this period. India remains Bhutan's the main trading partner absorbing 91 per cent of its total export and occupying 72 per cent of total imports on average throughout the 1990s. The niche market identified in Bangladesh for horticulture products during the 1980s was consolidated and expanded in the 1990s. While exports to Bangladesh constituted only 4 per cent of its total exports in 1998, this introduced a much needed market diversification.

6. Sectorally, the Bhutanese economy is an agrarian one with 85 per cent of its population engaged in agriculture and related activities. The agriculture has been a slow growth area with its declining share of GDP from 43 per cent in 1990 to 35 per cent in 1999. It nevertheless still remains the single largest contributor to GDP. Agricultural production growth in the 1990s averaged 2.2 per cent per annum in real terms.

7. The relatively new sectors for the Bhutanese economy comprising manufacturing, electricity, construction and information technology have been the major growth areas and their share in GDP has significantly increased. The number of enterprises rose from 168 in 1989 to 490 in 1999. During the last decade, the share of manufacturing in GDP increased from 7 per cent to 9.5 per cent. Mining and quarrying grew erratically during the 1990s with an overall average annual real growth rate of 8.8 per cent. The share of electricity in GDP has increased from only 0.2 per cent in 1980 to 11.6 per cent in 1998. Electricity generated 35.4 per cent of the total national revenues in 1998. The installed electricity generation capacity including diesel generation reached 350.17 MW in 1997, which came mostly from the Chukha hydro-power plant. Electricity supply and accessibility were expanded significantly during the 1990s in rural as well as in urban areas. The number of villages connected with the electricity grid increased from 171 in 1989 to 331 in 1996.

8. Tourism has become an increasingly important service industry that has performed well in the 1990s despite a cautious approach of the government towards tourism development. Bhutan opened itself to international tourism in 1974 with a very modest figure of 287 arrivals. In 1998, the government liberalized the tourism license system. As a result, the number tourists increased substantially and the foreign exchange earnings from tourism grew from US \$1.95 million in 1989 to US \$ 8.87 million in 1999.

9. As the country is dependent on road transport, the sector has received a high priority since the inception of planned development. The three North South national highways constitute the economic lifeline, while the East-West highway cutting across interior districts links to North-South roads and facilitates internal mobility and provide alternative routes. As of 1990, the total road length including feeder and forest roads amounted to 2,336 km in length out of which 1,453 km were highways. The Royal Government privatized surface transport and developed necessary institutional and legal infrastructure. The Road Safety and Transport Authority was established to promote a safe, efficient and reliable transport system with collective responsibility for promotion, monitoring and regulation of all passenger service operations. A Road Safety and Transport Act was also enacted. Druk Air, the national airline consolidated its operations with the increase in the capacity of flights and streamlined operations. The number of passengers increased from 15,818 in 1990 and reached 40,408 in 1999. Similarly, the turnover increased 4.5 times.

10. With the establishment of domestic telecom network and installation of digital switching system, all of the district headquarters are now connected with the digital communication technology. At the same time the installed capacity of communication has been enhanced with the telephone connection capacity increased from 4,090 in 1990 to 14,332 in 2000. The consolidation and improvement of telecom infrastructure has enabled the country to introduce IT facilities such as e-mail and Internet in 1999. In the same year, the country opened up to satellite television services and established a national television network under the Bhutan Broadcasting Service.

11. Bhutan's human development index has improved from .351 in the mid 1980s to .581 in 1998 that would actually rank the country in at 128th position out of 175 countries. The consistent and systematic expansion of basic health services, primary health care, education, and water supply has had a major impact on the overall health and well being of the people. Bhutan in the 1990s has consistently devoted 22-27 per cent of donor resources that it received and around 21% of it's own resources for "social spending" including health, education, water & sanitation and housing. Almost 90 per cent of the population have access to health services. Life expectancy was increased from 46 in 1980 to 66 in 1998.

III. DEVELOPMENT OPPORTUNITIES AND CHALLENGES

12. Bhutan enjoys a number of positive factors, which provide an enabling environment within the country for the sustainable development in the future. These factors include peace and stability, social equity and responsible governance.

13. Various domestic constraints, which have affected and continue to affect its overall development efforts, are related to geographical landlocked location, remoteness and isolation from major world markets, high costs for development and social service delivery given the rugged terrain and scattered and dispersed settlements. Other domestic

constraints include high population growth, the shortage of skilled manpower, inadequate infrastructure development, weak private sector and issues related to narrow domestic revenue base.

14. The external factors are linked to dependence on foreign assistance, debt burden and insufficient foreign direct investment inflows. Bhutan remains highly dependent on foreign aid. The private capital inflows have been negligible. The very small domestic market, inadequate infrastructure, the lack of skilled manpower, gaps in the resource inventory and limited private sector capacity and capability are the main constraints for the FDI

15. The combination of Bhutan's small size, various domestic constraints and external dependencies collectively make the country highly vulnerable. Paradoxically, Bhutan's vulnerability also stems from its high dependence on its comparative opportunities, i.e. reliance on power and power intensive exports and foreign aid inflows, both of which dominate the economy. While the Bhutanese economy has grown as a result of these factors, an undesirable side effect has been undermining the competitiveness of the non-power economic sectors.

IV. PROGRAMME OF ACTION (2001-2010)

The chapter will essentially focus on articulating the country's development vision and the overall objective and define the key strategies to be adopted. On the basis of these, detailed programmes and activities are to chalked out with stipulated target/benchmark indicators to achieve the national objectives.