THE DIPLOMAT
Read The Diplomat, Know the Asia-Pacific

Business University
Study at Switzerland's Leading
Business University: Infos Here!

Is Bhutan on the Cusp of a Revolution in Private Sector Growth?

Much work needs to be done, but Bhutan should celebrate its quick progress on economic development.

By Mark Turner
January 20, 2016



Image Credit: Pushpin marking on Thimphu, Bhutan map via Shutterstock.com

Bhutan has made remarkable developmental progress since the 1960s when the Third King decided to end the Himalayan kingdom's self-imposed isolation from the rest of the world. Then, it took up to six days to travel from the Indian border to Bhutan's capital, Thimphu. Now the journey takes 5 hours on a paved road while one can catch flights from Paro Airport to a variety of international destinations.

Western-style education, which was virtually non-existent in the 1960s, now caters to all children to the end of high school. There have been dramatic improvements in life expectancy, infant mortality and poverty levels. GDP has consistently grown, often at a rapid rate.

The Bertelsmann Transformation Index (BTI) records rapid progress for Bhutan. In the BTI's Status Index, which examines the political transformation towards democracy and a market economy in developing and transition countries, the country has climbed from 110th rank in 2008 to a remarkable 54th place in the forthcoming BTI 2016 report.

However, the economic growth that has supported all welfare improvements has been largely government driven. The challenge today is to generate the private sector expansion that will provide jobs and continue to raise living standards.

Bhutan's economy needs diversification

Economic growth in Bhutan has greatly relied on hydropower development from which the surplus output is transmitted to India. But hydropower has not generated much employment. Tourism of the high cost-low impact variety has created approximately 28,000 jobs in hotels, transport, handicrafts and catering. Other service industries are typically in retail and repair activities and while such businesses are numerous they lack

variation and innovation.

Large private sector companies are few in number and state-owned enterprises play major roles in the economy. Agriculture continues to be the principal source of livelihood for the 65 percent of the population who reside in rural areas but the sector has registered little growth in recent years and accounts for less than 20 percent of GDP.

The government has identified the private sector as the engine of growth for Bhutan in both the Tenth (2008-2013) and Eleventh (2013-2018) Five Year Plans. It has also acknowledged that the growth must be more broad-based and diverse than it has been in the past. But there are constraints to realizing the plans' ambitions for the private sector.

Private sector expansion must be aligned with practice of Gross National Happiness

The first constraint is the need to align private sector development with the country's development philosophy and practice of Gross National Happiness (GNH). This novel approach to development rejects focus on GDP growth in favor of policies that foster good governance, sustainable socioeconomic development, cultural preservation, and environmental conservation.

The Prime Minister has argued that "GNH and business can reinforce each other," while the Economic Affairs Minister has observed that GNH "challenges businesses to be innovative and creative, to respect environment, identity and culture."

Actions by successive governments have contributed to an improvement in the country's business environment which saw Bhutan rocket from 148th rank in 2013 to 71st in 2016 in the World Bank's global Doing Business survey. In large part this has been due to changed methods of calculating certain indicators but there has been a steady flow of measures aimed at making more business-friendly regulations and enhanced government processes.

Also noteworthy are the very low level of corruption in Bhutan and the successful promotion of good governance especially when compared to the country's South Asian neighbors.

Geography and infrastructure still adversely affect private sector development. The mountainous terrain and the annual monsoon make it difficult to construct infrastructure that is "technically sound and climate resilient".

Also, Bhutan is landlocked, bordered in the north by China and in the south, east, and west by India. Bhutan has no relations with China and over 80 percent of its trade is with India. Transaction costs are high and include extensive documentation, customs procedures and, given the country's landlocked status, the need to use ports in India for trade with third countries.

Education presents further problems. Issues of access have been resolved but quality is the pressing concern. Standards vary across the system and are biased in favor of urban areas. There is also a mismatch between the products of the education system and the present and future needs and demands of the market.

Furthermore, the schools and tertiary institutions are producing ever larger numbers of graduates but there are insufficient jobs for them. Many reject employment in agriculture

and drift into the towns where youth unemployment rates are already high.

The government needs to act as a catalyst for entrepreneurship

One way forward for Bhutan and its GNH is through ICT, education, and "clean" manufacturing in such fields as food processing, handicrafts, and hydropower parts and maintenance. Entrepreneurship is key to fulfilling these aims and the government needs to act as the catalyst.

One of its ambitious projects was Education City. The goal of this projected "knowledge community" was to attract international education providers to 1000 acres of hillside outside of Thimphu to create a global education hub. Unfortunately, lack of international interest and illegalities in land dealings led to the shelving of Education City in 2014.

IT-Park, also near Thimphu, has been more successful in attracting local and international businesses to its precinct but the number of companies and workers remains modest. Its record reflects the difficulty of attracting foreign direct investment (FDI) to Bhutan.

Making more credit available to micro, small, and medium enterprises (MSMEs) is also a necessary condition to encourage entrepreneurship and experimentation in new types of business venture. Bringing down the cost of banking, making funds more available and extending services to rural areas, perhaps through mobile phone technology, are among the options that could be pursued.

The government should also trumpet the kingdom's virtues more loudly. These include political stability, education in English, very low levels of corruption, good governance and preferential access to the vast Indian market. This will contribute to the overall effort of government to promote broad-based and diverse private sector growth that is needed for Bhutan to continue on its chosen developmental path and to secure the happiness that the country's development philosophy pursues.

Mark Turner is a visiting professor at the University of New South Wales at the Australian Defence Force Academy, Canberra. He is one of 250 country experts who are currently working on the forthcoming edition of the Bertelsmann Stiftung's Transformation Index BTI 2016 which will be released in February.

Invest In Christmas Trees
Projected Return 14.1% pa. Turn
€9K Into €31K Apply Here.