

**Expert Meeting on
Trade Facilitation as
Engine for Development**

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Country background

Bhutan completed over four decades of planned development by 2004. The goals and objectives of the on-going Ninth Five-Year Plan (2002-2007) is to spearhead the growth of a dynamic trade sector by creating an enabling environment and providing efficient services to the private sector.

A number of measures have been initiated, chief among which is the Foreign Direct Investment Policy in 2002. This replaces the previous ad hoc clearance systems and is now expected to stimulate private sector investment and contribute to the industrialization of the economy.

In the manufacturing sector, FDI will be encouraged in mineral processing, agriculture & agro-processing, forestry & wood-based industries, livestock based industries, light industries including electronic industries and engineering & power intensive industries. The minimum project size here is US\$1 million of which the foreign investor can hold a majority shareholding of up to 70% of the equity and in the services sector is US\$ 500,000 of which the foreign investor can hold up to 70% of the equity. FDI in services that are being encouraged are tourism including hotels, transport, roads & bridges, education, business infrastructure, information technology, financial services and housing. In the application of relevant laws, rules and regulations of the country, foreign investors will be accorded the same treatment, including investment incentives and exemptions, as accorded to local investors who are engaged or will be engaged in similar business.

Development of physical infrastructure as elsewhere in the world is a prerequisite for the attainment of objectives in almost every sector. In the case of Bhutan, development of infrastructure is particularly difficult due to the scattered and sparse pattern of human settlement brought about by mountainous and rugged terrain. Priorities in this area include: further development and expansion of the network of roads, development of an efficient and reliable system of public transport; construction of an all-weather airport; development of dry ports at strategic locations; expansion of telecommunications and postal services; and the development of IT and related industries.

As far as the direction of trade is concerned, Bhutan's trade is heavily concentrated in the SAARC region covering 94% of Bhutan's total trade in 2004. India continues as the major trading partner of Bhutan covering almost 82 percent of Bhutan's total trade although the share of trade with other countries has picked up over the years.

1. Balance of trade with important trading partners (in million Nu.)

	2002			2003			2004		
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
India	7607	5153	- 2453	9074	5188	-3885	635	4043	3408
Bangladesh	72	222	150	40	120	80			
Thailand	242	-	- 42	123	6	- 117	73	0.99	-72
Overall	9579	5444	- 4134	10104	5346	-7327			

The steep increase in imports over the years is attributable to massive imports made to meet the requirements of the developmental activities like construction of hydropower plants. This trend is likely to continue as long as such donor-assisted developmental activities continue.

The top ten exports in terms of value in 1999, in descending order of value were electricity, calcium carbide, Portland cement, ferro-silicon, particle board, oranges, and mixtures of juice, potatoes, bituminous coal and rum. Similarly, the top ten imports in terms of values in 1999 in descending order of value were computer and parts, passenger motor cars, rice, diesel, trucks, edible oil, bulldozer spare parts, electro-mechanical appliances, wheat and angles of iron and steel. Imports from India also comprise of strategic goods. These may be defined as goods which are essential for the normal running of the economy. Among them, the most important imports from India are diesel, petrol, kerosene, aviation turbine fuel, rice, wheat and edible oil.

Trade liberalization and facilitation measures -Trade and transit arrangements

The government will actively pursue promotion of more liberalized trade arrangements at bilateral, regional and international levels while progressively reducing import tariffs and abolish export taxes at the same time.

At the bilateral level, Bhutan and India have enjoyed free trade since the two countries signed a treaty of friendship in 1949. The present Agreement signed in 1995 is due for renewal. Bhutan also has a Preferential Trading Arrangement (PTA) with Bangladesh. The government intends to pursue further trade liberalization initiatives with Bangladesh through negotiations for deeper reductions in tariff, elimination of non-tariff barriers, and expansion of product coverage under the existing PTA. The government also intends to negotiate PTAs at a bilateral level with other countries as well starting from Nepal and Thailand.

At the regional level, Bhutan is involved in the South Asian Free Trade Area (SAFTA) negotiations that seek for greater liberalization of the SAARC Preferential Trading Arrangement (SAPTA) framework. Bhutan has also become a member of the BIMSTEC group. Further, it is actively pursuing its membership in the WTO. The government intends to complete all required accession formalities and become a member to the WTO during the Ninth Five Year Plan period. To facilitate the accession process, several studies on the impact of WTO on important economic sectors like tourism, energy, financial services, telecom have been initiated.

Membership in the WTO would enable Bhutan to get better market access to the markets of member countries. This is important, as there is a need to diversify our markets beyond the traditional ones. Improved market access would mean more trade, which in turn would translate in increased production. This will ultimately result in increased employment opportunities and income generation. Further, joining the WTO would help streamline our policies and lead to greater transparency in governance and promote an environment that is more conducive to promoting trade and industry.

Bhutan faces many constraints in its efforts to promote trade. The difficult terrain makes the cost of production extremely high. There are also the problems related to Tariff and non-tariff barriers. In spite of the FDI policy, the level of foreign investments

still remain non-existent owing to the small Bhutanese market besides the fact that there are very few viable and substantive projects.

Development of transit, transport and trade facilitation infrastructure can go a long way in making trade more efficient. This would require development and improvement of transport and road networks including rail links, ports, and airports and simplification and harmonization of trade and customs documentation procedures with special emphasis on the problems of land-locked member countries.

Perhaps another crucial aspect is to enable the private sector to take full advantage of the economic and commercial opportunities resulting from the liberalization process. Promotion of business interactions and improving the flow of information and communications seem to be extremely important. The existing environment does not give sufficient confidence for the private sector to make investment decisions. This calls for concerted and joint efforts of both the governments and the private sector to take the required steps in improving the business climate.

Access to credit is a serious constraint that hampers export growth. Lending by Bhutanese banks is highly collateral-based and risk averse.

On the import front, constant efforts have been made to streamline import procedures. To this end, the import license requirement is now being proposed to be withdrawn. An inland port is also being planned so that goods destined for Bhutan can be delivered ex-Bhutan.

As mentioned, Bhutan's trade is mainly with India. The transaction between two countries is in local currencies that are not freely convertible. Hence, the immediate problem arising from imports is sustaining it due to limited hard currency earnings.

Bhutan's tariff with an average rate of about 25% is among the lowest in the region. The duty and tax structure are simple. Customs procedures are by and large simple as well. While full automation is yet to be achieved, use of internet and electronic data exchange is being done and encouraged.

Understanding of Trade Facilitation in the development context

Land locked and LDCs need to identify their trade facilitation needs and prioritize in relation to the cost implications and implementation capacities of the proposed measures. The question of whether the developing and least developed countries have the necessary resources for implementing these measures remains an important Governance issue. The continuation of the high level political will and commitment remains an important element apart from other measures such as capacity building, assisting in the promotion of trade fiancé and infrastructure development to promote efficient and secure trade facilitation measures.

By putting this issue with a focus on the clarification and improvement of GATT 1994 Article V, VIII and X, in the July Package, developing countries are given a hope in being able to realize the issues more clearer. Through meetings such as this, greater awareness, recognition and capacity building can be brought about. Apart from the several constraints we LDCs are faced with, it is now left upon us to eventually be able to manifest these development dimension in our own domestic trade policy.

