

**BHUTAN'S GRADUATION FROM LDC,
CHALLENGES, PREPRATION FOR
GRADUATION AND FUTURE SUPPORT
MEASURES**

30th March – 02nd April 2019

Outline

- **Bhutan's LDC Graduation Background**
- **Challenges Facing Graduation**
- **Government's Preparations to Address Graduation-related Challenges**
- **Support Measures Post Graduation**

LDC GRADUATION BACKGROUND

- Became eligible for graduation - Triennial Reviews in March 2015, 2018

	Threshold	2015	2018	
GNI	1242	2277	2410	(95%)
HAI	66	67.9	72.9	(11%)
EVI	32	40.2	36.2	(13% below)

- Graduation due in 2021, - extension till 2023 to coincide with conclusion of 12FYP.
- Last mile journey (smooth transition plan) towards LDC graduation (12FYP 2018-2023) with a special focus on Economic diversification, resilience, and enhancing productive capacity.

GRADUATION CHALLENGES

1) **Low Level Of Economic Diversification**

- ❑ Overdependence on Single sector - Hydro power
- ❑ 30% of GDP, Huge Investment

- ❑ Continued dependence and dominance- risk of economic vulnerability - economic shocks due to climate change.

- ❑ Spikes in GDP growth (28% in 1987, 2007 18.9%)

- ❑ Limited employment generation.

GRADUATION CHALLENGES

2) High Aid Dependence

- 40% - 11th FYP
- 34 % - 12FYP
- Declining Foreign reserves and Indian rupee crunch.

GRADUATION CHALLENGES

3) **Limited Structural Transformation**

- ❑ Structural transformation - meaningful industrial transformation in real sense.
- ❑ Agri employs 51.3% (largest);
- ❑ Share of GDP 17% (lowest)
- ❑ Low productivity and instability
- ❑ Role of private sector limited
- ❑ FDI inflows -marginal.
- ❑ Shortage of professionals, lack of skills and low productivity of labour - constraint for growth of businesses and private sectors.

GRADUATION CHALLENGES

4) High Transportation Costs

- No direct territorial access to sea,
- Increased transportation costs,
- Affects the competitiveness of Bhutan's export.
- Mountainous terrain, delivery of services expensive
- Small domestic market

Interventions -To Address Graduation-related Challenges

a) Policy Reforms

- Revision of EDP Policy 2010 – revised in 2017
- Revision of FDI policy 2014 - currently being revised to make more investor friendly.
- Revision of CSI policy 2012.
- Amendment of Mining Act and Rules and Regulations

Interventions -To Address Graduation-related Challenges

b) Infrastructure Developments

- Four Major Industrial Estates Under Construction;
- Exploring Alternative Means of Transportation/ Trade Route - Inland Waterway System;
- Development of Dry Port Facilities for trade facilitation and export promotion;
 - One Mini dry port completed
 - Major Dry Port proposed in 12 FYP;
- DPR proposed for two more dry ports in Gelephu and Nanglam in the 12th FYP.

Interventions -To Address Graduation-related Challenges

d) Reducing High Transaction Costs

- Introduction of G2C services for issuance of trade licenses;
- Development of National Trade Portal – underway;
- Improving National Highways and Rural Connectivity to reduce costs/time;
- Integrated checkpoint Facilities

Interventions -To Address Graduation-related Challenges

d) Market Diversification

- Exploring export markets - Trade Fairs and B2B events
- Pursuing better market access through bilateral and regional trading arrangements;
- Developing nation brand –BRAND BHUTAN.
- Focusing on niche products, such as organic produce and high value medicinal herbs
- Encouraging domestic value addition - SAFTA

Key Sectors Identified

- Hydro power
- Mining sector
- CSI sector
- Tourism
- Agriculture

SUPPORT MEASURES REQUIRED

- ❑ Assessment of issues and challenges in WTO accession / negotiation dynamics pre and post LDC graduation stage.
- ❑ TA in terms of experts and funding support both during and after WTO accession
 - ❑ Country Position (before)
 - ❑ Assess and finance policy and structural reforms
- ❑ Assessment of Legislative reforms envisaged in view of possible WTO accession.

SUPPORT MEASURES REQUIRED

- ❑ Concessional loans and grants as development grant both during and post graduation stage from the UN and bilateral partners.
- ❑ Greater access to LDC funds
- ❑ Collective and coordinated voice for support measures

**Thank You for Your
Kind Attention.**