



Bhutan in 2009: A Retrospective View

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Summary

After successful culmination of parliamentary elections in 2008, the main challenge for Bhutan in the year 2009 was to set the pace for democratic institutionalisation. At the domestic level, the National Assembly of Bhutan witnessed heated political debates on a number of important issues, a development which is suggestive of democratic norms which Bhutan is set to embrace in the coming years. State funding for political parties was the most debated issue and continues to be so as both Druk Phuensum Tshogpa and People's Democratic Party are mired in financial debt. Despite a robust growth rate of 8.1 per cent, the most significant economic challenge that confronts Bhutan is the outstanding external debt which stands at USD 694.74 million. Given the growing danger of glacial lake outburst floods, climate change is yet another issue, that is keeping Bhutan on tenterhooks. The signing of the Free Trade Agreement with Bangladesh in November and the successful conclusion of twelve agreements with India in December 2009 are indicative of Bhutan's emerging confidence in engaging its neighbourhood. The overtures made to Nepal in March 2010 for signing a Preferential Trade Agreement is also a pointer to Bhutan's enthusiasm for a more proactive foreign policy. This issue brief highlights the potential trajectory that the Himalayan country could undertake in the coming years by focusing on significant political, economic and foreign policy developments in the year 2009.

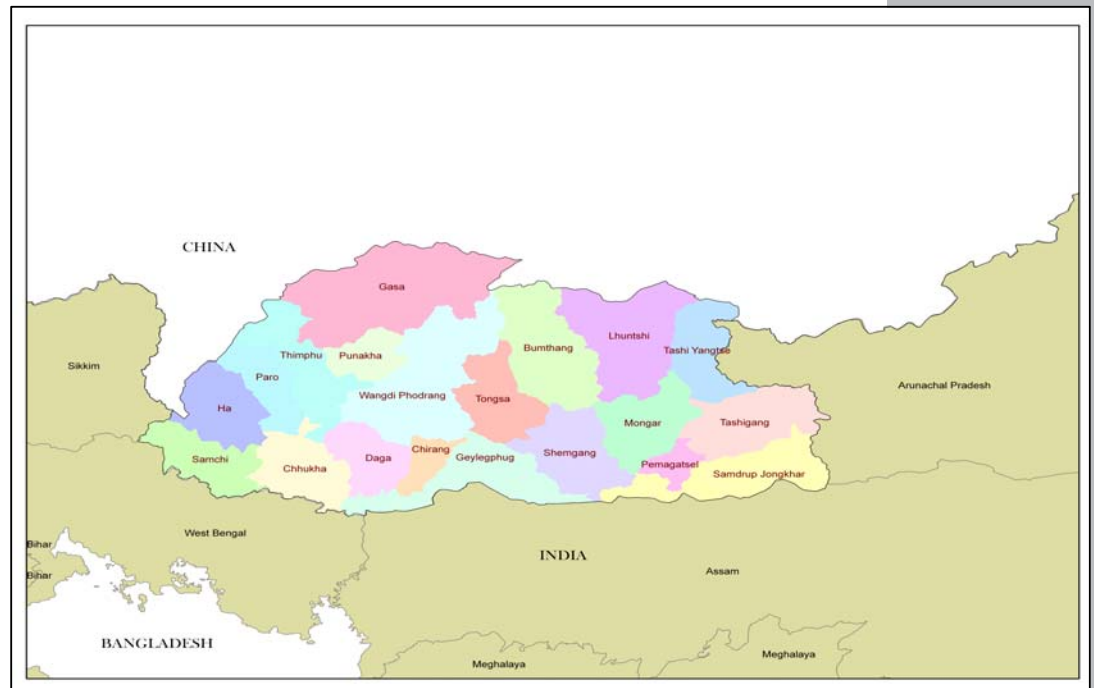
The formal coronation of Jigme Khesar Namgyel Wangchuk as the fifth King of Bhutan in November 2008 concluded the first wave of democratization in Bhutan. Many of the initiatives took concrete shape in the year 2009 as Bhutan further set the pace for democratic institutionalisation. The National Assembly of Bhutan, despite a weak opposition, witnessed heated political debates

on a number of important issues. On the economic front Bhutan initiated measures to invite Foreign Direct Investments in order to diversify its economy. A Free Trade agreement was signed with Bangladesh. Bilateral interaction with India was expanded to include areas such as information technology, disaster risk management, education and research cooperation.

The structure of democracy in Bhutan rests on three pillars: the executive, the legislature and the judiciary. While the executive includes the prime minister and his cabinet, the legislature includes the two houses of the parliament – the National Assembly and the National Council, as well as the Monarch. The Monarch has the prerogative to command bills and other measures to be introduced in Parliament. The third pillar, the judiciary, has the Supreme Court as the highest court of justice in Bhutan. The High Court, the District and Sub-District Courts follow the line of ensuing jurisdiction. A National Judicial Commission has been established for the appointment and removal of judges. The Commission would become functional once the names of all the Supreme Court judges are announced. Apart from the separation of powers duly established by the Bhutanese constitution, various independent oversight institutions have been reinstated and empowered to take necessary action. Chief amongst them include the Royal Audit Authority and the Anti-Corruption Commission, National Environment Commission and the Election Commission.

Political Developments

In 2009, Bhutan witnessed various initiatives aimed towards strengthening democratic foundations. The most prominent debates in the National Assembly were on the Civil



Service Bill, Constituency Development Fund, the Local Government Bill 2009 and the Anti-Corruption Commission.

The year began with political differences over local government elections. In December 2008, with the King's intervention, the decision of the Election Commission to hold elections was repealed and postponed to October 2009. However, the elections have been further delayed, as no consensus over Thromdey (Municipal) Act and the Local Government Bill could be arrived upon.

Controversies also revolved around the Civil Service Bill, which was adopted by the National Assembly in June 2009. The main bone of contention in the bill was the right to freedom of speech guaranteed by the Bhutanese constitution. Reports claim that Chapter IV of the bill contradicts Article 7 (Fundamental Rights) of the Constitution, since Chapter IV mandates that civil servants should maintain confidentiality on information and constrains them from expressing any adverse opinion against the Royal Government. Media organizations in particular have expressed opposition to the clause as they claim that about ninety per cent of the information about the government stems from civil servants. The Bill is yet to generate consensus and become an Act.

A similar issue pertaining to the constitutional interpretation which occupied much public debate in Bhutan's domestic politics is the question related to state funding of political parties. According to Tshering Tobgay, leader of the Opposition Party in the National Assembly of Bhutan, as of June 30, 2008, the People's Democratic Party owed Nu 20,326,924 to the Bank of Bhutan and Nu 3,588,232 to various other suppliers. The Druk Phuensum Tshogpa (DPT) owed Nu 14,253,975 to the Bank and Nu 7,708,010 to other suppliers. This financial debt, many point out, has raised questions not only regarding the Royal Audit Authority's observations on the financial status of the two political parties but also on the issue of state funding of political parties. The education minister, Lyonpo Thakur Singh Powdyal, made an official announcement on April 2009 that "given the experience of the party so far and the need to have a responsible and respectable political system in the country, it's desirable to have state support, because the existence and functioning of political parties have critical implications on the health of the state." However, many in Bhutan along with the Election Commission have expressed their views against any such move and consider it as unconstitutional. It is possible that the issue of party funding would occupy the public debate in the coming years. Tshering Tobgay, the PDP President, points out that the lack of funding for political parties could also provide an opportunity for the ruling party to resort to corrupt means in order to raise funds, an issue which was well captured in the debate regarding Constituency Development Grants.

The issue of Constituency Development Grant, which has been mired in controversies, has been opposed primarily due on the aforementioned grounds. While the Chief Election Commissioner, the National Council and the Opposition Party members have vehemently opposed the Grant, the Prime Minister, the Cabinet and the Lower House of the Parliament

have supported it. Constituency Development Grant (CDG), as a long term development measure, aims to provide Nu 10 million to National Assembly members spread over a period of five years. The grant carries a lump sum amount of Nu 2 million a year, and all National Assembly members are required to carry out developmental work in their constituencies through the available fund. The Fund is primarily directed towards activities not covered by the normal budget. The fund cannot be used for current expenditure i.e., in the construction of gewog (block) offices, purchase of vehicles, acquisition of buildings and land, contributions and supplement activities funded by the government. The bone of contention revolves around three issues: First, the CDG can give advantage to the ruling party in the coming elections as it is the first step towards building a strong constituency. Second, given the fact that political parties are facing financial constraints, CDG money can trickle down through corrupt means. Third, the CDG would directly interfere with the powers of local government institutions, which might prove to be an impediment for effective decentralisation.

A positive development in 2009 was the completion of the structure of National Anti-Corruption Strategic Framework. The main focus of the framework is on institution building, political leadership, strengthening the laws, political will and implementation and monitoring. Bhutan is paying much attention to the National Anti-Corruption Strategy Framework delineating a broad framework to relevant stakeholders which is subject to review and reform every five years. Bhutan was ranked the least corrupt amongst the South Asian countries and placed at the forty-ninth place out of 180 countries.

All these developments show that while institutions and pillars of democracy have been well established in Bhutan, the major political issues confronting the country are related to the process of democratisation. The Year 2009 perhaps is an illustration of issues that would confront Bhutan in the years to come. Prime Minister Thinley's statement that "the democratic process in his country was doing fairly well but was not yet firmly established" is an apt reminder that Bhutan's democracy is at a nascent stage; political debate and political decisions which are made in the coming years would determine how this transition to a fully operational democracy is carried forward.

Economic Developments

According to World Bank estimates the per capita Gross National Income in Bhutan has risen from US \$730 in 2000 to \$1900 in 2008, the highest in South Asia. In the year 2008-09, the highest growth was recorded by the service sector which is estimated to have grown by 12.1 per cent, followed by the industrial sector with an estimated growth of 7.5 per cent. Growth in the agriculture sector was 1.7 per cent. Though during 2008-2009 Bhutan's economy grew by 8.1 per cent, it would be no exaggeration to state that most of this growth stems from the service sector, viz. hydro-power and tourism. Given the fact that both these areas can be directly affected by external changes, the Ministry of Finance in Bhutan considers the narrow revenue base to be the most prominent challenge in the

coming years. This assumption is well corroborated by the fact that in 2008-09, tax revenues in Bhutan accounted for just 42 per cent of the total domestic revenues, which official sources state is just sufficient to cover the recurrent cost. Meanwhile Tala hydropower and royal monetary authority were the main sources of non-tax revenue. As per the National Revenue Report of Bhutan in 2008-09 personal income tax grew by almost 46 per cent and corporate income tax grew by 29 per cent. The tourism council of Bhutan was the fourth highest revenue generator, contributing 4.5 per cent of the total revenue.

Formulating a sound fiscal and an economic development policy was therefore one of the most pertinent challenges in 2009. The objective of the stated draft Economic Development Policy is to “promote economic growth, achieve economic self reliance, generate employment, promote entrepreneurship, diversify economic base and increase exports in the next 15 years till 2023.” The policy encompasses major issue areas such as hydel projects, trade and industrial sector reform, promotion of cottage, small and medium enterprises, tourism, mining policy, construction sector, education, health, ICT, infrastructure development, etc. According to some sources, Bhutan would open up the entire health sector to private investment. The draft economic development Policy also allows Bhutanese companies to borrow money from outside and raise equity in foreign markets. Also, banks would be raising Nu 300 million to Nu 1 billion for lending. As far as the power subsidies for industries are concerned there is speculation that subsidies would be removed by 2011.

External debt is considered to be one of the most serious challenges that Bhutan will have to cope with in the coming years. According to sources, by June 2009, the total outstanding debt in Bhutan was estimated to be \$694.74 million, which is about 54 per cent of GDP. Of the external debt, 61.45 per cent is constituted by bilateral loans for hydro-power projects and 21 per cent comprises of non-hydropower loans borrowed from multilateral institutions. However, Bhutan appears to be positive about its debt management policies as most of the external borrowing rests on highly concessional rates. Also, the majority of external borrowings is directed towards hydro-power projects, which are the main revenue generator and, thus has the potential to mitigate the debt gap.

If one casts a look at the twelve public sector companies under the umbrella of Druk Holdings and Investments (DHI) in 2009, the financial performance of public companies appears to follow a positive trajectory. For instance, the total pre-tax profits of the DHI increased by 8.03 per cent in 2009 from Nu 4.8 billion to Nu 5.1 billion in 2008. IT parks, establishment of data centres, development of special economic zones, especially in South Bhutan, are some key areas where investment would be taking place in the near future.

Reviewing the economic progress made by Bhutan in 2008-09, Prime Minister Thinley presented the annual report to the first Parliament in June 2009, detailing the yearly progress made by his party. Amongst the many issues he touched upon was the spectacular economic growth of 8.1 per cent. Some of the important points showcasing economic

development flagged by the prime minister were:

- Bhutan's foreign reserves increased to about \$663 million (April 2009), which was sufficient to fund seventeen months of imports as against the requirement of twelve months.
- Inflation, which was 9.21 per cent in 2008, had declined to 7.21 per cent by April 2009.
- The balance of payments deficit stood at about Nu 9.8 billion in 2008, while in 2009 it declined to Nu 5.9 billion. A major reason for this was grants and soft loans.
- DHI companies reflected a profit of Nu 5.1 billion which was an increase of 8 per cent from Nu 4.8 billion in 2008.
- The Services sector registered the highest growth and tax revenue accounted for 42 per cent of domestic revenues.
- The impact of the global financial crisis on Bhutan was clearly felt on tourism, which saw a decline of 31.5 per cent of tourist arrivals by April 2009.

Economic progress in Bhutan cannot be divorced from the notion of Gross National Happiness, which is the overarching framework in which Bhutan frames its developmental choices. The overarching significance of Gross National Happiness came across in various public debates relating to Bhutan's economic decisions in 2009. Joining the World Trade Organization, for one, is a case in point, which has led to divergent opinions. According to Kuensel, the leading newspaper in Bhutan, while a majority of MPs are in favour of joining WTO, there are dissenting voices in the National Assembly and the National Council, who are against the idea of Bhutan joining the World Trade Organization. The opponents believe that joining WTO and the concept of GNH have inherent contradictions since WTO equates development with economic growth and GNH equates growth with inclusive and sustainable development.

Also, as a policy measure, at the Copenhagen Summit on Climate Change in December 2009, Bhutan urged the international community to link the concept of Gross National Happiness with Climate change, as such a linkage could act as a barrier against excessive materialism. Based on its policy of Gross National Happiness, Bhutan has projected its strong conservation ethics by bringing 72.5 per cent of land under forest cover. Bhutan has argued that this would enable it to act as a net sink for greenhouse gases (GHG).

External Developments

Bhutan's foreign policy in the year 2009 was marked by certain key events. While India-Bhutan relations reached new heights on account of the regular high level visits, Bhutan also signed a Free Trade Agreement with Bangladesh in November 2009. The

announcement of border talks with China was made in December 2009 and Bhutan and China successfully conducted the nineteenth round of border talks at Thimpu in January 2010.

The basic thrust of the November 2009 Free Trade Agreement signed between Bhutan and Bangladesh was on the export of hydro-power from Bhutan to Bangladesh. Bangladesh has been the second largest trading partner of Bhutan and imports apples, oranges, minerals, etc. Its primary items of export to Bhutan are garments, tableware, melamine, car batteries, cooking oil, confectionaries, etc. As per the November 2009 agreement, Bangladesh has agreed to provide duty free access to eighteen more commodities from Bhutan. Under the renewed trade agreement, Burmari Port, Tamabil and Naoka have been considered as new entry points for Bhutan. The number of products was increased to 90 from the previous 74 for trading between Bangladesh and Bhutan. India's role in facilitating distribution lines through its territory has been considered as crucial for cooperation on hydro-power by both countries.

Jigme Khesar Namgyel Wangchuck, the fifth King of Bhutan, visited India from 21-26 December 2009. The visit garnered considerable media attention in both countries and was the King's first visit abroad after his formal coronation in November 2008. The year 2009 can be marked as the year of highest official visits between India and Bhutan. For instance, the Indian External Affairs Minister and Home Minister visited Bhutan in June and August, respectively, to discuss issues of mutual interest and concern. In fact this was the first-ever visit of an Indian Home Minister to Bhutan. Foreign Secretary Nirupama Rao visited Bhutan in September 2009 (her first official visit abroad after assuming office). Then National Security Advisor M. K. Narayanan visited Bhutan in November 2009. Special Envoy to PM on Climate Change, Shyam Saran, Chief Election Commissioner, Navin Chawla, and Comptroller and Auditor General Vinod Rai visited Bhutan in July, October and September 2009, respectively. The spate of visits reflect the importance India has started giving to Bhutan in its strategic roadmap.

The December 2009 visit of Khesar Namgyel Wangchuk saw the successful conclusion of twelve agreements/Memorandums of Understanding signed between the two countries. The areas of cooperation range from issues like health, prevention of illicit trafficking of narcotic drugs, civil aviation, information technology, agricultural research, cooperation on search and rescue operations and technical cooperation on environment related issues.

Energy sector has received utmost priority by both countries and four stand alone agreements were devoted to this. India has also assured cooperation towards preparation of its National Transmission Grid Master Plan. The Indian commitment to Bhutan towards creating a generation capacity of 10,000 MW of electricity by year 2020 is under progress. India has also promised to provide assistance of Rs. 25 crore to Bhutan towards rehabilitation and reconstruction works. The leaders of both countries expressed a desire for more people to people contact and emphasised that interactions between the

parliamentarians of the two countries should become a regular feature of bilateral relations. Bhutan also opened a consulate in Kolkata in December 2009.

Some of the major projects in Bhutan carried out with Indian assistance are Paro Airport, Bhutan Broadcasting Station, Major Highways, Electricity Distribution System for Thimphu and Paro, Indo-Bhutan Microwave Link, Exploration of Mineral Resources, Survey and Mapping, Chukha and Kurichu Hydropower Projects, and Penden Cement Plant. Some of the important projects envisaged in future include establishment of railway linkages between the border towns of India and Bhutan, cooperation in agriculture and allied sectors, and construction of two major hospitals in Bhutan. Information technology and cooperation on educational scholarship meant for capacity building are other areas which are opening up between the two countries. Prime Minister Thinley, during his visit to India in June-July 2009, announced that India would be providing an additional Nu 227.9 billion, of which Nu 214.9 billion would be for hydropower under the tenth plan.

Another important event for Bhutan in 2009 was the Copenhagen Summit on Climate Change. Bhutan is one of the most vulnerable countries on account of climate change and glacier melting as it has around three thousand glacial lakes. Experts estimate that there are possibilities of receding glaciers in the coming years contributing to glacial lake outburst floods in Bhutan. Thorthormi glacier, for one, is the most cited glacier estimated to be melting and could pose a potential threat to the valleys of Bhutan. Adaptation measures towards mitigating the impact of glacier outbursts are underway in Bhutan with the help of funds (\$7.4 million) from the United Nations. At the Copenhagen Summit, Bhutan along with Least Developed Countries requested preferential treatment for adaptation as per the Bali Action Plan. However no consensus could be arrived upon due to the disagreement between G-77, China and developed countries.

The Way Forward

The year 2009 was a year of political and economic reforms, whereby the foundational stone of democracy was laid. The ruling party, Druk Phuensum Tshogpa, is being followed in Bhutan with great interest and much would depend on the political choices made by it in the coming two to three years. Political choices envisaged by the Economic Development Policy would determine the pace of economic growth and encouragement to private sector will influence the diversification of the economy. Reducing financial debt by generating an internal revenue base would play an important role in sustaining the high economic growth rate. Hydropower and tourism would play a crucial role on this front. Sustainable financial aid from India towards the generation of 10,000 MW of energy by the year 2020 would also play an important role in supporting the economic trajectory of Bhutan.

India and Bhutan have always shared progressive relations and offer promising growth in the years to come. Given the regional environment and proclivity of the Chinese to

settle the North-Western borders of Bhutan, an area which is of strategic concern to India, it is necessary that India and Bhutan develop a shared understanding of the threats and vulnerabilities along their border areas. Given the robustness of bilateral relations, the development cooperation between the two countries should perhaps be shaped into a strategic partnership in the years to come.