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5. However, Bhutan is still facing numerous serious challenges and vulnerabilities which need to be carefully considered.
  
6. While Bhutan has been experiencing relatively high growth rate this growth has been driven mainly by the Hydro Power sector. Spikes in GDP occur when a new hydropower project is commissioned indicating the predominant role of hydropower in the economy rather than actual structural transformation.
  
7. As a resource based economy, Bhutan's growth has always been driven by construction and generation of hydro-electricity. Given its capital intensive nature, the industry has not generated meaningful employment opportunities. Consequently growth of the secondary sector has not resulted in a commensurate shift in workforce from agriculture to manufacturing. While the sectoral share of the agriculture to GDP has decreased from 43% in 1980 to 17% in 2015, 57% of our labor force is still dependent on this highly unstable sector with limited productivity for their livelihood.

product level largely dominated by few range of products besides electricity, namely: Ferro-silicon, Steel, Portland Cement, Calcium Carbide, Silicon Carbide, Cardamom, Dolomite, and Gypsum. Disruption in the demand and supply of any of these products would have detrimental impact on the overall economy. Lack of diversity in exports lends little opportunity to expand its productive capabilities to new product categories and limited scope of technical transferability of its current set of capabilities, hence presence of market failures. In addition, given the insignificant size of trade both in terms of value and volume, Bhutan has always been price taker, which makes the economy more vulnerable to the global price fluctuations. Further, it may be noted that most of the manufacturing industries, such as ferro-silicon, iron, steel, and chemicals, are highly energy intensive in nature; therefore, the industries are equally exposed to the risk of natural shocks on the hydropower sector.

11. The export vulnerability is further aggravated on the account of high export market concentration. With an average share of 82% of the total trade, India has been the major trading partner for decades. In 2016, export to India constituted 85.58% of the total export followed by Bangladesh at 10.79%. In terms of import, India alone accounted for 82% of the total imports last year. The acute dependence on single market makes Bhutan's export industries highly vulnerable to the price fluctuations and other policy shocks in India. The recent introduction of Goods and Services Tax (GST) in India has not only disrupted smooth flow of cross-border trade, it has also adversely affected some key export industries, notably export of cement to India. Although Bhutan may be seen relatively less remote to the international market compared to other LDCs, the underdeveloped trade infrastructure facilities coupled with high transportation costs due to rough geographical terrain makes it expensive and less competitive for international business. For instance, the World Bank's Logistic Performance Index ranks Bhutan 135<sup>th</sup> out of 160 countries, putting Bhutan among the countries with poor logistical infrastructure necessary for trade.
12. Bhutan also faces the challenge of increasing imports without a corresponding increase in exports. This is evident from the sustained trade deficit that Bhutan has been experiencing for decades except in 2007, which shows an overall trade surplus for the first time. The positive trade balance in 2007 was primarily driven by the increased supply of electricity to India, following the commissioning of Tala Hydropower Project in 2007. The trade deficit in 2016 stood at about USD 518 million, which constituted 21.59% of the nominal GDP and formed substantial part of the current account deficit as high as 86%. Therefore, the macroeconomic challenge posed by increasing current account deficit on account of high trade imbalance and pressure on limited foreign currency reserves have become a grave national concern for overall macroeconomic stability in the medium to long term in light of Bhutan's probable graduation from the LDC category.

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economy and the sector specific incentives are applicable to the priority sectors identified under EDP including the five jewels.

18. In addition to creating an enabling environment for private sector growth, the government continues to emphasize on prioritizing the Five Jewels of the economy, namely-Hydropower, Tourism, CSIs, Mining and Agriculture; enhancing service delivery and reducing administrative burden for businesses; diversifying exports and enhancing productivity; and

