

# **WORLD TRADE ORGANIZATION**

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**Committee on Trade and Development  
Integrated Framework for Trade-Related  
Technical Assistance**

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**TRADE-RELATED TECHNICAL ASSISTANCE NEEDS ASSESSMENT  
SUBMITTED BY BHUTAN**

**INTEGRATED RESPONSES BY THE IMF, ITC, UNCTAD, UNDP,  
WORLD BANK AND WTO<sup>1</sup>**

**BHUTAN**

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**TRADE-RELATED TECHNICAL ASSISTANCE NEEDS-ASSESSMENT  
PRESENTED BY BHUTAN**

A. TRADE POLICY

Basic Policy

(i) Privatisation, where ample opportunities are being given to the domestic private sector to play a lead role in commercial and industrial ventures, wherever possible.

(a) Privatisation of trading activities: besides domestic trade, this includes trade with India, Bangladesh and other countries. The only exceptions in this regard are the Food Corporation of Bhutan (FCB) and the State Trading Corporation of Bhutan (STCB). In the case of FCB, it is more a public service organisation which provides or oversees the availability of essential food commodities at fair prices, deals in scarce food items, food security and procurement of some subsidised quota items from India. The STCB is primarily a government procurement agency and also deals in several scarce or sensitive items like explosives, specialized steels and some scarce industrial raw materials. However, as of mid-1997, 49 per cent of STCB's share holdings have been sold to the private sector and the management is being privatised with additional privatisation of shares.

(b) Privatisation of industrial ventures: Government share holdings in most industrial ventures that were established earlier have been privatised to give an added opportunity to the private sector. The small share holdings that still exist with the Government are either to meet contractual obligations or for giving support to the industry due to investment difficulties of the private sector.

(c) Privatisation in the communications sector which include:

- Privatisation of bus and truck services. The Roads Safety and Surface Transport Authority of the Ministry of Communications plays a regulatory and facilitative role;
- privatisation of road construction and maintenance works. These works are subcontracted to the private sector by the government. The Public Works Division has a supportive and regulatory role;
- liberalisation of the sale of telecommunications customer premise/terminal equipment. While the Ministry of Trade and Industry provides licence for dealers, the Division of Telecommunications approves the equipment type. This will change once the draft telecommunications legislations is enacted. A separate regulator within the Ministry of Communications will be responsible for licensing and type of approval. Within this year, the government run Division of Telecommunications will be changed into a state owned corporation, responsible for the operation of telecommunications services in the country.

- (d) Shares of any companies including that of the Government are required to be sold only through the Royal Securities Exchange of Bhutan (RSEB) and purchases of shares are open to only Bhutanese nationals.
- (e) All tourism activities are in the private sector with the Tourism Authority of Bhutan (TAB) acting only as a supervisory and regulatory body.
- (f) A Substantial portion of the government Human Resource Development (HRD) budget is allocated to the private sector.
- (g) Giving financial and material support to the Bhutan Chamber of Commerce and Industry which is purely a private sector organisation seeking to promote the interests of the private sector. It also acts as an agent of the private sector for dialogues with the private sector for dialogues with the government.
- (h) Creating an "enabling environment" for private sector development through legal instruments like the Companies Act of the Kingdom of Bhutan 1989, Mines and Minerals Management Act 1995 and Customs Rules and Regulations 1996. More legislations are being drafted to further the objective of private sector development.
- (i) Legislation in the form of the Roads Safety and Transport Act of 1997 has been enacted and it provides for private sector participation in the provision of commercial transport services.
- (ii) Provision of cheap power to domestic, rural and industrial consumers. The power tariff rate of Nu.0.60 per Kwh (Nu.39.80=US\$.1) is a rate fixed by the government to give an advantage to domestic industries to use the cheap power. (The present export rate to India is Nu.1.00 per Kwh). However, constructions and running of major power projects are being done by the government directly in view of the huge investments involved in their establishment where only the government is entitled to obtain grants and soft tern loans from donors like India, Austria and Japan. Again acquisition of large tracts of land and preservation of forest catchment areas including measures to safeguard the fragile Himalayan environment can at present be done most effectively by the government.
- (iii) Establishment of small industrial estates where all the basic amenities such as water, power and roads are made available minimum rents.
- (iv) Except for industries of strategic importance, all manufacturing, processing and service industries including contract types are allowed to be set up in the private sector.
- (v) In order to fulfil the objectives of a regionally balanced development and to meet security concerns, location of projects away from international border areas are encouraged, at least three Kms away. In the case of all other areas, private sector may freely choose their locations in keeping with the environmental requirements and permission granted by the local authorities.
- (vi) As far as possible, all industries have to be in the private sector, except for investment requirements or other problems which the private sector finds difficult to resolve, the government may be involved initially in their promotion.

- (vii) In order to avoid debt problems, industries in the medium and large scale categories should normally be in the Debt Equity ratio of 2:1. However, this provision can be relaxed by financial institutions.
- (viii) In view of the sustainable development policy approach followed by the government, the views from the following organisations for the projects indicated against them are sought and given due weightage:
- |                                |   |                                                            |
|--------------------------------|---|------------------------------------------------------------|
| (a) Wood based                 | - | Forestry Services Division, Ministry of Agriculture        |
| (b) Mineral based              | - | Geology and Mines Division, Ministry of Trade and Industry |
| (c) Agro-based                 | - | Ministry of Agriculture                                    |
| (d) Foreign Exchange           | - | Ministry of Finance/Royal Monetary Authority               |
| (e) Environment                | - | National Environment Commission                            |
| (f) Foreign Labour recruitment | - | Ministry of Home Affairs                                   |
| (g) Industrial sites           | - | Industry Division and Dzongkhag (district) authorities     |

**(a) What are the sectors that you believe have unexploited or underexploited export potential?**

Hydro power and energy-intensive industries, mineral-based and chemical industries, industries based on horticulture, industries based on forest resources like handicrafts, dyes and pigments, herbal medicines and aromatic industries. There could be good scope for electronic industries as well as service industries. There could be good scope for electronic industries for exports. Packaging has still to come up to the mark to meet export requirements.

**(b) Could you please define your country's perspective of the reasons for any changes in the structure and direction of exports and imports?**

The structure and direction of exports and imports are given as Annexure A. Some of the factors which have brought about a change in the structure and direction of exports are the availability of cheap power, and opening up of the Bangladesh market. Recently, the liberalization moves in India and the rest of the subcontinent, including similar moves in Bhutan have resulted in diversifying especially imports into the country. The growing public investment in the country requiring varied and sophisticated materials (equipment,etc.) has diversified import sources from the traditional Indian market.

**(c) What have been the objectives of trade policy in the most recent period, compared to, say, two decades ago?**

The objectives of trade policy is to enhance Bhutan's earnings through exports, through encouraging export oriented industries. Emphasis is placed on the development of the domestic private sector for both imports and exports. The import regime has been liberalized dramatically in the last year or so keeping up with regional trends. This was not the case two decades ago.

Objectives of trade policy of the VIII Five Year Plan (1997/98 - 2002/03)

- (i) To enhance the contribution of the trade sector to the national economy by promoting internal and international trade with increased private sector participation through the creation of an environment conducive to growth of trade.
- (ii) To expand trade on a sustained basis and gradually reduce trade imbalances.
- (iii) To diversify the export base through the identification and development of exportable products in such a manner as to make the trade sustainable and competitive.

**(d) What are the Ministries in charge of trade policy matters, including formulation, implementation, enforcement and monitoring? How is coordination made? What are the respective roles of the relevant Ministries (give particular attention to tariff policies and other policies directly affecting exports and imports of goods and services)?**

While the Ministry of Trade and Industry (MTI) is in-charge of trade policy matters, relevant Ministries of the Government are consulted in the process of formulation, implementation and enforcement of such a policy. The Foreign Exchange and Tariff policy is framed by the Ministry of Finance in consultation with the MTI and approved by the Cabinet. The Planning Commission is the main inter-ministerial body responsible for formulation and co-ordination of all economic development matters.

**(e) How are the private sector and academic institutions associated with the formulation and conduct of trade policy?**

Annual General Meetings of the Bhutan Chamber of Commerce and Industry are held where the district secretaries and various Ministries participate. During such meetings, the views of the private sector are consolidated and incorporated during the formulation of trade policy. No academic institutions are involved in the process at present as such institutions have not taken interest thus far.

**(f) What are the institutions in your country that can play a role in implementation of a trade-related project at the local level? State their respective roles.**

The Regional Trade and Industry offices of the MTI in coordination with the Dzongkhag (district) Administration, the local BCCI representative and the *Gewog Yargey Tschokchungs* (i.e. Block Development Committee) at the local level could implement such projects.

**(g) What are the main laws and regulations dealing with trade policy - on exports and imports? Please provide a short description of each.**

- Trade licence Rules and Regulations - It provides the general criteria and prerequisites for obtaining a trade licence and carrying out commercial trade in the country;

- Export and Import regulations - It basically provides the framework and procedures for the export and import of goods and specifies those products whose export or import is restricted;
- Tariff and non-tariff regulations - It provides basic structure of customs checks and controls and the simplified procedures that ensure adequate safety against any possibilities of evasion of taxes, prohibitions and restrictions;
- Foreign Exchange regulations - Provides guidelines for obtaining foreign exchange for international trade and specifies who is eligible to obtain it;
- Trade Agreement with Indian and Bangladesh;
- The Agreement on the South Asian Preferential Trading Agreement.

**(h) What are the main instruments of trade policy - on exports and imports? Please elaborate (e.g. on import restrictions, the questions might be: on what products are there any import bans; on what products are there quantitative import restrictions; licensing requirements, etc.; what is**

**the highest tariff rate currently in use; are there any excise taxes, other "domestic" taxes that are applied differentially to imported goods, or to goods of a type that are principally imported?).**

#### Export Policy

The main thrust of Bhutan's export policy is the diversification of exports of goods and services so as to increase foreign exchange earnings. To this end, the policy is geared towards facilitating increased opportunities for gainful employment, identifying new and varied exportable products, identifying new markets, etc. Efforts are made to ensure that the quality of the existing exports as well as the new ones are consistent and competitive in the international market. The government has liberalised the exchange and trade regime. There are no exchange restrictions on payments or transfers relating to any transactions with India. In order to assist a potential exporter in conducting market studies etc, foreign exchange is made available upon payment of counter value in local currency. Any Bhutanese national is permitted to carry out an export venture after obtaining an export licence which is solely for registration and income tax purposes and is practically automatic. Import of industrial plants and machineries is totally exempted from duty while import of raw materials from countries other than India is subject to minimum import duty. Import of raw materials from India are exempted from all taxes and charges in keeping with the free trade arrangement.

Export of Bhutanese finished products are free from all taxes and levies. However, to ensure value addition of natural resources, an Export Tax is levied for export of timber (10 per cent of value) and selected agricultural products such as oranges (Nu.500/MT), apples (Nu.500/MT) and cardamom (Nu.3,000/MT).

#### Import Policy

RGOB has embarked on a forward looking economic policy to gradually liberalise trade, industrial and financial sectors with a view to encourage and facilitate the development of the private sector. The import policy has therefore been liberalised with the rules and procedures streamlined and import tariffs significantly reduced. Any Bhutanese national is permitted to carry out external trade after obtaining necessary trade and import licence. This requirement is purely for identification of the private businessmen and is used mainly for registration, income tax and transit purposes. It is processed in a transparent and automatic manner. There are no quantitative import restrictions from September 1996

with the introduction of the new Bhutan Customs Rules and Regulations and Customs Tariff Schedule, 1996. Items under the restricted list on which there is an import ban include arms, ammunition and explosives, drugs, wildlife and certain chemicals. The tariff rates normally range from 0.00 per cent to 30 per cent with the highest tariff rate of 100 per cent being applied tobacco and alcoholic goods. Excise taxes in Bhutan are applied only on domestically produced liquors. Customs duty as per tariff policy is applied only on imports of third country origin which excludes imports from India in view of the Agreement on Trade and Commerce between the two countries and hence a domestic sales tax is levied which ranges from 0 per cent to 50 per cent to 50 per cent (for tobacco and liquors). However, the levy of tax on export of agriculture produce is imposed in lieu of income tax and not as export tax.

**(i) In case you are a WTO Member or are in the process of acceding, how is your country preparing itself to comply with the WTO Agreements?**

As we are not very familiar with the WTO Agreements, we intend to join as an observer to the WTO so as to enable us to understand fully the provisions of the Agreement and assess its implications.

**(j) What is the state of familiarity with the WTO framework:**

- among government and government-related agencies?
- in the private sector?

The familiarity with the WTO framework is not adequate in both the government as well as the private sector.

**(k) What are your technical assistance requirements with regard to your compliance with the WTO Agreements?**

- Establish cells or local points in the relevant Ministries to carry out work related to the WTO Agreements. This will *inter alia*, ensure that notification and other WTO obligations are fully implemented;
- training to enhance the human and institutional capacities in both the government and private sectors.

**(l) In which specific areas of the WTO Agreements do you have technical assistance needs (e.g. market access, agriculture, rules (anti-dumping, subsidies, import licensing, rules of origin, safeguards etc.), TBT and SPS, Services, TRIPs)?**

In all the areas, provision of training in trade policy under WTO and compliance requirements as per document WT/LDC/HL/1 dated 10 October 1997 would be highly useful.

**(m) What is your assessment of your existing trade analysis and negotiating capacities, both multilateral and bilateral, in areas already covered by the WTO Agreements and other trade-related areas, e.g. competition policy and trade and environment?**

The present capacities are quite limited in the absence of adequately qualified professionals and other institutional bottlenecks. Hence, orientation programmes have to be initiated to strengthen this capacity.

## B. OBSTACLES TO TRADE EXPANSION

Obstacles to trade encompassing problems in export markets, infrastructure, human capacities, institutional bottlenecks, trade financing problems and gaps in trade information can inhibit a least-developed country from taking full advantage of trading opportunities.

### Supply Constraints, Including Institutional Bottlenecks

**(a) What are the main bottlenecks inhibiting the development of sustained export capacity of goods and services (e.g. customs facilitation, freight charges, quality management, elimination of cumbersome legal and administrative procedures, paucity of human skills, access at international prices to imported inputs, or inadequate telecommunication, port and transport facilities etc.)?**

- **Land-locked countries may face additional problems, such as having to ship using costly or unreliable transport and ports systems. In case this applies to your country, please indicate such problems. What kind of technical assistance would help you work out these problems?**

In common with other land locked countries, Bhutan faces numerous problems with the transport of goods for export and import through transit countries. While there is no doubt that the existing Agreement on Trade and Commerce with the Government of India has greatly facilitated Bhutan's trade, there is always scope for further improvement.

Some of the bottlenecks faced are detailed below:

- Problems of distance: because Bhutan's land locked and remote position, most of the hard currency earning exports, in particular the horticultural produce, are currently limited within the region and on a seasonal basis. Being perishable in nature, these items are most often loaded directly from the orchards and then transported by road to the markets. In the event some unforeseen incident occurs in the transit country, the chances of these goods reaching their destination is highly undependable. Further, unnecessary delays and repeated handling of these consignments along the way at various custom points leads to the deterioration of their quality. Transporting them by air is extremely costly which makes them commercially unviable;
- High costs: insurance coverage of export and import cargo is an essential prerequisite. In Bhutan's case, insurance cover is provided only up to Calcutta, India by the foreign insurance companies. The transit insurance from Calcutta to Bhutan has to be taken separately which adds to the cost of insurance. Further, clearing and forwarding agents at the ports in the transit countries need to be used adding further to the handling costs. Any delays in the sea ports or inland customs stations, which are more or less commonplace today, is bound to attract extra storage charges beyond the permitted free periods, demurrage charges and late documentation fees which further increases the cost. Also, the freight charges for export by air is relatively high;
- Delays and uncertainties with schedules and documentation: in the transit system that is prevailing today for Bhutan, goods are frequently held up at maritime ports (Calcutta for example) or at inland customs stations, because of the absence of documentation (such as ocean bills of lading or commercial invoices), minor irregularities in the documentation, non availability of onward transportation, labour disputes, and the like;

This not only damages our reputation as an exporting country but also discourages importers from buying from Bhutan while adding to the total cost as mentioned in the



earlier paragraph. For instance, the transit between Calcutta and Bhutan for export and import cargo is over ten days on an average;

- Paucity of human skills: Bhutan has a lot of untapped export potential, the private sector has not been able to take advantage of this potential. This is mainly due to their lack of experience and knowledge on quality control, market studies etc associated with such trade;
- Quality management: while we have the capacity to produce exportable products one of the major problems faced is in ensuring sustained quality and uniformity of some of our products. Due to this, it has been difficult to access new markets as the products cannot compete both in terms of quality and price;
- Shortage of information on export markets;
- Inadequate export finance.

Technical assistance will be required in:

- (i) The establishment of dry port facilities in Bhutan;
- (ii) training in the management of the dry port;
- (iii) identification of products having export capacity in Bhutan *vis-à-vis* market studies;
- (iv) the establishment of an institute for quality control and management;
- (v) export promotion.

**(b) Are there any institutional bottlenecks, which may impede the efficient conduct of your country's trade policies? Provide details. For example, what are the problems perceived by the different actors, e.g. exporters, producers, service providers (banks, insurance companies, quality control, transporters etc), professional associations and Ministries? Are problems mainly perceived in the area of:**

**(i) Human resources**

There is a shortage of trained manpower within the Ministry who can analyse export and import trends and make projections whereon future steps can be taken. Besides, the entrepreneurial base in the country is still relatively at a rudimentary stage and lack exposure, information and technical qualification to trade within the new trade parameters.

**(ii) Management of the institution**

So far our approach towards trade promotion has been more on a sector by sector and product by product basis. There is no coordinating forum through which an integrated approach can be taken on a regular basis. An export Development Board which functioned briefly in the early 1990's is now defunct.

**(iii) Financial and material resources**

The inability to provide financial support to the extent required both from financial institutions in terms of loans, and from the government in terms of incentives and subsidies, has impeded the growth of exports.

**(iv) Transport and Communication**

Although telephone and facsimile connections are adequate with improvements scheduled for in the near future, we lack modern communications facilities like e-mail and Internet. Further, due to the geographic terrain, transit and transport costs are very high while at the same time not properly developed.

**(c) What are the main bottlenecks to export diversification?**

- (i) Small production base as the raw materials are scattered and most are uneconomical for exploitation. Due to this, the volume of production is low;
- (ii) inadequate market information;
- (iii) high transportation costs;
- (iv) insufficient knowledge on resource endowment;
- (v) shortage or quality products;
- (vi) lack of legislation for quality control and food standards;
- (vii) lack of infrastructural facilities including laboratory facilities;
- (viii) lack of capital and technology.

**(d) If investment in the production of goods and services is inadequate, what are the main reasons? Please elaborate them (e.g. structural constraints, difficulties in attracting foreign investment, limited enterprise development, financing, lack of appropriate technology, etc)**

- (i) Shortage of financing;
- (ii) inadequate infrastructure development;
- (iii) lack of appropriate technology;
- (iv) limited enterprise development as a result of a relatively young private sector.

**(e) Is there a national policy to encourage export-related investment opportunities? Please elaborate. What arrangements are in place for reviewing, drafting and negotiating contractual arrangements with foreign investors?**

Any foreign partnership or technical collaboration in industrial ventures require approval from the Ministry of Trade and Industry. Such collaboration is considered on a case-by-case basis where the expertise, technical know-how and capital requirement for involving a foreign company is known.

However, in this context, a cautious approach is being followed in view of social, political and environmental reasons and the need to import a large number of foreign labour in most cases.

**(f) What are the main obstacles to the transfer, development and acquisition of technology? Is there any national policy/strategy in this area? Please elaborate.**

Bhutan does not have a national policy/strategy in this area. This is mainly due to the fact that this sector. The absence of a national technology policy impedes the transfer, development and acquisition of technology in Bhutan. Other impediments in this area is the lack of access to capital for investment in appropriate technology, shortage of skilled manpower in management, limited domestic market, inadequate physical infrastructure. Technology assessment and forecasting capabilities are also lacking. The government does not undermine the importance of this sector and has plans to strengthen the institutional capacity in this sector. The objective here is to acquire labour saving technologies.

**(g) What are your technical assistance or other assistance needs with respect to supply constraints.**

Trade Promotion and Trade Support Services

Trade promotion comprises an integrated set of technical and financial services to enhance the global competitiveness of enterprises and thus facilitate their entry and increasing participation in international trade.

- (i) Human resource development (HRD);
- (ii) building up an information base within the Ministry and developing the trade information network system including equipping the focal points and other reference centres with computers, CD-ROM for information gathering/dissemination and gaining access to the Internet;
- (iii) strengthening the institutional capacity of the relevant Ministries and government agencies, particularly the Ministry of Trade and Industry;
- (iv) identification of resources which can serve as inputs for export production;
- (v) development of communications infrastructure;
- (vi) alternative transportation mode and route;
- (vii) improved technology for production increase and diversification and quality development;
- (viii) establishing an institutional set up which will facilitate transfer, development and acquisition of appropriate technology.

**(h) Do your enterprises, especially small and medium enterprises, experience difficulties in expanding their exports? What are these problems in the major export sectors?**

- (i) High transportation costs;
- (ii) low quality of products in several cases;
- (iii) lack of exposure to improved production methods and export markets in some products;
- (iv) inadequate market information in several cases.

The main problem is that most of the small and medium enterprises have inherent difficulties such as managerial competence, exposure, information gaps, etc even within the domestic market. They are still grappling with the fundamentals of the trade and have yet to reach a stage where the sophisticated aspects of trade and finance can be fully comprehended. The above is further magnified when it comes to trading in the external markets to which they have very little exposure and hence do not possess the human information or contacts vital to such trade. With regard to the major export sectors namely horticultural produce and minerals, here again the land locked nature of the country increases the costs which makes it somewhat incompetent. There is also lack of information on the competitive forces in the export market.

**(i) What are the problems for your enterprises in obtaining reliable and up-to-date information on export/import business opportunities?**

In view of our geography, most of our exports have been in the sub region only which is poorly documented. The information available is most often outdated or their authenticity is doubtful. Government efforts in this area is limited so far. We also lack institutional infrastructure and skills to access, collect, store, process and disseminate trade information from abroad using modern information technology (for example - Internet). Much of the existing gap in global trade information in Bhutan can be filled up through the introduction of a Trade Point in the country under the Global Trade Point Network (GTPN) introduced by UNCTAD.

**(j) Can your enterprises offer products of internationally acceptable design, quality and packaging to foreign buyers? If not, what are the problems?**

Bhutan produces several products that are internationally acceptable like calcium carbide, ferrosilicon, particle and laminated boards, furniture, liquors, fruit products, minerals and cement. However, some other enterprises also have the potential to produce and export products acceptable in the international market, mainly those products indigenous to Bhutan in handloom textiles, bamboo and wooden crafts and processed fruits to some extent.

While the export of processed fruit products have not been much of a problem, we have had limited success in the export of the others. This is because we are not able to adapt these products to consumer preference in the international market as we lack experience in these areas. Also, our exports apart from hydro-electric power are mainly in high value-low volume category.

**(k) What problems, other than in terms of trade policy, do you anticipate in developing the export of services (e.g. computer software, tourism)?**

- Lack of infrastructure development;
- shortage of advanced technology;
- shortage of concessional financing;
- shortage of skilled manpower.

**(l) What are the technical/professional problems encountered by trade support institutions (e.g. trade promotion council, chamber of commerce, exporters association, etc) in your country in providing their services to export/import enterprises?**

The Trade Division of the Ministry functions as the trade promotion council in the absence of a separate institution for the same. The Division does not have skilled manpower and the infrastructure including modern communication facilities to discharge this responsibility effectively. The Bhutan Chamber of Commerce and Industry does not have sufficient funds nor the necessary technical expertise to provide much service to the export/import enterprises.

**(m) What problems and deficiencies are experienced by enterprises in their international purchasing and inventory management?**

Most of the enterprises lack trade information in respect of availability price, quality, etc. of goods, expertise, the exposure and experience including negotiating and managerial skills, warehouse/port facilities to store imported goods and maintain proper inventory, inadequate access to markets for spare telecommunications equipment and consumables.

**(n) What are the present availability and arrangements for trade finance facilities (e.g. export credit guarantees, etc)? Are there any perceived deficiencies in this area?**

The financial institutions, four in number, offer financial services but sometimes their requirements prove a hindrance to traders.

**(o) What are the main problems in the way of improving export/import management skills of your business enterprises? Do you have training programmes in the country? What are the deficiencies?**

Main problems are the inadequacy of training institutions in the country, high cost involved in training abroad, shortage of professional resource persons and technology.

The Cottage, Small and Medium Industries Unit under the Ministry conducts training courses where the basic skills like inventory control, cost effective production techniques, book keeping, etc are imparted. This needs to be expanded to cover a wider range of areas for which financial and technological assistance will be required.

**(p) Does your trade representation service actively promote your trade? What are the weaknesses?**

We do not have any trade representation service other than the various Embassies, Permanent Missions and the Liaison Offices of the Revenue and Customs and STCB in Calcutta. The main problem is the lack of funds to establish such trade representation services.

**(q) Briefly describe your technical assistance needs in the area of trade promotion and support services.**

- (i) Human resource development (HRD);
- (ii) establishment of a separate trade promotion cell with trained manpower;
- (iii) strengthening of the Bhutan Chamber of Commerce and Industry;
- (iv) strengthening training programmes for skill development in the public as well as private sector;
- (v) improving trade finance facilities;
- (vi) building up information technology facilities including establishment of a Trade Point;
- (viii) setting up and strengthening design development centres and a quality management institution/organization.

#### Market Access

**(r) What are your main market access problems?**

- Land locked nature of Bhutan;
- cannot produce sustainable volumes;
- high cost of production and transportation;
- lack of information and knowledge;
- inconsistent quality and standard of products.

**(s) What specific problems or barriers, and in which countries, are most troublesome for your exporters?**

- Over 90 per cent of Bhutan's trade is within the South Asian region and our major export markets are India and Bangladesh. We have an open and porous border with India and any political unrest in the bordering states seriously affects the smooth conduct of our exports;
- non tariff barriers which make our products incompetentive;
- stringent quality and standards requirements;
- technical barriers to trade in the future.

**(f) Regional and sub-regional trading arrangements (RTAs): please list RTAs to which your country belongs. Are you satisfied with the performance with these RTAs? Please state the problems of each. Do you have suggestions on how to solve these?**

Bhutan is party to the South Asian Preferential Trading Arrangement (SAPTA) which came into operation in December 1995. Under this arrangement, three rounds of tariff negotiations have been held so far where reductions on a product by product basis have been granted. Although around 2000 products have been covered thus far, actual trading in these items have not yet pick up in a major way as these products falls in that category that are not actively traded within the SAARC region.

The Summit Meeting in Malé has decided that the year for South Asian Free Trade Area be brought forward to 2001 A.D. and efforts are underway to ensure that this deadline is met. Some of the reason why SAPTA has not been as effective as perceived may be due to the fact that it is still in the early stages of implementation, the political problems between the member states, the existing trading patterns of most of the member countries is outside the region and that most of the member countries produce similar export products.

**(u) Are there any problems in utilizing the existing market access preferences, such as GSP, GSTP? Please state the nature of problems relating to each of these.**

As our export base is still very small and we do not export in a major way to GSP giving countries, we have not faced any problems so far. Bhutan is also not a member of GSTP.

**(v) What are your technical assistance needs with respect to market access?**

- In-depth analysis of the present market access problems in major export markets and finding ways to overcome them;
  - marketing studies on Bhutanese handicrafts including bamboo products; essential oils; aromatic substances and herbs; environment friendly products; textiles; dyes; matches;
  - studies on enhancing Bhutanese export under GSP scheme;
  - identification of the products having potential for export and their adaptation, if required, export diversification/product diversification and market exploration;
  - assistance in marketing our products;
  - strengthening institutions and procedures relating to quality control.

### C. TECHNICAL ASSISTANCE

Technical assistance is normally provided to developing and least-developed countries to build or enhance their human resources and institutional capacities, provide trade information and trade-related legal support, as well as improve their supply capabilities in order to make them more active players in the field of multilateral trade.

**(a) To the extent this kind of information is easily available, could you please briefly describe what trade-related assistance you have received over the past five years from bilateral and**

**multilateral sources and what projects/programmes are presently under consideration in this area?**

- (i) Assistance to Development of Essential Oils in Bhutan - UNDP (FAO);
- (ii) modernisation of Intellectual Property Systems - UNDP (WIPO);
- (iii) promoting Sustainable Human Development through Cottage Industry - UNDP
- (iv) support to Agricultural Marketing - FAO;
- (v) establishing of a seed association for public and private seed enterprises in the Asia-Pacific region (Multi-country) - FAO;
- (vi) programming mission and programme design for preparatory assistance for SAARC - ITC, UNCTAD, UNDP;
- (vii) institutional strengthening in the Ministry of Trade and Industry - ADB;
- (viii) Trade Development Project - EEC, scheduled to begin in March 1998.

**(b) Please summarize your technical assistance needs as well as other needs as reflected in this check-list. Please rank them in terms of priority.**

- (i) Advice, guidance and assistance to the private sector to enhance setting up of manufacturing industries;
- (ii) marketing of Bhutanese products;
- (iii) institutional strengthening and HRD in the relevant Ministries and Government agencies, particularly the Ministry of Trade and Industry and its affiliated agencies, to effectively handle work relating to compliance with various WTO Agreements;
- (iv) development of physical infrastructure including the establishment of dry port facilities;
- (v) building up institutional capability in formulation and implementation of trade policy matters;
- (vi) establishment of a Trade Promotion and quality control Cells;
- (vii) conduct marketing studies on Bhutanese handicrafts including bamboo products; essential oils; aromatic substances and herbs; environment friendly products; textiles; dyes; matches. Studies on enhancing Bhutanese exports under GSP scheme; identification of the products having potential for exports and their adaptation, if, required;
- (viii) export diversification/product diversification and market exploration;
- (ix) building up an information technology facilities within the Ministry including establishment of a Trade Point;
- (x) strengthening the institutional capacity of the Chamber of Commerce and Industry;
- (xi) sponsoring product-wise marketing missions abroad and participation in international trade fairs to assist Bhutanese industry and products.

**(c) In the light of the information you have been able to provide so far in response to the questions in this check-list, what types of information are, in your view, still missing or could be improved upon? In order to assist you in providing this missing information, would you need technical assistance?**

Most of the areas have already been covered above.

**(d) Does your country have the technological capacity and human resources to make use of the new information/ communication technology tools such as CD-Rom, the Internet etc.? What assistance would you need to enable your country to use these tools in the context of training and, more generally, in the context of trade development?**

Basic facilities for the use of CD-Rom are available in Bhutan. Bhutan does not yet have the facilities for use of the Internet. Assistance is needed in the following areas:

- (i) Training for skilled manpower development through seminars, workshops, etc.
- (ii) establishment of modern information technology;
- (iii) making trade related software and infrastructural facilities easily available.



**INTEGRATED RESPONSES BY THE IMF, ITC UNCTAD, UNDP,  
WORLD BANK AND WTO**

**BHUTAN**

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question A(k):</p> <p><u>Technical assistance requirements as regards compliance with WTO Agreements</u></p>		
<p>Establish cells or local points in the relevant Ministries to carry out work related to the WTO Agreements. This will <i>inter alia</i>, ensure that notification and other WTO obligations are fully implemented.</p>		
<p>Training to enhance the human and institutional capacities in both the government and private sectors.</p>	WTO	<p>A national seminar will be held in September 1998.</p> <p>An official from Bhutan attended a three-week trade policy course held in the spring 1998. Another course will be held in 1999 to which an official from Bhutan will be invited.</p> <p>Participants from Bhutan will also be invited to regional seminars for English-speaking Least developed countries.</p>

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question A(l): <u>Technical assistance needs as regards specific WTO Agreements</u>		
In all the areas, provision of training in trade policy under WTO and compliance requirements as per document WT/LDC/HL/1 dated 10 October 1997 would be highly useful.	WTO	See A(k).

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question A(m):</p> <p><u>Assessment of the existing trade analysis and negotiating capacities</u></p>		
<p>The present capacities are quite limited in the absence of adequately qualified professionals and other institutional bottlenecks. Hence, orientation programmes have to be initiated to strengthen this capacity.</p>	UNDP	<p>Both the Ministry of Trade and Industry (MIT) and the Bhutan Chamber of Commerce and Industry (BCCI) are receiving UNDP assistance in institutional capacity building through the nationally executed Private Sector Development (PSD) Programme, and Human Resource Management and Development Project. Particularly under the PSD Programme, a sub-component on Foreign Investment Collaboration and Advice will be able to expose the private sector to some negotiating skills with multinationals.</p>
	WTO	<p>Officials from Bhutan are invited to attend short trade policy courses in 1998 and 1999 for least-developed countries containing a module for enhancing multilateral negotiating skills.</p>

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question B(g):</p> <p><u>Technical assistance needs as regards supply constraints</u></p>		
Human resource development (HRD).	ITC	See below.
	UNDP	The Private Sector Development (PSD) Programme, and the Human Resource Management and Development project will be able address some of these concerns. See A(m).
	World Bank (WIPO)	The World Bank provides assistance to assess the adequacy of intellectual property rules and the government's capacity to effectively implement them. (WIPO executed)
Building up an information base within the Ministry and developing the trade information network system including equipping the focal points and other reference centres with computers, CD-ROM for information gathering/dissemination and gaining access to the Internet.	IMF	A national accounts mission is to visit Bhutan and could well cover trade statistics.
	ITC	See below. In addition, the Ministry will receive information on current market prices and trends for selected products through the Market News Service.
	UNCTAD	TRAINS-CD-Rom will continue to be provided.

Technical assistance needs identified in the questionnaire	Organization	Response
Question B(g) (cont'd):	UNDP	The database and information on the activities of the Entrepreneurship Promotion Centre of the Ministry of Trade and Industry set up under Cottage, Small, and Medium-sale Industries (CSMI) development project, will build upon and be integrated into the Private Sector Development (PSD) Programme. Hardware is also provided under both the programme and the project. Initially nation-wide Intranet will be used.
	World Bank	See above.
Strengthening the institutional capacity of the relevant Ministries and government agencies, particularly the Ministry of Trade and Industry.	UNDP	Under the Private Sector Development (PSD) Programme, the capacity of MTI is being strengthened through training and advisory services.
	World Bank	See above.
	ITC/ UNCTAD	An ITC programming mission is scheduled to visit Bhutan in the second part of 1998. Areas of proposed intervention which have already been identified according to the present needs assessment include human resource development, institutional strengthening, trade information and product and market development activities.* UNCTAD is prepared to participate jointly. Synergies with the ongoing UNDP-funded PSD-programme and the UNDP CSMI development project will be explored.
Identification of resources which can serve as inputs for export production.		
Development of communications infrastructure.		
Alternative transportation mode and route.	UNCTAD	A study can be undertaken under the land-locked programme.*

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\*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
Question B(g) (cont'd):  Improved technology for production increase and diversification and quality development.		
Establishing an institutional set up which will facilitate transfer, development and acquisition of appropriate technology.		
Establishment of dry port facilities in Bhutan.	UNDP	Under the Private Sector Development (PSD) Programme, a feasibility study will be carried out regarding the establishment of a dry port and a warehousing facility. Funding will be required for physical infrastructure construction.*
Training in the management of the dry port.	UNCTAD	This may be undertaken under the TRAINMAR Programme.*  Synergies will be sought with UNDP. See above.
Identification of products having export capacity in Bhutan vis-a-vis market studies.	ITC	The possibility of carrying out the Country's supply survey will be discussed during the above-mentioned ITC programming mission.
	UNDP	Under the Integrated Horticulture Development Project, activities are included to develop products having export potential.
Establishment of an institute for quality control and management.		

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\*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question B(q):</p> <p><u>Technical assistance needs in the area of trade promotion and support services</u></p>		
(i) Human resource development (HRD).	ITC	See under B(g).
(ii) Establishment of a separate trade promotion cell with trained manpower.	ITC	See under B(g).
	UNDP	The Export Promotion Centre established within MTI will partly address this need.
(iii) Strengthening of the Bhutan Chamber of Commerce and Industry (BCCI).	ITC	Consultations will be held with the Bhutan CCI on the occasion of the planned ITC programming mission.
	UNDP	See A(m).
(iv) Strengthening training programmes for skill development in the public as well as private sector.	ITC	See B(g).
	UNDP	Under the Cottage, Small, and Medium-scale (CSMI) development project, skills are being developed, particularly of the private sector.
(v) Improving trade finance facilities.		
(vi) Building up information technology facilities including establishment of a Trade Point.	UNCTAD	A feasibility study to set up a Trade Point can be undertaken.*
(vii) Setting up and strengthening design development centres and a quality management institution/organization.		

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\*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question B(v):</p> <p><u>Technical assistance as regards market access</u></p>		
<p>In-depth analysis of the present market access problems in a major markets and finding ways to overcome them.</p>		
<p>Marketing studies on Bhutanese handicrafts including bamboo products; essential oils; aromatic substances and herbs; environment friendly products; textiles; dyes; matches.</p>	UNDP	Partially carried out under Cottage, Small, and Medium-scale (CSMI) development project and Integrated Horticulture Development Project.
<p>Studies on enhancing Bhutanese export under GSP scheme.</p>	UNCTAD	A study is envisaged for 1999.
<p>Identification of the products having potential for export and their adaptation, if required, export diversification/product diversification and market exploration.</p>	ITC	See B(g). Consultations on this subject will be held with UNCTAD and UNDP.
<p>Assistance in marketing products.</p>	ITC	See B(g). Consultations will be held with UNCTAD and UNDP.
	UNDP	Under the Horticulture Development Project, UNDP is providing some assistance for the marketing of fruits.
<p>Strengthening institutions and procedures relating to quality control.</p>		



Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question C(b):</p> <p><u>Summary of technical assistance needs according to priority</u></p>		
(i) Advice, guidance and assistance to the private sector to enhance setting up of manufacturing industries.	IMF	Efforts should be made to encourage foreign investment by reducing the effective limit on foreign participation and allowing majority ownership where appropriate.
	UNDP	Under the Private Sector Development (PSD) Programme, the sub-component on drawing up an Industrial Master Plan will address this.
(ii) Marketing of Bhutanese products.	ITC	See B(g).
	UNDP	See B(v.)
(iii) Institutional strengthening and human resource development (HRD) in the relevant Ministries and Government agencies, particularly the Ministry of Trade and Industry and its affiliated agencies, to effectively handle work relating to compliance with various WTO Agreements.	ITC/ UNCTAD	See B(g).
(iv) Development of physical infrastructure including the establishment of dry port facilities.	UNDP	See B(g).*

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\*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
Question C(b) (cont'd):  (v) Building up institutional capability in formulation and implementation of trade policy matters.	IMF	As necessary, the Fund stands ready to provide advice and assistance to address the following concerns: in order to enhance the environment for trade development, we would advise that the authorities should eliminate discretionary import licensing and reduce the number of tariff rates to four (from seven). This should be seen as an intermediary step in the transition to a low uniform tariff during which time the distortionary differences in tariff rates between raw materials/intermediate inputs and final goods should be reduced so as to substantially lower the effective protection to manufacturers of consumer goods.
	UNCTAD	A project to strengthen the institutional capacity of the relevant ministries in the formulation and implementation of trade policy may be formulated.*  This could be considered in the context of the joint ITC/UNCTAD programming mission mentioned under B(g) above.
	UNDP	See A(m).
(vi) Establishment of a Trade Promotion and quality control Cells.	ITC	See B(g).
	UNDP	See B(q)ii.
(vii) Conduct marketing studies on Bhutanese handicrafts including bamboo products; essential oils; aromatic substances and herbs; environment friendly products; textiles; dyes; matches. Studies on enhancing Bhutanese exports under GSP scheme. Identification of the products having potential for exports and their adaptation, if required.	ITC	See B(g).
	UNDP	See B(v).

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\*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
Question C(b) (cont'd):		
(viii) Export diversification/product diversification and market exploration.	ITC/ UNCTAD	See B(g).
(ix) Building up information technology facilities within the Ministry including the establishment of a Trade Point.	UNCTAD	See B(q)vi.
(x) Strengthening the institutional capacity of the Chamber of Commerce and Industry.	UNDP	Under the Private Sector Development (PSD) Programme, and Human Resource Management of Development Project, BCCI will be strengthened to be an effective advocate of private sector.
(xi) Sponsoring product-wise marketing missions abroad and participation in international trade fairs to assist Bhutanese industry and products.	UNDP	Under the Cottage, Small, and Medium-scale (CSMI) development project, provisions are made to attend trade fairs of private sector people.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question C(d):</p> <p><u>Technical assistance needs in the area of information technology including training of human resources</u></p>		
<p>Basic facilities for the use of CD-Rom are available in Bhutan. Bhutan does not yet have the facilities for use of the Internet. Assistance is needed in the following areas:</p>	WTO	A link up to the Internet will be set up in November 1998 by the WTO at the focal point on WTO matters in Bhutan.
(i) Training for skilled manpower development through seminars, workshops, etc.	WTO	Training on computer and on the use of link up with the WTO website will be provided at the same time.
(ii) Establishment of modern information technology.	WTO	See above.
(iii) Making trade related software and infrastructural facilities easily available.		