



BHUTAN'S DOMESTIC & EXTERNAL TRADE

**Department of Trade
Ministry of Economic Affairs**

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FOREWORD

The Department of Trade, Ministry of Economic Affairs is pleased to present the second edition of the Trade Information Booklet. This Booklet attempts to consolidate all information pertaining to the trading sector for the benefit of all interested users. It is presented in five different parts.

Part I of the booklet contains key information about the department, including its roles and responsibilities. Part II covers information related to trading activities within the country. It provides information on micro, retail, and wholesale trade. This is one very important economic sector not only because of its capacity to generate employment opportunities, but also serves an important function of supply chain, which is key to the growth of overall manufacturing sector and build supply-side capacity. In addition, Part II also provides information on trade in Petroleum, Oil and Liquid Gas (POL), separately. Part III deals with information related to external trade, which includes bilateral, regional, and multilateral trade agreements. Besides, it also gives a brief analysis on export and import performance using descriptive statistics and charts. Part IV highlights on the programs under the Department to promote and facilitate Bhutan's export to the principal markets and explore potential export opportunities through constant promotional activities and strategic market penetration. Finally, Part V stresses upon some of the special programs under the department.

The department is hopeful that this booklet will be useful for all users and complement other related publications. We look forward to your kind suggestions and feedback to improve documentation and dissemination of trade information. Lastly, we would like to thank all individuals and agencies that are involved in the publication of this booklet. We look forward to your continued support and cooperation.



Sonam Tenzin
Director
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PART 1: ABOUT THE DEPARTMENT

1.1 Vision, Mission, & Objectives

I. Vision

To spearhead the growth of a dynamic trade sector leading to a greater prosperity of the nation.

II. Mission

- ❖ To create an open and liberal environment conducive for the growth of trade sector;
- ❖ To facilitate the integration of the nation into the regional and global trading system;
- ❖ To stimulate the growth of the export sector and enhance export earnings; and
- ❖ To promote competitive and fair trade practices within the country.

III. Objectives

- ❖ Enhance contributions from trade to the national economy;
- ❖ Create a liberal and enabling environment for the growth of private sector;
- ❖ Pursue trade liberalization and support private sector development;
- ❖ Enhance employment and revenue generation;
- ❖ Ensure stable market access for Bhutanese products;
- ❖ Promote competition and fair trade practices;
- ❖ Promote efficient distribution of goods and services;
- ❖ Enhance growth of exports, particularly convertible currency exports; and
- ❖ Contributing towards alleviating poverty through mainstreaming trade.

1.2 The 12th Five Year Plan & Programmes

In the 12th Five Year Plan, the department mainly focuses on creating an enabling environment for the trading sector with the aim to promote trade, diversify export, and further enhance integration into the international trading system. The department has broadly categorized its activities under the following programmes during the plan period from July, 2018 – June, 2023.

1. Enhancing economic growth through sector diversification
2. Creating Business and Investment Friendly Environment
3. Export Promotion

To evaluate and measure success of the programmes towards the end of the Five-Year Plan period, result based planning matrix was developed as part of the overall 12th FYP document. A summary of the overall targets, indicators and baseline are highlighted below:

Results Level (outcome)	Indicators	Baseline	Base Year	Target
Ease of Doing Business and Enabling environment for economic activities improved	Pasakha Dry Port	0	2016	30 % completed
	Trade Information Portal	0	2016	100% completed
	Number of POL depots and retail outlets in the country	One POL Depot. 53 POL retail outlets.	2017	Two POL Depot. 58 POL retail outlets.
	Feasibility study for Gelephu Dry Port	0	2017	100% completed
	Feasibility study for Nganglam Dry Port	0	2017	100% completed
Non-Hydro Export and Investment Enhanced	Micro Trade Registration Certificate, Retail, and Wholesale Trade License	53,645	2016	58,822
Jobs Created	Jobs created in Trading sector	36,500	2017	52031
External sector position improved	Average growth of export during the plan period	3.3	2012-2016	4
Non-Hydro Export and Investment enhanced	Number of new products exported during the plan period	0	2016	22

1.3 Organization Structure

Given the above goals and objectives, the department is entrusted with very important roles and responsibilities to develop and promote both domestic and international trade. The department has been divided into three main divisions as below:

1. Trade Regulation & Monitoring Division

Key responsibilities of the division are:

- Establish an enabling legal framework, simplification of administrative and licensing procedures for domestic trading activities;
- Ensure competitive market conditions through streamlining of the distribution sector;
- Improve the system for monitoring, compilation and analysis of domestic trade data;
- Regulate Petroleum, Oil & Lubricants (POL) products in the market.

The division is further subdivided into three Sections:

1. Trade Regulation & Monitoring Section
2. Import Licensing & Monitoring Section
3. Petroleum, Oil & Lubricants (POL) Section

2. Trade Negotiation Division

Key responsibilities of the division are:

- Participate effectively in trade negotiations at bilateral, regional and multilateral levels to enhance market access and facilitate trade;
- Strengthen long-term trade relations with principal trading partners and negotiate Free Trade Agreements/Preferential Trade Agreements with potential trading partners;
- Represent and actively participate in various trade facilitation working groups and technical committees pertaining to trade and economic cooperation at bilateral, regional and multilateral levels;
- Firm up Bhutan's position and prepare the groundwork for bilateral, regional and multilateral trade negotiations in consultation and collaboration with relevant agencies and stakeholders, including the private sector;
- Organize periodic meetings and consultations with relevant agencies and stakeholders to inform and take stock of the issues related to market access and trade facilitation;
- Enhance skills and knowledge of the relevant agencies and stakeholders in international trade through trainings, seminars and workshops;
- Network and cooperate with relevant international bodies, such as WTO, UNCTAD, ITC, EIF, UNESCAP, etc. to facilitate trade and mobilize trade related technical assistance.

The Division has following three Sections:

1. Regional & Bilateral Trade Section
2. WTO Section
3. Trade Enquiry & Reference Centre

3. Export Promotion Division

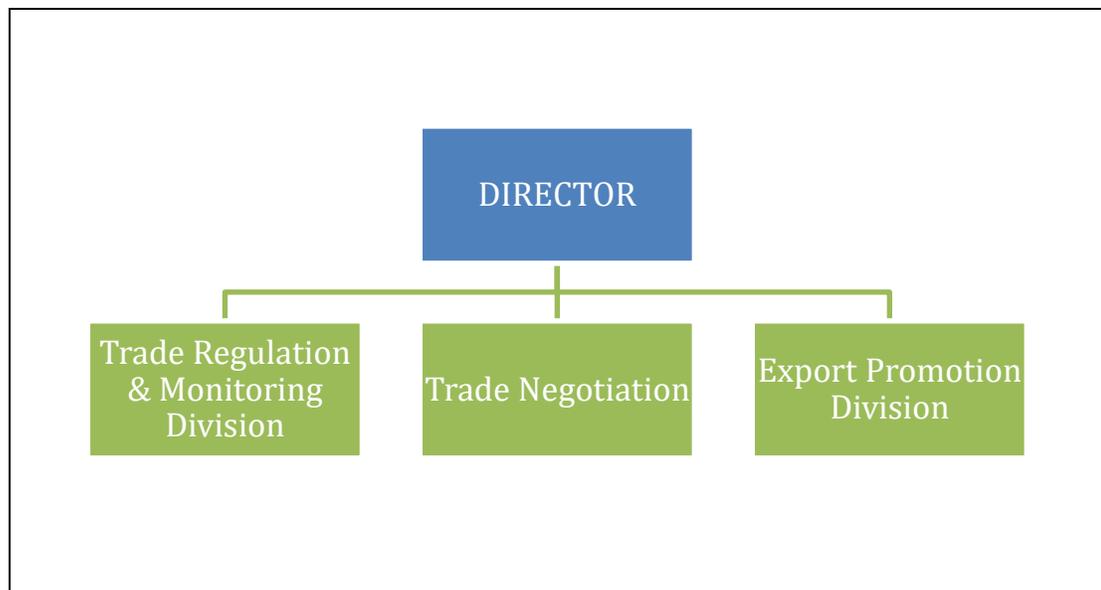
Key responsibilities of the division are:

- Review and formulate export policy and strategies in line with the overarching Economic Development Policy;
- Facilitate exporters with their export documentation;
- Develop export competitiveness through necessary capacity building programmes for manufacturers and exporters including SMEs;
- Provide effective trade information service to exporters, importers, and general public;
- Establish networks with international trade bodies and relevant institutions;
- Simplify and streamline export procedures;
- Organize trade fairs and coordinate participation of exporters in the international fairs and exhibitions;
- Organize trade missions overseas for exporters;
- Liaise with exporter association, chamber and relevant stakeholders;
- Undertake market research and trade analysis;
- Implementation of various export related projects and programmes.

The Division has following five Sections:

1. Exporter Development and Trade Facilitation Section
2. Marketing and Promotion Section
3. Trade Information and Communication Section
4. Brand Bhutan
5. Exhibition Center

Figure 1: Organogram



PART 2: DOMESTIC TRADE

All trading activities carried out within the territory of Bhutan are referred to as domestic trade. It mainly includes wholesale and retail trading. Having an efficient distribution system of goods and services within the country helps in proper allocation of resources for production. More importantly, it helps to improve people's living conditions through job opportunities and easy access to basic necessities. Wholesale and retail as important parts of the supply and value chain helps the growth of industries, boosts foreign trade, and contributes to the overall economic growth.

For these reasons, the department has a separate dedicated division, 'Trade Regulation and Monitoring Division (TRMD),' responsible for formulating policies, regulations, planning, and monitoring domestic trading activities.

2.1 Trade Regulation & Monitoring

The Royal Government of Bhutan, recognizing the private sector as an engine of economic growth, is committed to provide all necessary supports, particularly in terms of creating an enabling environment to promote entrepreneurship and business activities for gainful employment of the youth and the population at large.

To ensure competitive, fair market share, and providing safe products and services to consumers, the TRMD develops necessary rules and procedures for domestic trade and conducts periodical monitoring of business entities. The department in coordination with its six regional offices also compiles and maintains statistics of trade licenses issued in the six regions.

Licensing

There are three types of licenses issued under the trading sector including micro trade registration certificate. They are as below:

1. Wholesale Trade License
2. Retail Trade License and
3. Micro Trade Registration Certificate (MTRC)

As per the definition specified under the Bhutan Micro, Retail, and Wholesale Trade Regulation, 2006, a wholesaler is an authorized representative of a Manufacturer/Principal Company to distribute their products to the retailers. Retailers are those traders who sell goods directly to the consumer. Similarly, a Micro Trader shall mean a person who engages in trading with an annual turnover of less than Nu. 1 Million and classified under the Micro scale category.

A total of 58180 trade licenses have been issued as of June 28, 2019 of which 35386 are Micro Trade Certificate, 21153 Retail Trade and the remaining 1641 Wholesale Trade. Thimphu region has the highest trade license holders with 23896 (14674 MTRC, 8590 Retail and 632 Wholesale) followed by Gelephu region with 11291 license holders (7263 MTRC, 3810 Retail and 219 Wholesale). Trongsa region has the least trade license holders with 3057 licenses (1709 MTRC, 1289 Retail and 59 Wholesale). From the pie chart below, we can observe that micro trading activities dominate the trading sector, followed by retail and wholesale trade.

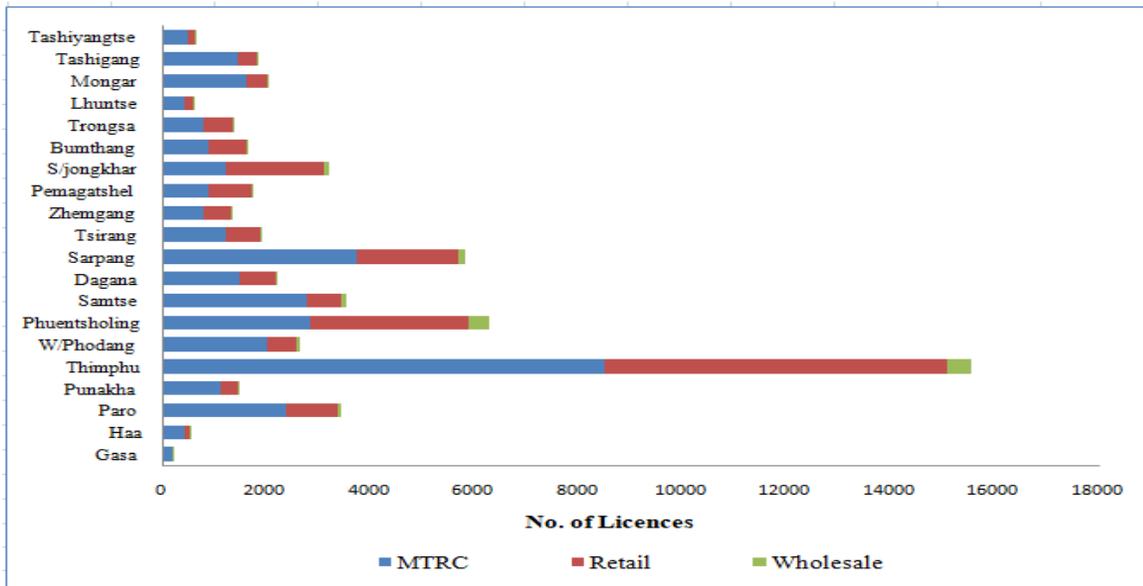
Figure 2: Total Trade License Issued



Source: Department of Trade

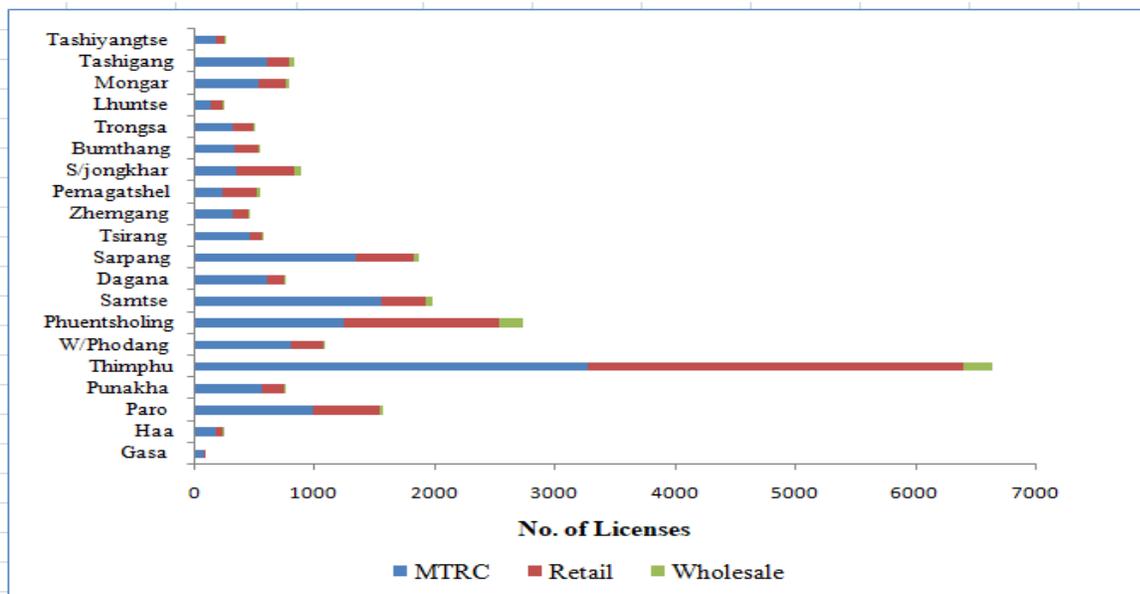
Figure 3 and 4 illustrates Dzong-wise trade licenses issued and in operation as of June 28, 2019. Not surprisingly, Thimphu Dzongkhag has been issued the most trade licenses with 15562 (8517 MTRC, 6573 Retail and 472 Wholesale) and Gasa the least with 208 (183 MTRC, 19 Retail and 6 Wholesale). However of the 58180 trade license issued only 23500 license are in operation today.

Figure 3: Dzongkhag-wise Trade Licenses Issued



Source: Department of Trade

Figure 4: Dzongkhag-wise Trade Licenses in Operation



Source: Department of Trade

2.2 Petroleum, Oil and Liquid Gas (POL) Section

This is one category of products in the domestic market that is being separately regulated and monitored by the POL Section in the department to ensure smooth and efficient distribution of petroleum products in the country.

POL products include MS, HSD, SKO and LPG. The import of all POL products is done from the principal companies in India. They are imported from M/s Indian Oil Corporation and M/s Bharat Petroleum Corporation Limited in India. The Total value of import of POL products stands at Nu. 11.18 Billion in 2018, a significant growth from Nu. 8432.66 million in 2014. This may be attributed to the increasing import of vehicles and other development and economic activities in the country. In fact, Diesel (HSD) has been the topmost commodity imported so far. From 5,911M in 2014, import has increased to about Nu. 7965.84M in 2018.

The Department of Trade regulates prices of Petroleum Products mainly Petrol, Diesel, LPG and Kerosene in the country and ensures availability of the products to the consumers. The products are being distributed by three local dealers namely M/s Bhutan Oil Distributors/Bhutan Oil Corporation (BoD/BoC), Druk Petroleum Corporation Ltd (DPCL), and Damchem Petroleum Distributors (DPD). Bhutan Industrial Gas (BIG) is the sole distributor for Industrial Gas/Commercial LPG in the country.

The local dealers in turn procure all required PoL products from the Principal Oil Companies in India viz; Indian Oil Corporation Ltd (IOCL), Bharat Petroleum Corporation Ltd (BPCL), and recently Hindustan Petroleum Corporation Ltd (HPCL) has also initiated their engagement in Bhutanese PoL sector through STCBL.

With expansion of economic base through increased private sector participation and development, there has been a tremendous increase in the import of PoL products, the surge in import is apparent as there has been increase in number of vehicles plying in Bhutan, and it indicates progress over the years. The import bill for the year 2018 was Nu. 11.20 Billion with increase of 13.1 % from that of 2017 import bill in terms of volume of import.

Since 2006, PoL coverage has already reached about 80%, and all 20 Dzongkhags are covered with petroleum distribution services and retail business setups. In keeping with Petroleum norms of India, at least 11 % of its coverage should go to remote service areas. The Bhutanese dealers have set up full-fledged fuel and gas stations even in locations where the business isn't that lucrative. As of now, we have total of 56 full-fledged fuel & gas stations spread over the entire nation.

To make the services easily available, the Department/Ministry has also approved LPG delivery agents. However, due to acute shortages of the LPG, the services are limited to Non-subsidized & commercial LPG.

2.2.1 Our Gyenkhu

The Department on 11th April 2019 launched “Our Gyenkhu: Citizen’s initiative” to address the LPG shortage across the country. The objective of the initiative is mainly to encourage urban residents to switch the use of LPG cylinders from subsidized to non-subsidized LPG for the benefits of the rural and underprivileged households.

In support of the initiative, the Hon’ble Prime Minister, Hon’ble Speaker, Hon’ble Opposition leader, Hon’ble NC Chairperson, Hon’ble Chief Justice and the cabinet Ministers have all surrendered their subsidized LPG and availed non-subsidized LPG. Subsequently, all executives along with other senior officials of the MoEA and a few other agencies have also voluntarily surrendered subsidized LPG and non-subsidized LPG.

Further, with a aim to ease pressure on subsidized LPG the Department has initiated and produced a video clip with service of Bhutanese comedian Mr. Gyem Dorji to create awareness and promote the use non-subsidized LPG to the general public. Besides, the Department had also solicited the support from Member of Parliament, 9 Ministries, 20 Dzongkhags, Constitutional bodies, Autonomous agencies, corporate bodies and associations to support the initiative. The Regional Trade and Industry Office of Phuntsholing and Samdrup Jongkhar region have already initiated and organized the program on Our Gyenkhu initiative.

Following the launch of Our Gyenkhu a total of 2091 subsidized LPG cylinders were surrendered and 3421 non-subsidized LPG cylinders availed as of June 28, 2019.

2.3 Import Section

The Ministry of Economic Affairs and the Ministry of Finance are the authorities which formulate import policy and implement import control measures. Bhutan, with a population of less than 750,000 inhabitants, has a small internal market and until recently had relatively limited foreign trade except for its close trading relationship with India. The Bhutan economy is highly dependent on imports, especially for equipment such as machinery, computers and parts, vehicles and fuel, and for consumer goods.

Imports from countries other than India, to be referred to as imports from third countries, are regulated by the Department of Trade of the Ministry of Economic Affairs since 2002.

2.3.1 Registered Import House

As of June 28, 2019 there are 2342 registered import houses in the country. As depicted in the table below, Thimphu region has the highest registered import house with 1767 followed by Phuentsholing region at 420. While Mongar Region has the lowest with 25.

TOTAL REGISTERED IMPORT HOUSES			
SINo	Regional Office	Dzongkhag	Total Registered
1	THIMPHU	Thimphu	1556
		Paro	139
		Haa	5
		Punakha	14
		Wangdue	53
		Gasa	0
		Total	1767
2	PHUENTSHOLING	P/ling and Gedu	411
		Samtse	9
		Total	420
3	GELEPHU	Gelephu & Sarpang	48
		Dagana	4
		Tsirang	4
		Total	56
4	TRONGSA	Trongsa	11
		Zhemgang	3
		Bumthang	28
		Total	42
5	MONGAR	Mongar	14
		Trashigang	11
		Total	25
6	S/JONGKHAR	S/jongkhar	26
		Pemagatshel	6
		Total	32
GRAND TOTAL			2342

It is Thimphu Dzongkhag topping the list with 1556 registered import houses and Gasa doesn't have any registered import house.

2.3.2 Quantitative Restrictions

In keeping with the provisions of the Economic Development Policy, the Department of Trade has initiated quantity restriction of import from June 2018. Now, the import houses are allowed to import based on the type of their licenses as follows:

Sl. No	Type of License	Quantity restrictions
01	Wholesale License	Unlimited
02	Large Scale Retail	Four 20 Feet container or equivalent in a year
03	Medium Scale Retail	Three 20 Feet container or equivalent in a year
04	Small Scale Retail	Two 20 Feet container or equivalent in a year

2.3.3 Import License

The Department has issued 2542 import licenses as of 2018 Nu. 8.19 Billion. With the import value of Nu. 1.66 Billion South Korea stands on the top with China following closely at Nu. 1.61 Billion. The top 5 countries, other than India, from where Bhutan Imported goods in 2018 are given below;

Sl. No.	Name of the Country	Value Imported
01	South Korea	Nu. 1,665,035,601
02	China	Nu. 1,613,662,988
03	Singapore	Nu. 1,486,230,159
04	Thailand	Nu. 1,050,197,371
5	Japan	Nu. 783,924,063

2.4 Competition Policy

Trade policies do not necessarily ensure competition in the market. The main objective of the competition policy is therefore to promote a market based economy driven by fair and healthy competition. It is also an important parameter for attracting FDI inflows and protecting small businesses from unfair trade practices by preventing commercial monopolies. Further, the competition policy also enhances good governance as it advocates the principle of transparency and limits discretionary powers by government functionaries. The policy has been formulated and submitted to Gross National Happiness Commission (GNHC) for further deliberations and endorsement after fulfilling all required formalities.

The need for competition law or policy is enshrined in the Constitution. Clause 10 of Article 7 of the Constitution states that *“it is the fundamental right of any Bhutanese to practice any lawful trade, profession or vocation”*. Further, Clause 10 of Article 9 and Clause 16 of Article 14 state that *“the State shall encourage and foster private sector development through fair market competition and prevent commercial monopolies”* and *“the Parliament shall not enact laws that allow monopoly except to safeguard national security”* respectively. The Economic Development Policy 2016 also states that *“the Royal Government shall adopt and implement the Competition Policy by 2018.”*

The policy aims to:

- a) Promote a market-based economy, driven by fair and healthy competition, with no entry barriers for new enterprises, and prevent commercial monopolies;
- b) Promote and sustain competition in the domestic market to enhance efficiency, innovation, and maximize consumer welfare; and
- c) Enshrine competition as a guiding principle for all relevant policies and laws and to place a greater reliance on market forces to the extent feasible/desirable.

The policy includes provisions that discourage monopoly or dominant position in the market, ensure there is no discrimination between different enterprises based on the size or ownership, promote the principles of good governance in a transparent and fair manner, encourage innovation in the market and promote awareness on anti-competitive practices.

The implementation of the Policy shall be as per the implementation action plan endorsed by GNHC. Further, all economic related policies proposed by government agencies shall be required to mandatorily carry out the Competition Impact Assessment (CIA) henceforth. Competition policy is an essential tool to encourage market competition, curb commercial monopolies, and enhance productivity. The policy would also complement the on-going efforts of the government to curb unfair trade practices and promote consumer welfare.

2.5 E-commerce Guidelines, 2019

Rationale

In absence of any specific legal and regulatory framework in place pertaining to e-commerce in Bhutan, the department initiated e-commerce guidelines to promote continuous and sound development of e-commerce. Besides, the guidelines will provide basis to regulate market order, safeguard the legitimate rights and interests of the entities in e-commerce activities and protect economic interests and health safety of the consumers

Objective

To primarily promote and facilitate continuous growth and development of e-commerce activities whilst ensuring that economic interests and rights of the consumers are protected from unfair trade practices.

Progress Report

Following the inception of 1st draft e-commerce guidelines, series of meeting were held at different level;

- **1st Draft:** A comprehensive and through review on 1st draft e-commerce guidelines was done by the department on 28th January 2019. As per the decision of the meeting, a separate comprehensive chapter on e-commerce was also incorporated in Rules and Regulation on Trade in Goods, 2019.
- **2nd Draft:** For e-commerce guidelines to be more insightful and inclusive, a stakeholder meeting with relevant stakeholders from government agencies, corporations and private sectors (e-commerce entrepreneurs) was convened on 19 March 2019.
- **3rd Draft:** Besides having numerous bilateral discussions with the Royal Monetary Authority (RMA), the 3rd draft was also reviewed by the experts from the World Bank and the comments received were incorporated wherever necessary.
- **Final Draft:** The final draft was submitted to Ministry's Policy and Planning Coordination Meeting on 5th June 2019. Accordingly, the e-commerce guideline was approved by the Ministry on 14th June 2019.

The e-commerce guidelines, 2019 will be formally launched during BEFIT week which is scheduled in July, 2019.

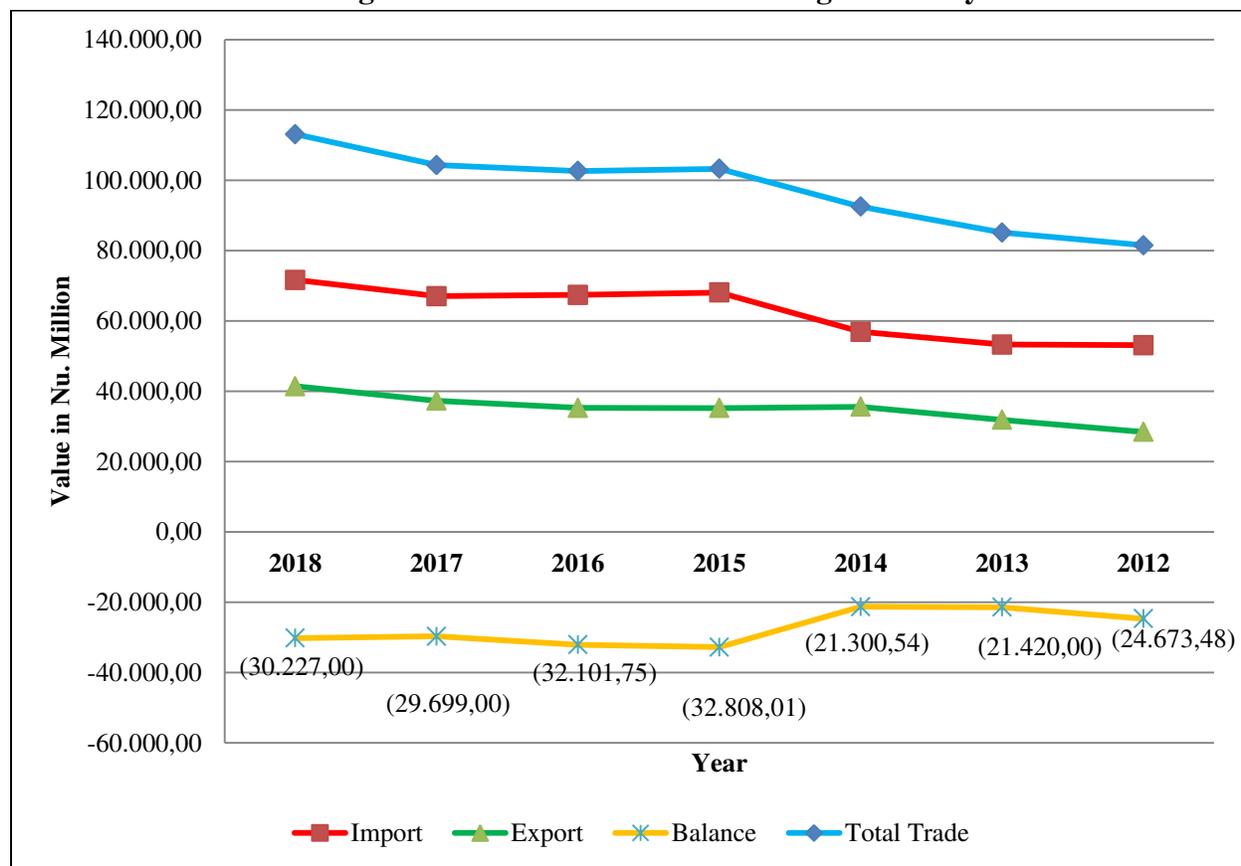
PART 3: EXTERNAL TRADE

3.1 Export and Import

3.1.1 Balance of Trade

With limited production capacity in the domestic real sector, the economy has been largely driven by unrestrained imports. While records indicate progressive export performance, it has not been able to contain the overall increase in imports. Therefore, the economy has been experiencing sustained trade deficit over the years.

Figure 5: Balance of Trade including Electricity



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

As shown in **Figure 5** above, the overall trade during the year 2018 touched Nu. 113.05 billion, of which Nu. 71.64 billion accounted for imports and Nu. 41.41 billion for exports. The total trade recorded 8% increase from Nu. 104.29 billion in 2017. Considering both import and export of electricity, trade in electricity alone accounted for roughly 10% of the overall trade. The trade deficit including trade in electricity in 2018 was recorded at Nu. 30.22 billion which translates to 18% of

nominal GDP, and without trade in electricity the figure touched Nu. 40.51 billion which accounts for 24% of nominal GDP as shown in **Table 1** below. The increasing trade imbalance continues to remain a major concern in managing favorable current account deficit in the economy.

Table 1: Balance of Trade excluding electricity

Year	(Value in Nu. Million)			
	Import (A)	Export (B)	Total Trade (A+B)	Trade Balance (B-A)
2018	71,345.00	30,835.00	102,180.00	(40,510.00)
2017	66,921.00	25,314.00	92,235.00	(41,607.00)
2016	67,186.91	22,226.06	89,412.97	(44,960.85)
2015	67,787.67	23,104.82	90,892.49	(44,682.85)
2014	56,565.52	24,951.36	81,516.88	(31,614.16)
2013	53,050.06	20,625.72	73,675.78	(32,424.34)
2012	53,080.91	19,294.96	72,375.87	(33,785.95)

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

The increase in the trade deficit has always been, to a large extent, on account of the ongoing construction of hydropower projects which has been contributing significantly in consumption of fuel as well as import of construction materials and equipment. In Fiscal Year 2016-2017, the trade deficit baseline was 22.8% of GDP which has been projected to reach 12% within the 12 FYP.

In view of the various inherent challenges in promoting domestic production and diversifying exports, the Royal Government has initiated numerous policy interventions and feasible programs to narrow the trade deficit over the plan period. Few such programs that are geared towards achieving economic diversification are:

- Implementation of food and nutrition security programme to increase self-sufficiency of primary agricultural products.
- Development of 'Enterprises and Value-chain programs' focused on production, marketing, packaging and value addition of agro and livestock products to substitute imports as well as to explore foreign markets.
- Facilitation and the establishment of 20 agriculture enterprises to promote commercial farming.
- Import substitution initiatives through promotion of cottage and small industries under CSI Flagship Program.
- Enhancing economic growth through economic diversification, including hydropower development, strengthening export, and creating a conducive business environment.
- Expanding the manufacturing sector with establishment of at least 100 Production and Manufacturing (P&M) Industries in four industrial parks (Bondeyma, Dhamdum, Motanga and Jigmeling IPs) to broaden export basket.

- Establishment of 25 new manufacturing and services related FDI projects and increasing the FDI inflow to Nu. 12,000 million.
- Strengthening the promotion of export of 22 identified products in the National export Strategy, 2012.
- Further strengthening and enhancement of development cooperation and economic relations with existing and potential development and trade partners.

3.1.2 Trade Direction

In 2018, Bhutan recorded international trade with 82 countries in total, among which the top ten trading partners have more or less been the same over the past few years. As evident from **Figure 6** below, Bhutan’s trade has always been directed towards the two neighboring countries, namely India and Bangladesh, which jointly accounted for 86% share of the total trade. This trend is expected to continue for some time, primarily due to the geographical proximity backed by close bilateral ties with the two countries. Moreover, formal trading arrangements through the Free Trade Agreement (FTA) with India and Bilateral Trade Agreement (BTA) with Bangladesh has always been instrumental in facilitating and promoting trade with these two countries.

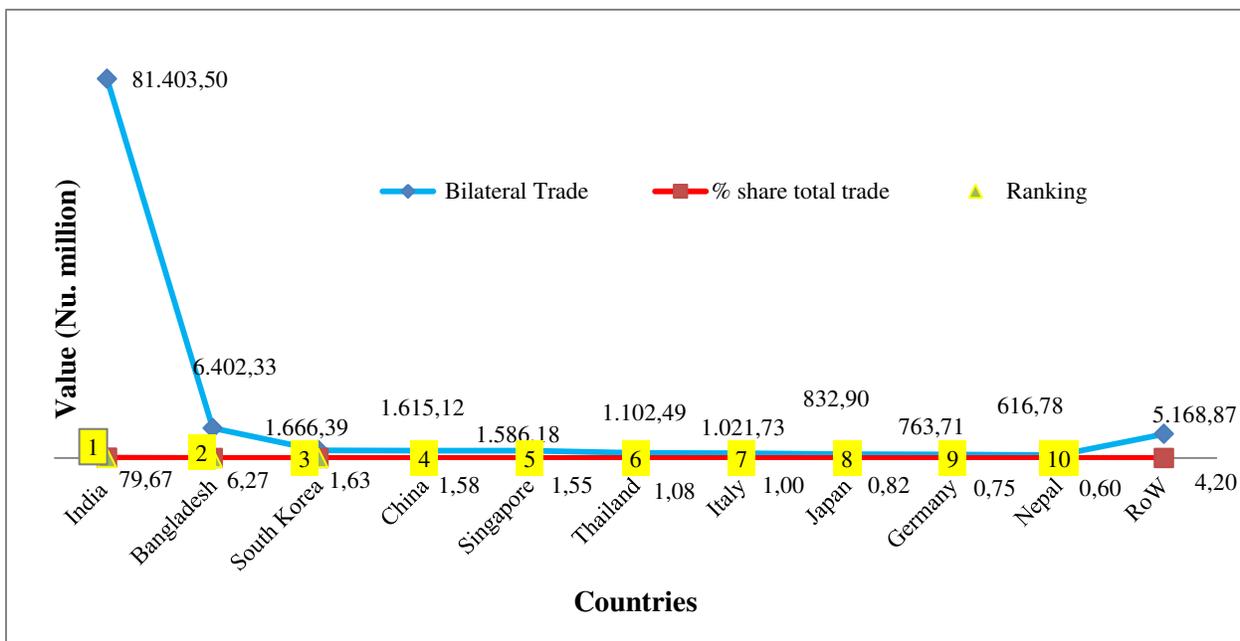


Figure 6: Trade Direction

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Over the years, records indicate that there is gradual improvement in diversification and expansion of trading partners both in terms of source of import as well as the export destination. Bhutan’s import source has now increased to 56 countries from earlier 43 countries, and export market has increased to 26 countries from 16 countries earlier within a decade.

3.1.3 Export Trend

Bhutan's overall exports recorded an increase by almost 22% from Nu. 25.31 billion in 2017 to Nu. 30.83 billion in 2018. As compared to exports in 2017, the improved export performance mainly attributes to the increase in export of ferro-silicon which increased by Nu. 3.3 billion, boulders by Nu. 1.4 billion and dolomite by almost Nu. 1 billion, while the export of other goods did not make significant contribution. Despite the Royal Government's continued efforts to provide necessary enabling environment for growth of domestic industries and private sector at large through various means, the economy has not been able to realize the desired output from the nascent domestic industries. As such, Bhutan's exports continue to be dominated by a small basket of commodities, mainly comprising of ferro-silicon, cement, steel, cardamom and few mineral products, as highlighted in **Table 2** below:

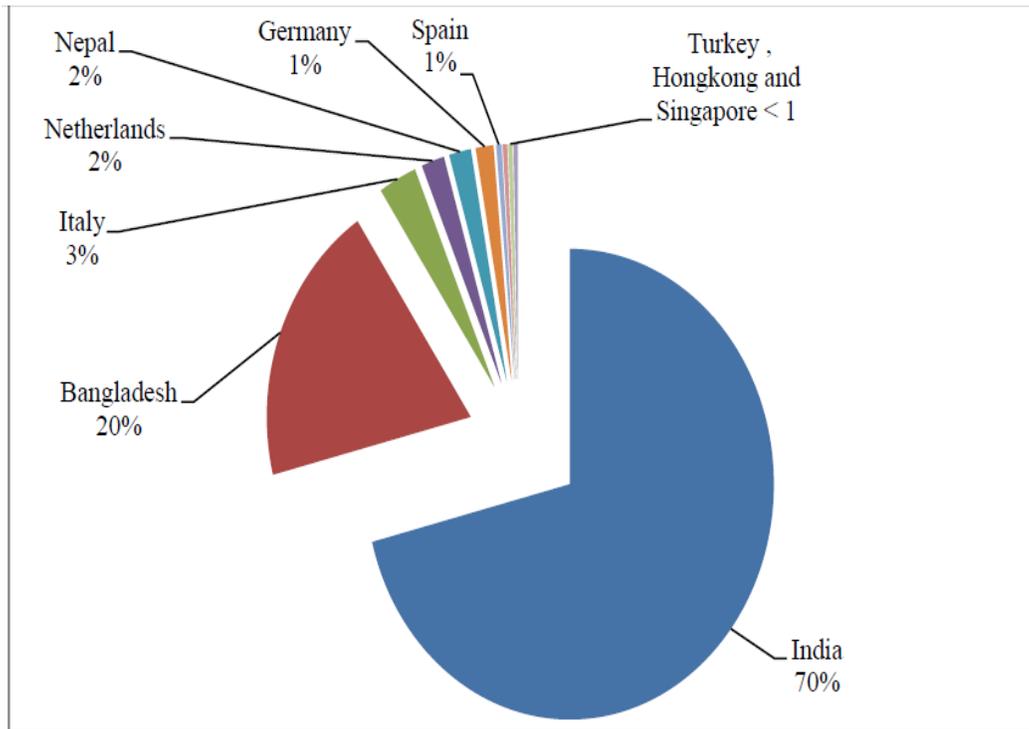
Table 2: Top Ten Exports (2018)

Sl. No.	BTC Code	Commodity Description	Value in Nu. Million
1	7202.21.00	Ferro -silicon, containing by weight more than 55% of silicon	13,050.05
2	2516.90.10	Boulders	2,121.64
3	2518.10.00	Dolomite, not calcined or sintered	2,017.78
4	7207.12.00	Semi-finished products of iron of rectangular cross-section	1,419.67
5	2523.29.30	Portland pozzolana cement	1,091.02
6	0908.31.00	Cardamoms (Neither crushed nor ground)	929.41
7	2517.10.00	Pebbles, gravel, broken or crushed	895.25
8	2849.20.00	Silicon Carbide	842.55
9	2520.10.00	Gypsum, anhydrite	718.81
10	2523.29.10	Ordinary portland cement	616.28
		Other commodities	7,132.54
		Grand Total	30,835.00

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

The export market continues to be dominated by India and Bangladesh and they accounted for 80% and 4% share of Bhutan's total exports in 2017. However, in 2018 their export share transformed to 70% and 20% respectively as shown in **Figure 7** below, which indicate positive change in the direction of export performance. The decreased share of Indian market was mainly due to the implementation of Goods and Services Tax (GST) in India from mid-2017, which directly affected most of Bhutanese exports to India, especially ferro-silicon, steel, cement and other mineral products that attracted a range of GST at the point of entry in India.

Figure 7: Export Market (2018)



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

3.1.4 Import Trend

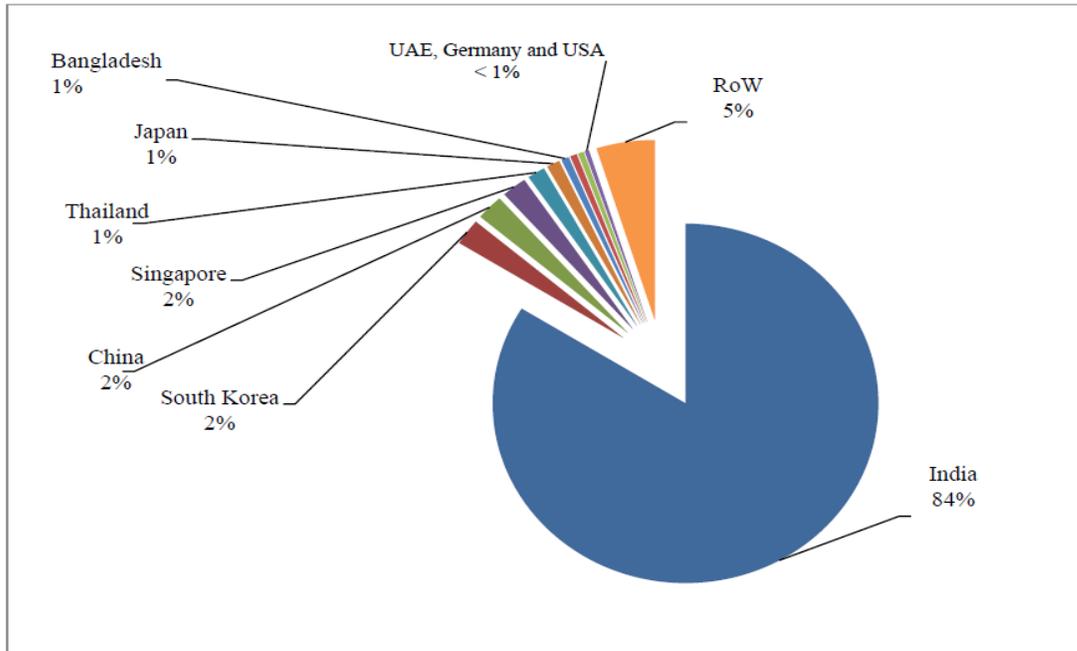
On the import front, **Table 3** below indicates that there was an increase in import by a net value of Nu. 4.42 billion which translates to 6.6% increase from Nu. 66.92 billion in 2017 to Nu. 71.34 billion in 2018. Trade record shows that, the import of goods categorized under ‘other goods’ mostly of consumable nature remained almost the same as in 2017 while the goods under top ten commodities have increased by 18% which led to an overall increase by Nu. 26.26 billion in 2018. Among the top ten commodities, the actual increase resulted from import of diesel which increased by Nu. 1.3 billion, dumper trucks increased by Nu. 1.5 billion, wood charcoal by Nu. 1 billion and ferrous products by Nu. 0.7 billion. It may be noted that import of passenger cars saw a drop by Nu. 29 million as compared to imports in 2017.

Table 3: Top Ten Imports (2018)

Sl. No.	BTC Code	Commodity Description	Value in Nu. Million
1	2710.19.15	Other light oils and preparations (Diesel)	7,943.33
2	8704.00.00	Motor vehicle for transport of goods (dumpers)	3,397.41
3	7203.10.00	Ferrous products obtained by direct reduction of iron ore	2,562.99
4	2710.12.10	Motor spirit (gasoline) including aviation spirit (Petrol)	2,333.60
5	4402.90.00	Wood charcoal	2,226.24
6	8703.00.00	Passenger cars	2,212.27
7	2704.00.10	Coke and semi-coke	1,796.52
8	1006.30.00	Semi-milled or wholly milled rice	1,689.08
9	8537.20.00	Electrical boards & panels for voltage exceeding 1,000V	1,253.14
10	2713.20.00	Petroleum bitumen	850.85
		Other commodities	45,079.57
		Grand Total	71,345.00

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Figure 8: Source of Import



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Though the trade statistics indicated further diversification in source of imports, with 48 countries exporting to Bhutan in 2018, India continues to remain the largest trading partner both in terms of export and import. As shown in **Figure 8** above, 84% of Bhutan's imports were sourced from India and the rest of the countries accounted for 16% only. Even among the top ten imported commodities, only passenger cars and raw material (coke & semi-coke) have shared sources of import with countries like Japan, Thailand, Korea and China, but the rest were all imported from India alone. The major goods imported from other countries are highlighted in the **Annual Trade Statistics 2018 (Annexure I)**.

3.2 BILATERAL TRADE

3.2.1 Trade with India

Background

There has been a free trade and commerce between the territories of India and Bhutan since the signing of the Treaty between the Government of India (GoI) and the Royal Government of Bhutan (RGoB) in 1947. However, the first formal Agreement on Trade and Commerce between GoI and RGoB was signed in 1972 which has undergone five revisions till date (1983, 1990, 1995, 2006 and 2016). The current *Agreement on Trade, Commerce and Transit between the Royal Government of Bhutan and the Government of the Republic of India* shall remain valid till 2026.

The objective of the Free Trade Agreement (FTA) is to further strengthen the age-old ties and enhance bilateral trade and economic cooperation for mutual benefit and development of the two countries.

The most important features of the Free Trade Agreement are the provision for free trade between the two countries and transit right for Bhutan's trade with third countries. The rapid growth of trade between the two countries is attributed to the free trade arrangement which allows free flow of goods into each other's territory without any import duty. In addition, the transit right granted through the FTA enables Bhutan to trade with the rest of the world. Bhutan has been able to improve upon these provisions through the successive renewal of the Agreement with addition of new entry and exit points in India for Bhutan's external trade. The progressive changes made in the scope of the Agreement is reflective of the economic and political progress that Bhutan has achieved over the past decades. The FTA has been very instrumental not just in expanding trade with India but also in facilitating Bhutan's trade diversification with other trading partners.

Trade Performance

India has been the largest and the most important trading partner for Bhutan since the start of the development plans. In 2018, trade with India was recorded at Nu. 92.77 billion (including electricity), which accounted for 82% of Bhutan’s total trade with the outside world and the figure without including electricity was recorded at Nu. 81.40 billion, which accounted for 80% of Bhutan’s total trade. The overall import from India accounted for 84% of the total import value with or without taking into account trade in electricity. Exports to India accounts for 78% of total exports including electricity and 70% without electricity.

The overall trade with India including electricity has increased by 8% compared to 2017, and 11% excluding electricity. In 2018, non-hydro export to India has increased by about 10% over the previous year and similarly import has also recorded increase by similar percentage of 11%. The increase in non-hydro export to India has shown a significant contribution in improving the overall balance of trade with India.

Figure 9 and **Table 4** below depicts Bhutan’s trade performance with India:

Figure 9: Balance of Trade with India (Including Electricity)



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Table 4: Balance of Trade with India (Excluding Electricity)**(Value in Nu. Million)**

Sl. No.	Year	Import (A)	Export (B)	Total Trade (A+B)	Trade Balance (B-A)
1	2018	59,812.00	21,592.00	81,404.00	(38,220.00)
2	2017	53,898.00	19,635.00	73,533.00	(34,263.00)
3	2016	55,112.78	19,020.36	74,133.14	(36,092.42)
4	2015	53,490.85	19,676.86	73,167.71	(33,813.99)
5	2014	47,528.60	21,167.81	68,696.41	(26,360.79)
6	2013	43,666.45	17,751.90	61,418.35	(25,914.55)
7	2012	41,825.59	17,502.18	59,327.77	(24,323.41)

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Major Export

Bhutan's major exports to India includes electricity, ferro-silicon, dolomite (chips), semi-finished product of iron of rectangular cross-section, Portland pozzalana cement, carbide of silicon, ordinary Portland cement, potatoes, Portland slag cement, particle board, etc. The total export value in 2018 including electricity was Nu.32.17 billion and excluding electricity was Nu.21.59 billion. The top ten exports to India in 2018 are highlighted in **Table 5** below:

Table 5: Top Ten Commodities Exported to India (2018)

BTC Code	Commodity	Value in Nu. Million
2716.00.00	Electricity	10,578.00
7202.21.00	Ferro-silicon (Containing by weight more than 55% of silicon)	9,674.69
2518.10.20	Dolomite, not calcined or sintered, chips	1,815.65
7207.12.00	Semi-finished Product of iron (rectangular cross section)	1,327.03
2523.29.30	Portland Pozzolana cement	1,091.02
2849.20.00	Carbides of Silicon	761.01
2523.29.10	Ordinary Portland cement	608.84
0701.90.00	Potatoes	492.52
2523.29.40	Portland slag cement	455.40
4410.11.00	Particle Board	410.75
	Total Export	27,214.91

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Among the top ten commodities exported to India, ferro-silicon, Portland pozzalana cement, dolomite (chips), semi-finished product of iron of rectangular cross-section, silicon carbide has always been the major exports to India since 2013.

Major import

Bhutan's major imports from India comprise of diesel, petrol, motor vehicles for transport of goods(dumper), ferrous products, electrical distribution panel board, rice, passenger cars, coke and semi-coke, wood charcoal, etc. as reflected in **Table 6** below. The total imports from India including electricity was Nu.60.10 billion and excluding electricity was Nu.59.81 billion.

Table 6: Top Ten Commodities Imported from India (2018)

BTC Code	Commodity	Value in Nu. Million
2710.19.15	Other Light oils and preparations (HSD)	7,943.33
8704.00.00	Motor Vehicles for transport of goods	3,397.41
7203.10.00	Ferrous product obtains by direct reduction by iron ore	2,562.99
2710.12.00	Motor sprite (gasoline) including aviation sprit (petrol)	2,333.60
4402.90.00	Other (wood charcoal)	2,226.24
8703.00.00	Passenger Cars	1,707.11
1006.30.00	Semi/Wholly milled rice whether or not polished or glazed	1,689.08
2704.00.00	Coke and semi-coke	1,468.80
8537.20.00	Electric Board & Panels for Voltage exceeding 1000v	1,253.14
2713.20.00	Petroleum Bitumen	850.85
	Total	25,432.55

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Out of the top ten commodities imported from India, imports remain dominated by diesel (HSD), petrol, passenger car, dumper, rice, electrical material & parts for hydropower projects and raw materials for ferro industries such as wood charcoal carbide, coke and semi coke, and ferrous product obtained by direct reduction of iron ore.

Future prospects

With the most liberal trading arrangement accorded by the FTA, India is certain to remain as the most important trading partner for Bhutan. The government, therefore, remains steadfast to maintain continued bilateral trade talks to build upon the existing trade relation.

The annual bilateral meeting on Trade, Commerce and Transit between GoI and RGoBat Commerce Secretary level (CSLM) has not only been effective in finding appropriate solutions to trade and

transit issues hindering bilateral trade, but it has also provided in itself a dedicated forum to explore new avenues for expanding trade and commerce between the two countries.

In view of the close ties of friendship between the two Governments and its people, bilateral trade with India is envisaged to be very instrumental in elevating socio-economic relations to new heights.

3.2.2 Trade with Bangladesh

Background

The first step to promote trade between Bhutan and Bangladesh was initiated in 1978 when a Bhutanese trade delegation led by the then Secretary, Ministry of Trade and Industry visited Dhaka. During the visit, the late President H.E Ziaur Rahman shared his keen interest to promote special relations with Bhutan and conveyed assurance to assist Bhutan's economic development in whatever way possible. To that effect, he instructed the then Commerce Secretary to provide free transit facilities, and most importantly a Most Favored Nation (MFN) treatment to Bhutan.

Shortly the then Commerce Secretary of Bangladesh, Mr. Matiur Rahman led a delegation to Thimphu in 1980 for a bilateral meeting with the Bhutanese counterparts. As a result of that meeting, Bhutan and Bangladesh entered into a Trade Agreement in the same year and the Protocol to the Trade Agreement was later signed in February 1984. However, even after the signing of the Agreement and the Protocol, actual trade with Bangladesh did not happen due to the lack of viable transit facilities through the Indian territory. In order to implement the Trade Agreement with Bangladesh, Bhutan decided to enter into Indo-Bhutan Agreement on Trade and Commerce and signed in 1983 to avail transit right for its trade with Bangladesh. Subsequently, a Memorandum of Understanding (MoU) was signed between India and Bangladesh on 27th December 1983 to facilitate the movement of goods between Bhutan and Bangladesh through the Indian territory.

The Agreement on Trade between the Royal Government of Bhutan and the Government of the People's Republic of Bangladesh signed in 1980 underwent successive renewals in 1984, 2003, 2009, and the last was done on 6th December 2014 in Dhaka, Bangladesh. The current *Agreement on Trade between the Royal Government of Bhutan and the People's Republic of Bangladesh* shall remain valid for five years which shall be automatically extended for a period of five years.

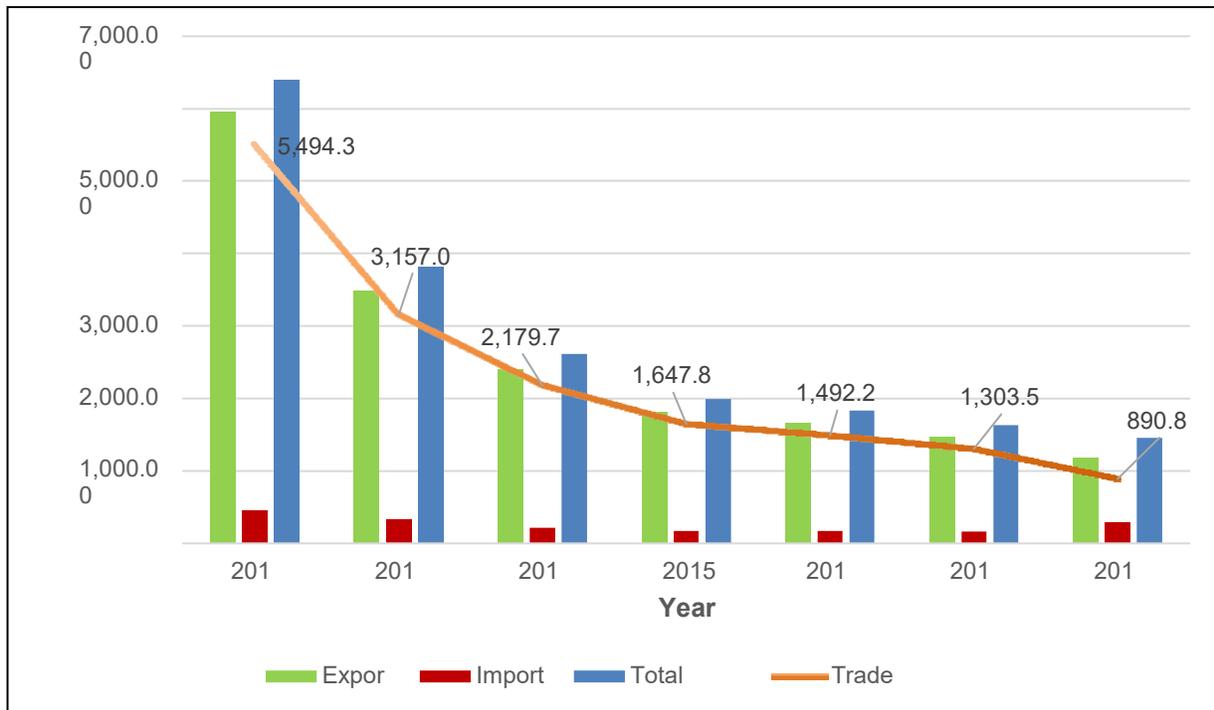
Under the current trading regime, Bhutan grants duty free access to 90 products listed in the Schedule B (i.e. Exportables of Bangladesh to Bhutan) of the existing Trade Agreement between the two countries. On the other hand, Bangladesh provides duty free access to 18 products from Bhutan. The remaining products listed in Schedule A (i.e. Exportables from Bhutan to Bangladesh) enjoy MFN treatment. On the 18 products from Bhutan, besides the waiver of customs duty, other domestic taxes are also exempted in Bangladesh.

Trade performance

Total trade between Bhutan and Bangladesh saw substantial increase in the last 15 years as reflected in **Figure 10** below. In 2018, the value of trade between the two countries was recorded at Nu. 6,402.33 million, the highest till date. Over the years, both export and import saw an increasing trend. Bhutan has always been enjoying favorable balance of trade with Bangladesh and witnessed trade surplus of Nu. 5,494.37 million in 2018, which recorded drastic increase from 2017. On average, the annual trade balance for the period 2009-2018 was to the tune of Nu. 2,310.00 million.

However, it may be noted that substantial imports from Bangladesh are not captured in official record. It is estimated that approximately US\$ 1 million worth of garments, electronics, vehicles spares, cane furniture and household items are imported annually into Bhutan by traders and officials who frequently visit Dhaka both by road and air.

Figure 10: Overall trade with Bangladesh



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Major Exports

Bhutan's exports to Bangladesh mainly consist of boulders, cardamom, oranges, pebbles & gravels, limestone, dolomite, ferroalloys, gypsum, etc. In 2018, Bhutan's export value to Bangladesh was Nu. 5,948.35 million, of which boulders alone accounted for 34% of the total exports to Bangladesh, followed by ferro-silicon and pebbles & gravels with 21% and 13% respectively. The top ten commodities imported from Bangladesh are listed in **Table 7** below:

Table 7: Top ten commodities exported to Bangladesh (2018)

Sl. No.	BTC Code	Commodity Description	Value in Nu. Million
1	2516.90.10	Boulders	2,023.83
2	7202.21.00	Ferro Alloys	1,247.11
3	2517.10.00	Pebbles and gravels	753.21
4	0908.31.00	Cardamom	613.00
5	0805.10.00	Oranges	349.72
6	2521.00.00	Limestone flux & calcareous stone	326.21
7	2518.10.00	Dolomite (in chips, lumps, slabs & powdered)	202.13
8	7207.12.00	Semi-finished products of iron or non-alloy steel	92.63
9	2520.10.00	Gypsum anhydrite	87.31
10	2849.20.00	Silicon carbide	81.54
		Other commodities	171.66
		Total	5,948.35

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Over the last five years, minerals (limestone, dolomite, talc and gypsum), cardamom and oranges contributed significantly to the increase in exports to Bangladesh.

Major Imports

The **Table 8** below shows some major imports from Bangladesh which consisted of ready-made garments, biscuits, kitchen and table wares, pharmaceutical products, snacks & chips, tissue papers, fruit juices, soaps, aluminum structures and tea. The value of imports from Bangladesh in 2018 was Nu.453.98 million only. Import of slag accounted for 26% of total imports, followed by fruit juices and sweet biscuits & pastry with 18% and 17% respectively.

Table 8: Top ten commodities imported from Bangladesh (2018)

Sl. No.	BTC Code	Commodity Description	Value in Nu. Million
1	2619.00.00	Slag, dross, scaling and other waste from manufacture of iron	117.81
2	2009.00.00	Fruit Juices (mango & litchi)	83.23
3	1905.00.00	Sweet biscuits, cakes & pastry	76.18
4	6100.00.00 - 6200.00.00	Readymade Garments	56.45
5	3924.10.00	Tableware and kitchenware of plastic	28.65
6	3003.00.00	Medicaments	25.03
7	3401.11.00	Soaps (for toilet use)	13.94
8	1704.90.00	Sugar confectionery (sweets)	12.79
9	9403.00.00	Other furniture (wood & plastic)	10.89
10	7610.10.00	Aluminum Structures (Doors, windows, etc)	7.53
		Other commodities	29.01
		Total	453.98

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Over the last ten years, the variety of items imported from Bangladesh increased considerably. Imports from Bangladesh, both in terms of volume and diversity are expected to increase with the further developments in bilateral trading arrangements between the two countries.

Future prospects

Over the past few decades, Bangladesh has been the second largest trading partner for Bhutan after India. While imports from Bangladesh are not so significant, almost 20% of Bhutan's total export is destined for Bangladesh which has helped in diversifying the export market.

The successive rounds of annual Bilateral Meetings at Commerce Secretary Level (CSLM) have focused on strengthening trade relations between the two countries. Further, it attempts to explore new areas of cooperation for expansion of Bhutan's bilateral and international trade through the development of institutional linkages and collaboration between the chambers of commerce, tourism authorities, and standards authorities of the two countries.

The Governments of the two countries are in the process of negotiating the Transit Agreement and its Protocol as the last one which expired in 2000 had no specific provisions for renewal. The Royal Government has been able to gain access to the use of inland water transport routes in Bangladesh

for bilateral trade and transit cargoes going to and coming from Chittagong and Mongla Ports in Bangladesh. For that, a Memorandum of Understanding (MoU) was signed during the visit of Hon'ble Prime Minister of Bangladesh to Bhutan in April 2017, and the Standard Operating procedure (SOP) to implement the MoU was signed on 13th April 2019 during the visit of Hon'ble Prime Minister of Bhutan to Dhaka, Bangladesh.

Following the 7th CSLM held from 12-13 February 2019 in Thimphu, Bhutan, and subsequent to the visit of Hon'ble Prime Minister of Bhutan to Dhaka, Bangladesh in April 2019, the Royal Government is in the process of negotiating Preferential Trade Agreement (PTA) with the Government of the People's Republic of Bangladesh. The PTA is being initiated with a view to further promote and enhance trade between the two countries taking into consideration the international best trade practices. The initiative also underscores the existing trade arrangements and benefits as well as the commitments conveyed by Hon'ble Prime Minister of Bangladesh to grant duty free market access on the additional request list of 16 products from Bhutan.

With all these developments supported by continued high-level interactions among the leaders of the two countries, trade and economic relation between the two countries is expected to escalate in the near future.

3.2.3 Trade with Nepal

Background

While there is no formal trading arrangement between Bhutan and Nepal for the conduct of trade between the two countries, both have so far been applying general rate of custom duties on imports originating from the territory of each other. The first official trade delegation from Bhutan visited Nepal in January 1985. The discussions during the visit shared a list of tradable items from both sides and also identified two places namely, Kakarvita and Raxaulin Nepal as transit points for trade between the two countries. Unfortunately, there were no follow up actions from both sides and informal trading began to pick up after Bhutan started exporting gypsum and coal to Nepal in 1992.

During the course of UNCTAD X Meeting in Bangkok in 2000, the then Hon'ble Minister for Economic Affairs and the Commerce Minister of Nepal exchanged views on matters pertaining to strengthening of bilateral trade between the two countries. Subsequently, Nepal had sent a proposal for entering into a Bilateral Trade and Payment Agreement with Bhutan. During the visit of the Nepalese Ambassador to Bhutan in April 2001, discussions were also held on the possibility of finalizing the Bilateral Trade Agreement between the two countries.

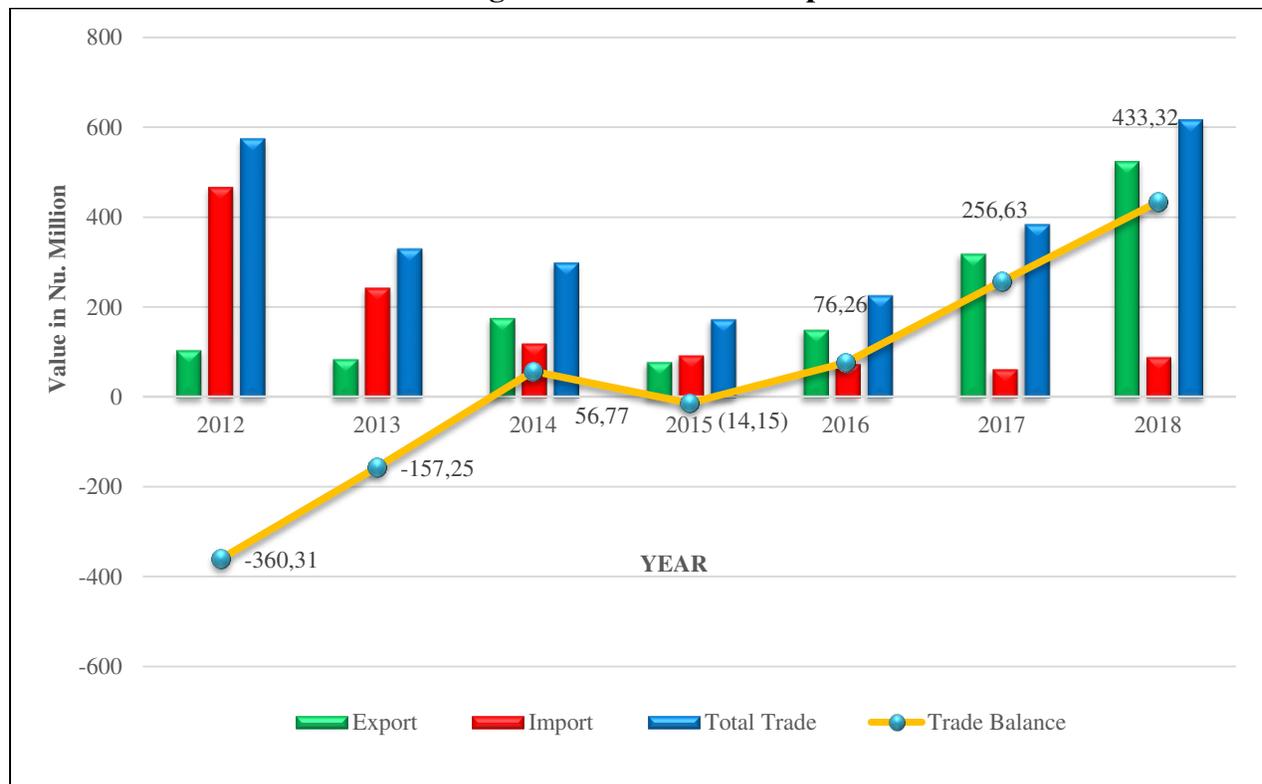
In August 2002, Nepal forwarded a draft Bilateral Trade and Payment Agreement between Nepal and Bhutan seeking suggestions of the Royal Government of Bhutan. The draft Agreement provides

for a general framework for accord of MFN treatment on the movement of goods between the two countries. Subsequently, the first Bhutan-Nepal Bilateral Trade Talk was convened only on 17th March 2010 in Katmandu, Nepal where the draft Agreement proposed by Nepal was discussed. That was followed by the second Bhutan-Nepal Bilateral Trade Talks held from 24-25 May 2011 in Thimphu, Bhutan, where deliberations were focused on the draft Agreement, draft Protocol to the Agreement and the draft Rules of Origin. However, after the frequent change of Government in Nepal, the bilateral engagements lost momentum despite Royal Government’s numerous follow-up requests.

Trade performance

Bhutan’s total trade with Nepal has increased by more than 200% over the last decade, and in 2018 it recorded a total trade of Nu. 616.78 million which saw an increase by almost 60% from Nu. 385.79 million in 2017. Though Nepal accounts for only 1% of Bhutan’s overall trade, it has been ranked as the 10th largest trading partner in 2018.

Figure 11: Trade with Nepal



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

As evident from **Figure 11** above, Bhutan has been able to maintain a positive trade balance with Nepal since 2016 with an increasing trend of exports each year. Despite the non-existence of formal

trading arrangement, trade record has been progressive with huge potential for further expansion between the two countries.

Major Exports

With regard to export, Nepal has been recorded as the 5th largest export destination accounting for 1.7% of Bhutan's overall exports. The export consignments were mostly gypsum and bituminous coal accounting for Nu. 280 million and Nu. 214 million respectively, which collectively constituted 94% of total exports to Nepal. Other goods comprised of coke & semi-coke, fruit juices, plasters of gypsum, cement clinkers, mineral water, etc. as indicated in **Table 9** below.

Table 9: Top ten exports to Nepal (2018)

Sl. No.	BTC Code	Commodity Description	Value in Nu. Million
1	2520.10.00	Gypsum anhydrite	280.05
2	2701.12.00	Bituminous coal	214.30
3	2704.00.10	Coke and semi-coke of coal	12.40
4	2009.00.00	Fruit juices (mango)	5.82
5	2520.20.00	Plasters of gypsum	5.45
6	2523.10.00	Cement clinkers	4.80
7	2202.10.00	Waters, including mineral waters and aerated waters	1.18
8	4419.90.00	Tableware & kitchenware of wood	0.61
9	3307.41.10	Incense 'Poe'	0.11
		Other commodities	0.33
		Total	525.05

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Major Imports

On the import front, Bhutan imported goods worth Nu. 91.74 million comprising of statues, readymade garments, pasta & noodles, electrical transformers, carpets, soap, footwear, plastic doors and windows and other commodities as highlighted in **Table 10** below.

Table 10: Top ten imports from Nepal (2018)

Sl. No.	BTC Code	Commodity Description	Value in Nu. Million
1	8306.00.00	Bells, gongs, statuettes of base metal (plated with precious metal)	32.16
2	6100.00.00 - 6200.00.00	Readymade garments	13.93
3	1902.00.00	Pasta & noodles	5.49
4	8504.00.00	Electrical transformers / static converters	3.87
5	5703.90.00	Carpets and other textile floor coverings	3.61
6	3401.00.00	Washing soap in all forms	3.52
7	6402.00.00 - 6405.00.00	Footwear	3.15
8	3925.00.00	Doors, windows and their frames of plastic	2.96
9	9027.10.00	Gas or smoke analysis apparatus	2.37
10	7114.11.90	Articles of goldsmiths' or silversmiths' wares and parts	1.51
		Other commodities	19.17
		Total	91.74

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Future prospect

The Royal Government remains committed to establishing a formal trading arrangement with Nepal to promote and strengthen trade and commerce between the two countries. In this effort, the Department of Trade, Ministry of Economic Affairs has been persuading the Government of Nepal to resume the long overdue 3rd Bilateral Trade Talk to review and finalize the draft Agreement, draft Protocol to Trade Agreement and the draft Rules of Origin. It is hopeful that the early finalization of the trade agreement would further facilitate and expand trade between the two countries.

3.2.4 Trade with Thailand

Background

The formal diplomatic relations between Bhutan and Thailand was established in November 1989 following the introduction of Druk Air flights in 1988. Since then, business relations started

developing among the business firms between the two countries. Despite the absence of a formal trade relation between the two countries, trading activities have picked up gradually over the years.

Following the signing of the Comprehensive Framework Agreement for Cooperation between the Kingdom of Bhutan and the Kingdom of Thailand in July 2004, several high-level meetings were initiated to establish bilateral Trade Agreement between the two countries. Subsequently, the two rounds of Bhutan-Thailand Consultation Meetings on Bilateral Trade Agreement held in 2013 finalized the *Trade and Economic Cooperation Agreement (TECA)*, which was formally signed on 14th November 2013 in Bangkok, Thailand

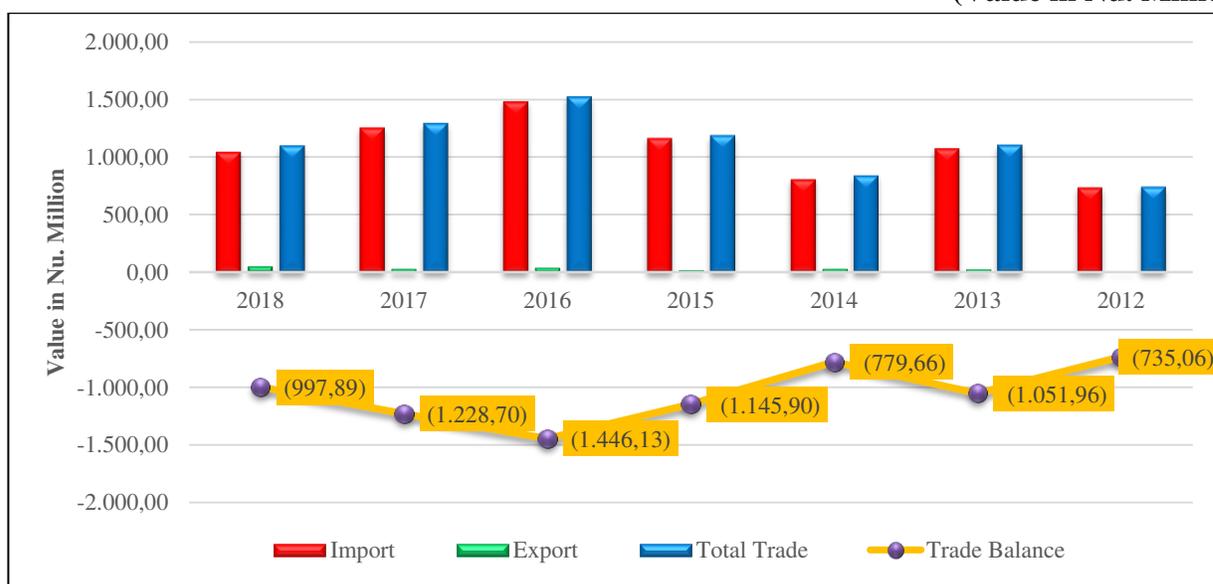
The overall trade with Thailand was recorded at Nu. 1,102.51 million (US \$ 16.11 million) in 2018, of which 95% accounted for import and export share was only 5%. The overall trade recorded an increase by 320% in the last ten years; however, the figure saw a drop by 14% from Nu. 1,262.34 million in 2017.

Trade performance

Over the decade, Thailand has been ranked among the top ten trading partners and it was recorded as the 6th largest trading partner for Bhutan in 2018. The overall trade of Nu. 1,102.51 million (US \$ 16.11 million) with Thailand accounts for 1% of Bhutan’s total trade and 5.3% of Bhutan’s trade with third countries. As highlighted in **Figure 12** below, Bhutan has been experiencing negative trade balance with Thailand since 2005 which has improved over the years with the decreasing trend in imports. In 2018, the trade balance had come down to Nu. 997.89 from Nu. 1,228.70 million in 2017.

Figure 12: Trade with Thailand

(Value in Nu. Million)



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Major Exports

Bhutan's export to Thailand has remained confined to a small range of goods which remained dominated by cordyceps sinensis. Cordyceps alone accounted for 97% of total exports to Thailand. In terms of Bhutan's export market, Thailand was recorded as the 13th export destination which stood at 17th in 2017.

The total exports to Thailand accounted for Nu. 52.31 in 2018, recording an increase by 55% from Nu. 33.64 million in 2017 as shown in **Table 11** below:

Table 11: Major exports to Thailand

Sl. No.	BTC Code	Commodity	Value in Nu. (Million)
1	1211.90.50	Cordyceps senensis (Yartshageinbhup)	51.00
2	2202.10.00	Waters (mineral waters and aerated waters)	1.06
3	0709.59.10	Matsutake (sangayshamu)	0.05
4	0709.20.00	Asparagus	0.03
5	0902.10.00	Green tea (not fermented)	0.02
6	0709.60.20	Chillies, fresh	0.01

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Major Imports

Thailand has been recorded as the 5th largest source of import for Bhutan in 2018 as in 2017. Major imports from Thailand consisted of both capital and consumer goods. The main import items were motor vehicles and parts, electronic items, equipment for communication, lights and fittings, furniture, polyethylene, IT accessories, etc.

Bhutan imported goods worth Nu. 1,050.20 million which saw a decrease by 16% from Nu. 1,262.34 million in 2017. The total imports from Thailand accounts for 1.47% of Bhutan's total imports in 2018 as shown in **Table 12** below:

Table 12: Top ten imports from Thailand

Sl. No.	BTC Code	Commodity Description	Value in Nu. (Million)
1	8703.00.00	Motor vehicles (light & medium)	170.22
2	8516.60.00	Other ovens (rice/curry cooker, griller, roasters etc)	173.40
3	8517.62.00	Communication machines for reception, conversion/transmission	31.87
4	8708.00.00	Spare parts for motor vehicle	31.11
5	9405.00.00	Lamps and lighting fittings including searchlights and spotlights	27.12
6	9403.00.00	Furniture (RAF)	21.72
7	8431.00.00	Parts for heavy machinery	20.26
8	8523.00.00	Discs, tapes, storage devices, smart cards, including s/ware	18.40
9	3905.19.00	Polymers of vinyl acetate	17.93
10	6303.99.00	Curtains, drapes and interior blinds	17.30

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Future Prospects

The Trade and Economic Co-operation Agreement signed between the two countries envisions collaboration in wide range of areas including trade, investment, tourism, construction, health and medical care, education, energy, logistics services, and development of small and medium-sized enterprises. In order to implement the Agreement, the Joint Trade Committee (JTC) was instituted to spearhead the negotiations in areas of mutual interest to both the countries.

The two rounds of JTC meetings since 2016 had initiated and deliberated on numerous areas of cooperation to facilitate and promote trade, tourism and investment between the two countries. The Department is committed to add momentum to the process of further deepening our relations in trade and economic cooperation and it is hopeful that the successive JTC Meetings would further strengthen our bilateral ties in expanding trade relations between the people of the two countries.

3.3 REGIONAL TRADE

3.3.1 Trade with SAARC

Background

The South Asian Association for Regional Cooperation (SAARC) was established with the signing of the SAARC Charter in Dhaka on 8 December 1985. SAARC comprises of eight Member States: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The Secretariat of the Association was set up in Kathmandu on 17 January 1987.

The objectives of the Association as outlined in the SAARC Charter are: to promote the welfare of the peoples of South Asia and to improve their quality of life; to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials; to promote and strengthen collective self-reliance among the countries of South Asia; to contribute to mutual trust, understanding and appreciation of one another's problems; to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields; to strengthen cooperation with other developing countries; to strengthen cooperation among themselves in international forums on matters of common interests; and to cooperate with international and regional organizations with similar aims and purposes.

The South Asian Free Trade Area (SAFTA) Agreement was signed among the SAARC member countries on 6th January 2004 at the 12th SAARC Summit held in Islamabad, Pakistan and came into force from 1st January 2006. The SAFTA Agreement has superseded the erstwhile SAARC Preferential Trading Arrangement (SAPTA) signed in December 1991 in Colombo, Sri Lanka.

The main objective of the SAFTA Agreement is to promote intra-SAARC economic cooperation through trade by eliminating tariff and non-tariff barriers to trade. The primary focus of the agreement is on tariff reduction in trade in goods and is being implemented through the following main instruments:

(i) Trade Liberalization Programme (TLP)

The most important aspect of the TLP is the elimination of customs duty on goods imported from member states to 0-5% in 7 years by the non-LDCs (India, Pakistan, Sri Lanka) and in ten years by the LDCs (Afghanistan, Bangladesh, Bhutan, Maldives and Nepal) with effect from 2006. Bhutan has successfully completed the tariff reduction of preferential customs duty rate to 0-5% by 1st January 2016.

Apart from TLP, the Member States are allowed to maintain Sensitive Products List which are not subject to tariff reduction. Bhutan's latest Sensitive List consists of 240 tariff lines as per the Bhutan Trade Classification & Tariff Schedule, 2017. Bhutan and Maldives have the least number of tariff lines among the LDC member states, and as such, Bhutan and Maldives are not required to reduce their lists further, unless requested by other member states.

(ii) Rules of Origin

The SAFTA Rules of Origin determines the member states' origin of a product and accordingly apply tariff preferences to products that satisfy requirement. The general rule is that a product transformation in terms of Harmonized Commodity Description and Coding System (HS) must take place at four-digit level with a 40% domestic value addition to be eligible for tariff preferences. However, the LDCs have a 10% favorable treatment in terms of the value addition. Products that cannot meet the general rule will also be considered under product specific rule. Further, to encourage intra-regional trade, inputs into a product from the member states can be as high as 80% under the regional cumulation rule.

(iii) Special and Differential (S&D) Treatment for LDCs

Like WTO and any other regional trading arrangements, SAFTA also has a S&D provision. Under the provision, the LDC member states can seek a greater flexibility with regard to the application of anti-dumping (products exported below domestic prices) or countervailing (products exported with subsidy) measures or with continuation of quantitative or other restrictive measures. The LDCs may be compensated in the initial period of the TLP if there are severe revenue losses due to the implementation of the TLP. Further, non-LDCs provide technical assistance to LDC members to enhance their capacity to trade and take advantage of potential benefits of SAFTA.

(iv) Safeguard Measure and Suspension of the Agreement

Member state(s) may suspend the agreement in case of serious balance of payment difficulties or if domestic producers are seriously affected or threatened from import of large quantities of product enjoying concessions under the agreement. Member states may also withdraw from the agreement should it become necessary. The agreement also has a provision on dispute settlement mechanism to address the issues and concerns arising from the SAFTA agreement.

(v) Institutional Arrangement

The SAFTA Ministerial Council (SMC) is the highest decision-making body of the Agreement on SAFTA and is responsible for the Administration & Implementation of the Agreement and all decisions and arrangements made within its legal framework. The SMC consists of the Ministers of

Commerce/Trade of the SAARC member States. The SMC meets at least once every year and each member State chairs the SMC for a period of one year on a rotational basis in an alphabetical order.

The SMC is supported by a Committee of Experts (COE), with one nominee from each Member State at the level of a Senior Economic Official, with expertise in trade matters. Bhutan is represented by the Director of the Department of Trade. The COE monitors, reviews and facilitates implementation of the provisions of SAFTA Agreement and undertakes any task assigned to it by the SMC.

Trade performance

Trade has been instrumental and one of the main ingredients for the growth and development of SAARC countries. However, this contribution has mainly come from Member States' trade outside of SAFTA. Based on the formal trade flows, SAARC region is one of the least integrated regions in the world. The intra-regional trade in South Asia has been very low over the years compared to other regions and as such did not contribute much to the economic growth of the region.

Bhutan's trade performance within the SAARC region, and with specific Members states are in **Table 13** and **Table 14** below:

Table 13: Bhutan's Trade with SAARC Region

(Value in Nu. Million)

Year	Import	Import Share	Export	Export Share	Balance of Trade	Share of Overall Trade
2018	60,359.85	85%	28,065.38	91%	(32,294.47)	87%
2017	54,292.03	81%	23,442.84	93%	(30,849.19)	84%
2016	55,417.60	82%	21,570.99	97%	(33,846.61)	86%

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Table 14: Trade with Member States (2018)
(Value in Nu. Million)

Sl. No.	Country	Import (A)	Export (B)	Total Trade (A+B)	Balance of Trade (B-A)
1	Afghanistan	0	0	0	0
2	Bangladesh	453.98	5,948.36	6,402.34	5,494.38
3	India	59,812.00	21,592.00	81,404.00	(38,220.00)
4	Maldives	0	0	0.00	0.00
5	Nepal	91.74	525.02	616.76	433.28
6	Pakistan	0	0.00	0.00	0.00
7	Sri Lanka	2.13	0	2.13	-2.13
TOTAL		60,359.85	28,065.38	88,425.23	(32,294.47)

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

A dismal trade under SAFTA remains a great concern for the Member States as it has not gained momentum over the years despite a drastic reduction in tariff and sensitive list. It is apparent that reducing tariff and sensitive list under SAFTA Agreement is insufficient to enhance intra-SAARC trade. Therefore, member states have to recognize and overcome other impediments such as existence of non-tariff barriers, poor trade facilitation, and weak political leadership to realize the potentials of intra-SAARC trade.

3.3.2 Bhutan and SAFTA

The small domestic market size makes it imperative for Bhutan to have a liberal and an outward looking trade regime so that its products can access markets in the region and beyond more easily. Bilateral and regional trade agreements such as the SAFTA provide the legal framework for such a ready and predictable market access. The trade agreements would also invariably promote competition, thus bringing about greater economic efficiency, leading to higher quality of products and services on one hand and lower costs on the other. Further, Bhutan would be able to set up industries based on imported inputs from other contracting states under the regional cumulation rules of origin, thus overcoming the constraint of lack of raw materials in the country.

Since the inception of SAFTA Agreement in 2006, Bhutan has been actively participating in meetings, discussions, initiatives taken within the domain of the SAFTA Agreement. In addition, Bhutan has also implemented all the commitments and obligations such as TLP and the Reduction in the Sensitive List successfully thus far. In terms of real benefits for Bhutan, while the Agreement will give immediate and alternate market access for Bhutan in all the member countries, the extent to which Bhutan can benefit will depend on its trading capacity, viz. maturity level of the business

sector. Unless there is a vibrant and competent business sector, the additional market access will not make much sense.

Bhutan's trade under SAFTA region has seen some increase since 2017 from Nu. 77.73 million to Nu. 88.43 million in 2018. However, for Bhutan 70% of its export goes to India and 84% of import is sourced from India as per the Bhutan Trade Statistics 2018 and therefore, Bhutan's trade remains highly concentrated in terms of destination. With the existing favorable trading arrangement with India and Bangladesh, and given its limited market size, Bhutan has very limited trade with other SAARC countries under the umbrella of SAFTA. As such, benefits in terms of actual trade and risks of negative impact from the SAFTA are minimal. However, Bhutan must recognize trading opportunities and alternate market access created by the SAFTA Agreement. Bhutan as a trading nation must keep the options open and look for avenues to capitalize market opportunities such as the one created by SAFTA.

3.3.3 Trade with BIMSTEC

Background

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) as a regional organization was established in June 1997 through the Bangkok Declaration, which now constitutes of seven members states of Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar and Thailand. Bhutan and Nepal joined the organization in 2004 at the 6th Ministerial Meeting in Thailand. The regional group constitutes a bridge between South and South East Asia and represents a reinforcement of relations among these countries. BIMSTEC has also established a platform for intra-regional cooperation between SAARC and ASEAN members. The BIMSTEC region is home to around 1.5 billion people which constitute around 22% of the global population.

The objective of building such an alliance has been to harness shared and accelerated growth through mutual cooperation in different areas of common interests by mitigating the onslaught of globalization and by utilizing regional resources and geographical advantages. Unlike many other regional groupings, BIMSTEC is a sector-driven cooperative organization, which includes the following sectors: *trade, technology, energy, transport, tourism and fisheries, agriculture, public health, poverty alleviation, counter-terrorism, environment, culture, people to people contact and climate change.*

As per the institutional arrangement set out in the Framework Agreement on BIMSTEC FTA (Article 10), the Trade Negotiating Committee (TNC) was established to negotiate and finalize the various agreements under the BIMSTEC Framework Agreement. The BIMSTEC TNC also has the mandate to involve other experts and establish working groups to assist in their negotiations and to coordinate and implement any economic cooperation pursuant to the Framework Agreement. The

BIMSTEC FTA covers liberalization of goods, investment and services which includes the following Agreements and a Protocol:

- a) Agreement on Trade in Goods of the Framework Agreement on the BIMSTEC FTA;
- b) Agreement on Trade in Services of the Framework Agreement on the BIMSTEC FTA;
- c) Agreement on Investment of the Framework Agreement on the BIMSTEC FTA;
- d) Agreement on Cooperation and Mutual Assistance in Customs Matters for the BIMSTEC FTA;
- e) Agreement on Rules of Origin and Operational Certification Procedures for the BIMSTEC FTA;
- f) Agreement on Trade Facilitation for BIMSTEC FTA;
- g) Agreement on Dispute Settlement Procedures and Mechanism of the Framework Agreement on BIMSTEC FTA
- h) Protocol to amend the Framework Agreement on the BIMSTEC FTA.

Till date, twenty-one rounds of BIMSTEC TNC Meetings (21st Meeting of BIMSTEC TNC held on 18-19 November 2018 in Dhaka, Bangladesh) were held and the negotiations on the following Agreements and Protocol are at advanced stage:

- a) Agreement on Trade in Goods of the Framework Agreement on BIMSTEC FTA;
- b) Protocol to Amend the Framework Agreement on the BIMSTEC FTA;
- c) Agreement on Cooperation and Mutual Assistance in Customs Matters for BIMSTEC FTA;
- d) Agreement on Rules of Origin (PSR) and Operational Certificate Procedures for BIMSTEC FTA; and
- e) Agreement on Dispute Settlement Procedures and Mechanism of the Framework Agreement on BIMSTEC FTA.

The Working Group on Services and the Working Group on Investment are at the initial exploratory stage of exchanging views and clarifications on the respective draft agreements, while the Working Group on Trade Facilitation had its first meeting during the 21st Meeting of BIMSTEC TNC. The following are the Working Groups under BIMSTEC TNC:

- a) Working Group on Rules of Origin (*19th Meeting held in New Delhi, India on 21-22 January 2019*);
- b) Working Group on Trade in Services (*8th Meeting held in Dhaka, Bangladesh on 18-19 November 2018*);
- c) Working Group on Investment (*8th Meeting held in Dhaka, Bangladesh on 18-19 November 2018*);
- d) Working Group on Legal Experts (*18th Meeting held in Dhaka, Bangladesh on 18-19 November 2018*);

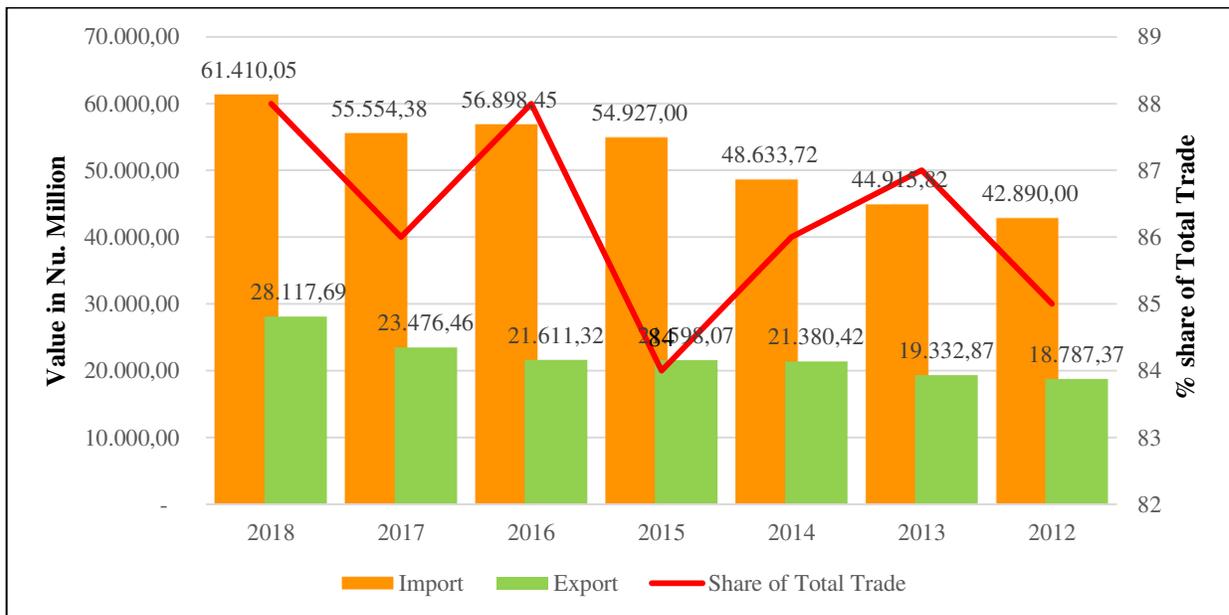
- e) Working Group on Customs Cooperation (*2nd Meeting held in Dhaka, Bangladesh on 18-19 November 2018*);
- f) Working Group on Trade Facilitation (*1st Meeting held in Dhaka, Bangladesh on 18 -19, November 2018*).

The Department is currently working on preparatory works to host the 22nd Meeting of the BIMSTEC TNC scheduled to be held from 7-8 August 2019 in Thimphu, Bhutan. The meeting is expected to continue deliberation on the draft text of the various agreements under BIMSTEC FTA.

Trade performance

Bhutan’s trade remains highly concentrated in terms of trading partners in the region which is dominated by India and Bangladesh. As such, the total trade within the BIMSTEC region accounted for 88% of Bhutan’s overall trade as demonstrated in **Figure 13** and **Table 15** below:

Figure 13: Bhutan’s Trade with BIMSTEC Region



Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Table 15: Bhutan's Trade with BIMSTEC Member States (2018)**(Value in Nu. Million)**

Sl. No.	Country	Import (A)	Export (B)	Total Trade (A+B)	Balance of Trade (B-A)
1	Bangladesh	453.98	5,948.36	6,402.34	5,494.38
2	India	59,812.00	21,592.00	81,404.00	(38,220.00)
3	Myanmar	-	-	-	-
4	Nepal	91.74	525.02	616.76	433.28
5	Sri Lanka	2.13	-	2.13	(2.13)
6	Thailand	1,050.20	52.31	1,102.51	(997.89)
Total		61,410.05	28,117.69	89,527.74	(33,292.36)

Source: Bhutan Trade Statistics 2018, Dept. of Revenue and Customs, Ministry of Finance

Bhutan's trade with India and Bangladesh are facilitated by the Free Trade Agreement (FTA) and the Bilateral Trade Agreement respectively. India alone accounted for 70% of Bhutan's export and 84% of its import in 2018. As such, Bhutan's trade with other BIMSTEC countries is limited. Nevertheless, Bhutan is mindful of the opportunities for expansion of trade with other member countries through the collective effort in promoting trade facilitation measures such as harmonization of customs and trade procedures, mutual recognition of standards and certificate of origin & other trade promotion initiatives under the BIMSTEC framework.

3.3.4 Bhutan and BIMSTEC

Bhutan as a member of BIMSTEC, remains committed to stimulate and enhance trade and investment among the parties, and to attract outsider's participation in BIMSTEC region at a higher level. The small domestic market makes it imperative for Bhutan to have a liberal trade regime to facilitate and promote trade and investment in the region and beyond. Regional Trade Agreement such as the BIMSTEC is expected to provide legal framework for a ready and predictable market access in the region. The Agreement would also invariably promote competition, thus bringing about greater economic efficiency and competency in the production and manufacturing sector. The subsidiary agreements under the BIMSTEC framework would also provide good opportunity for Bhutan to set up industries based on inputs imported from other member states and be able to benefit from the provisions of regional cumulative rules of origin.

Since the start of negotiations under BIMSTEC, Bhutan has been actively participating in meetings, discussions and initiatives taken within the domain of BIMSTEC framework. Bhutan has consistently worked towards the fulfillment of its commitments and obligations such as the tariff elimination schedule, reduction of the negative list and other responsibilities resulting from the on-going negotiations.

Investment Prospects

The BIMSTEC Member countries recognizes huge potential in investment sector in the region, however, members have not been able to contribute dedicated efforts in realizing the collective benefits of promoting investment sector. In this context, the Sixth Meeting of the BIMSTEC Economic Forum had proposed to restructure Trade and Investment Sectoral Committee under Trade and Investment Sectors. The Economic Forum reaffirmed the importance of such overhaul as a means to lay a solid ground for all the works and activities and to streamline the overall operational process under these sectors. Of the many, services is one dynamic and rapidly growing sector of many of our economies and BIMSTEC as a whole has been an important exporter especially in information technology, education, tourism and health services.

Bhutan has a liberal foreign direct investment policy which is in line with general investment principles and international best practices. The Royal Government of Bhutan has been putting in concerted efforts in improving the overall investment climate through simplification of business regulations and improvement in ease of doing business. With this environment, Bhutan has been able to attract major source of investments from BIMSTEC member countries with 51% from India and 13% from Thailand with concentration in hotel services, IT/ITES and manufacturing industries. *(Source: Annual FDI Report 2018).*

In view of the importance of FDI, Bhutan has been taking necessary measures through the revision of the Economic Development Policy and FDI Policy to attract foreign investment in the country. Bhutan has been constantly pursuing to promote and encourage foreign investments through the existing bilateral agreements and every possible forum of discussions. Till date, Bhutan has organized dedicated Road Shows in India, Bangladesh and Thailand and further intends to organize such events in the BIMSTEC region and beyond, in future as well.

3.4 MULTILATERAL TRADE

Background

Bhutan was granted World Trade Organization (WTO) Observer status in April 1998 and the application for membership was submitted in September 1999. Subsequently, the WTO General Council established the Working Party (WP) for Bhutan's accession in October 1999 with the appointment of former Austrian Ambassador Mr. Petricheste as the Chair. A total of four Working Party Meetings (Nov. 2004, Oct. 2005, Oct. 2006, and Jan. 2008), two informal meetings, and numerous bilateral negotiations with countries like US, Canada, EU, China and Japan were completed successfully. By 2007, considerable technical works were completed and reached an advanced stage in the WTO accession process. The experience and outcome of the Working party meetings and the bilateral negotiations indicated tremendous goodwill for Bhutan's accession among the WTO members.

Following the 4th Working Party Meeting in 2008, Bhutan's WTO Negotiating Team made a presentation to the 17th Session of the *Lhengye Zhungtsog*, where the Royal Government had decided to halt further negotiations process for Bhutan's accession to the WTO. Since then, the government has maintained the existing state of affairs as an observer to the WTO.

Currently, WTO has 164 members governing 99.95% of world trade, 99.98% of world GDP and 99.35% of world population. 36 Members have joined after 1995, and among them 9 are LDCs (Afghanistan, Cabo Verde, Cambodia, Lao PDR, Liberia, Nepal, Samoa, Vanuatu, & Yemen). At present, 23 countries are in the process of accession and 8 are LDCs. With the accession of Islamic Republic of Afghanistan as the 164th member on 29 July 2016, all other SAARC member countries are now members of the WTO.

Current Status

Bhutan's accession process to WTO is still on halt and the concerned Ministries and Agencies are awaiting Government's directives as to what needs to be done next in the accession process. Having completed the exercises and stakeholders' consultations on WTO accession as directed by the Governments, and now with Bhutan being on the verge of graduating from LDC status, the two Focal Ministries, (Ministry of Economic Affairs and Ministry of Foreign Affairs) has been in constant touch to keep update on the decisions of the Government.

If the Government decides to resume the accession process, the Department of Trade, MoEA through appropriate protocols would have to communicate to the WTO Secretariat in Geneva about Bhutan's decision to resume the accession process. And the most challenging task ahead is the re-constitution of Bhutan's Negotiating Team as none or almost all the members of earlier Negotiating Team are either transferred or retired from their services.

PART 4: EXPORT PROMOTION

4.1 Brand Bhutan

The idea of nation branding or creating an overarching umbrella brand providing holistic view of the country was conceptualized in 2005 to capitalize on the Unique Selling Point (USP) packaging all positive attributes of our country, such as pristine environment, rich cultural diversity, the Gross National Happiness philosophy, political stability and others. In the following year, a feasibility study was conducted by the Department of Trade (DoT), Ministry of Economic Affairs (MoEA) in collaboration with the World Intellectual Property Organization (WIPO) and found that Bhutan is in a good position compared to many developing nations to create a nation brand. The concept to develop Brand Bhutan then formed an integral part of the Economic Development Policy of Bhutan 2010. The importance of implementing the Brand Bhutan has been further emphasized and articulated in the EDP 2016 as a key strategy to promote Bhutanese industries and their products globally. In fact, the EDP 2016 clearly identifies eight areas, where Bhutan has competitive advantages.

With a view to further elaborate the Brand Bhutan strategy and bring into life, the Department had recruited Future Brand, a Singapore based consultancy firm to finalize the Brand Bhutan Strategy. The work was contracted out to Future Brand with financial support from the UNDP under the project titled “Scaling up of income generation through traditional crafts and textile production and marketing.” After seven months of extensive research and stakeholder consultations, the Brand Bhutan Strategy was finalized, including the overarching Brand Bhutan Logo, and the “**Made In**” and “**Grown In**” sector brand logos. In addition, the Brand Bhutan implementation tools such as the Brand Messaging Matrix, the Brand Guidelines, and the Brand Implementation and Governance Plan were also developed.

Currently, the Department is working on developing criteria for Made in Bhutan and Grown in Bhutan; the Rules and Regulation for Brand Bhutan; Guideline for Brand Bhutan and the registration of Brand Bhutan logos/Mark under the Intellectual Property Rights amongst others.

4.2 Bhutan Seal Program

The award programme was introduced in the year 2009 based on the concept of UNESCO Seal of Excellence. Since then, the Department of Trade, as a lead agency, has been organizing the Seal of Excellence award programme every alternative year to strengthen and promote handicraft sector.

The primary objective of the programme is to establish a quality benchmark for Bhutanese handicraft products, so that quality products could be exported to other countries and gain market access. It is also aimed at preserving the traditional craft knowledge, skills and making it more relevant and sustainable, while promoting innovation and quality to build the competitiveness of the products. This will assist producers in marketing, ensure fair production, adhere to safe environment standards and provide confidence to buyers when they purchase an authentic product from Bhutan.

The department has conducted four rounds of Bhutan SEAL awards so far. The program has two categories of award, i.e the *Seal of Excellence* and the *Seal of Quality*. The two categories of awards are differentiated by rating in a given rating scale of zero to five (i.e, 0-5).

Below is a summary of the products submitted and awarded after rigorous evaluation by a group of judges comprising both national and international craft experts and designers:

Sl. No.	Details	1st Round (2009)	2nd Round (2012)	3d Round (2014)	4th Round (2019)
1	Number of Product awarded with Seal of Excellence	1	3	1	0
2	Number of Product awarded with Seal of Quality	22	8	12	13
	Total	23	11	13	13

The award should not be misunderstood as the choosing of a champion product. It is a recognition given by the government for those handicraft products, which has attained the rigorous standards set by the department, and have potential for the world market.

4.3 Mini Dry Port in Phuentsholing

The Department has implemented the Mini Dry Port (MDP) Project under the SASEC Road Connectivity Project with financial assistance from the ADB. The project was completed on February 2019.

The MDP is an inland intermodal terminal first of its kind in Bhutan that will operate as a centre for transshipment of cargo to other destinations in the country and it is one of the major trade facilitation infrastructure planned with an objective to boost overall trade. The MDP's main functions will include:

- Improving the facilities for import/export processing and transit shipment of cargos, and hence reducing transit times, and costs for freight movements across the border;
- Relieving congestion within Phuntsholing by re-siting and improving of LCS facilities;
- Reducing risk of damage and pilferage to cargo during the processing, storage, and transshipment;
- Providing improved facilities for export; and offer warehouse and storage facilities.

To cater to whole lot of above services, agencies like Department of Revenue and Customs, Immigration, BAFRA, and other private operators will operate from MDP.

Phuntsholing Thromde (municipal office) as an Executing Agency under the project has awarded the work on the design and build of the Mini Dry Port to M/s Marushin Shitaka Construction Company Ltd (MSCCL) at contract price of Nu. 134.85 Million. The facility is expected to be operationalized in 3 quarter of 2019. The total cost invested on the project amounted to Nu. 166 Million. While 81% of the total project cost was an ABD grant, RGoB contributed 19% of the total cost.

4.4 Pasakha Dry Port

The World Bank was requested to support a detailed feasibility study for an Inland Container Depot (ICD) Dry Port at Pasakha to allow trucks to go directly to Pasakha bypassing the congested Phuntsholing border. The proposed facility has immense potential to reduce transportation and transaction costs for Bhutanese traders. The mini-dry port in Phuntsholing will be a short-to-medium term solution until we have a full-fledged dry port facility at Pasakha. The mini dry port in the long run is expected to service as warehousing and distribution facility.

The Royal Government of Bhutan's request for financial support to undertake a feasibility study was approved under the Partnership for South Asia Regional Integration Programmatic Trust Fund (SARIP Grant No. TF0A099). It was implemented as one of the components under the project titled "Bhutan Regional Trade and Transport Studies Project" with a total funding of USD 375,000/-.

The consultancy service for undertaking detailed feasibility study was contracted to the Price waterhouse Coopers (PwC) Pvt. Ltd. based in India through competitive bidding. The PwC technically completed the study by June, 2016. Following are the major works completed under the project.

1. A detail feasibility study including environment and social impact assessments was conducted. A total amount of Nu. 21 million was spent as professional fees for conducting the study.
2. The environment clearance for construction of the facility at Pasakha on 15 acres land allocated by Phuntsholing Thromde was obtained from the National Environment Commission.
3. A detailed hydrology study was carried out considering the potential risk of flood in the project area.
4. As the proposed approach road of about 271 M from the main Pasakha highway to the project site affects three registered land parcels and some temporary structures as per the social assessment report, the Department constituted a compensation committee and negotiated the compensation rates with the affected parties within the purview of existing Land Act and PAVA rates. This was also conducted in line with the World Bank's Social Safeguard Policy requirements. The report on the same was submitted to the MoF.

However, the project was deferred to 12th FYP through Cabinet Order as informed through letter No. MoF/DMEA/WB/2016/5378 dated 18th November, 2016 copied to this Ministry. Currently, the Department has proposed the development of Pasakha Dry Port under Trade Facility Support grant of GoI. The developmental work is expected to be completed by the end of 12th FYP.

4.5 Trade Fair

Export Promotion Division looks into organizing trade fairs and coordinates participation of exporters in the international fairs and exhibition. Every year the Department participates in external trade fairs. The participation is mainly to represent the country and more importantly to promote export and establish long term business relation between the exporters and interested importers. Initially the participation of the business firms and exporters were fully financed by the Government. However, in order to cut down the cost on the part of the Government and to encourage private participants at the same time, the participation is now based on cost sharing. Trade Fair aims to promote exports through organizing B2B meetings with counterparts in the proposed country.

Export Promotion Division under the Department gives approval to various agencies both to conduct domestic trade fairs. Further, a Trade Fair Guideline was developed and implemented with effect from March, 2017 with a view to streamline the procedure for organizing and hosting trade fairs in the country. It is also aimed at encouraging participation of local firms and service providers to showcase locally produced goods and services.

4.6 Exhibition Center

The Exhibition Center at Changzamtog Industrial Area (near the STCBL Office) is an initiative of the Department to help promote the use of locally produced products and materials for construction and export purposes. The center was jointly inaugurated on 27th March, 2017 by the former Minister of Economic Affairs, Lyonpo Lekey Dorji and Minister of Works and Human Settlement, Lyonpo Dorji Choden. The Exhibition Center is first of its kind in the country and it aims to support local producers and industries to showcase their produce to local consumer by way of advertising and marketing Bhutanese products at free cost. The center exhibits construction materials, plumbing, electrical, agro products, handicraft items etc. that have been manufactured or grown in Bhutan. The objectives of the center are:

- To facilitate Business to Business (B2B) and Business to Consumer (B2C) interactions,
- To support local producers and industries to showcase and advertise their products,
- To encourage the use of locally produced products,
- To disseminate information on local goods to the consumers,
- To provide a platform for consumers to engage in an in-depth and collaborative inquiry of the products,
- To encourage young entrepreneurs to take up new businesses and help in creation of self employment opportunities.

The center is expected to serve as an important platform for the visitors and consumers to examine the products physically before placing orders and get detail information about their price, quality and other related information. The center also conducts value chain analysis of products through way of study tours/market study, analyze exportable products and publish annual bulletin of the center. It also organizes BTB interaction, seminar and workshop for the Exporters.

PART 5: DONOR FUNDED PROGRAMMES & PROJECTS

5.1 Enhanced Integrated Framework (EIF)

5.1 (a) Background:

The Enhanced Integrated Framework (EIF) is an Aid for Trade partnership in action for the Least Developed Countries (LDCs). The EIF is a multi-donor programme, which supports LDCs to be more active players in the global trading system by helping them tackle supply-side constraints to trade. In this way, the programme works towards a wider goal of promoting economic growth and sustainable development and helping to lift more people out of poverty.

The programme is currently helping 49 LDCs worldwide, supported by a multi-donor trust fund, the EIF Trust Fund, with contributions from 23 donors, who are supporting LDCs' own drive to:

- Mainstream trade into national development strategies,
- Set up structures needed to coordinate the delivery of trade-related technical assistance; and
- Build capacity to trade, which also includes addressing critical supply-side constraints.

Recognizing trade as an important tool for economic growth and poverty alleviation, the Royal Government of Bhutan applied for the assistance from the EIF initiative and became an EIF beneficiary country on 28th September 2009. The National Implementation Unit has been set-up under the Department of Trade, Ministry of Economic Affairs for implementing EIF initiative in Bhutan.

The EIF initiative in Bhutan kicked off with the implementation of Pre-DTIS (Diagnostic Trade Integration Study) project on Institutional Set-up and Capacity Development on Trade Promotion with a financial support of USD 50,000/- from the EIF Trust Fund. The next phase, Diagnostic Trade Integration Study (DTIS), was carried out to identify constraints to competitiveness, supply chain weakness and sector of export potential with a financial support of USD\$ 0.4M in 2011 in collaboration with UNDP Office in Thimphu. A DTIS report consists of the main report with the Action Matrix and the National Export Strategy. The report serves as the basis for development of Tier 1 & 2 projects, and fund mobilization for other trade related initiatives.

The Department has also implemented Tier 1(Phase 1) project on “Strengthening Institutional and Human Capacity for Trade Promotion and Development” worth USD\$ 0.9 million over three years with the objective to facilitate the implementation of trade related activities and also to support and

help coordinate the delivery of trade- related assistance. The Tier 1(Phase 1) Project has been formally completed on 31 September 2017.

The Tier 2 window funding of USD\$ 1.5 million is also available for small-scale projects to build up trade related and supply side capacities under the EIF programme. Accordingly, the Department in collaboration with six trade related sectors have prepared the first Tier 2 project proposal on “**E-Infrastructure for Trade and Services Development (E4T)**”.The project has been approved in April 2017 and so far we have received an advance payment of USD\$ 0.355 million from UNOPS for implementation. The project aims to have a reliable ICT ecosystem (hardware and software) that will accelerate the integration of Bhutan into regional and global trade.

The Department has also prepared Tier 1(Phase 2) project proposal worth USD\$ 0.6 million and submitted to the EIF Secretariat in November 2017. The EIF Secretariat has endorsed the proposal on 07 December 2017 and the project is under implementation. Currently, the Department is in the process of formulating next Tier 2 and undertaking DTIS update.

5.1 (b) Tier 1 Phase 2 Project on Institutional & Human Capacity for Trade Promotion & Development:

Recognizing the importance of trade for economic growth and poverty alleviation, Bhutan has mainstreamed trade into the overall national development plan and accords high priority for the trade sector. To realize this, the key strategies include diversification of export base and markets, trade liberalization, private sector & infrastructure development and institutional & professional capacity development.

As such, the support from the EIF has been timely and instrumental in implementing some of the strategies. The Tier 1 Phase 2 project, in particular, is expected to address the institutional & human capacity constraints confronting trade and trade related sectors and promote private sector. The project is being implemented by the NIU set up in the Department of Trade, Ministry of Economic Affairs. NIU is staffed with three officials including the Coordinator. Some of the major activities of the project are capacity development of the Department of Trade and related sectoral agencies, development of legal and institutional framework, enhancement of private sector participation in trade initiatives and sensitization on the benefits of EIF and trade.

So far, the project has been able to support the promotion of indigenous craft sector, development of women & youth entrepreneurial skills and capacity development of rural women & the private sector. Further, the project has funded the capacity development training for the officials of the Department of Trade, trade related sectoral agencies and the Bhutanese exporters. The project has

also supported the Department in organizing trade related meetings and purchasing office equipment & furniture where there was no budgetary support from the government.

The implementation of the project commenced from January 2018 and is well on track. Till date, the project management did not face any major issues and challenges and the project activities are being carried out as per the project work plan. The duration of the project is for two years.

5.1 (c) Tier 2 Project on E-infrastructure for Trade & Services Development (E4T):

The Royal Government of Bhutan has made a tremendous progress in providing policy and formulating strategies to harness Information and Communication Technology (ICT) potential for development of trade. Despite the progress made by the government, use of ICT for trade and development and business is still limited. Towards this end, the E4T project has been initiated and is expected to provide a dynamic ICT ecosystem for trade development by accelerating access to ICT for targeted sectors (goods and services), improving data availability, facilitating information sharing, and enhancing business opportunities through an improved electronic platform.

The main implementing agency for the Tier 2 project is the National Implementation Unit (NIU), which is housed in the Department of Trade under Ministry of Economic Affairs. NIU is responsible for overall supervision and management of the Tier 2 project and the actual implementation is being carried out by six entities listed below:

Project sub-components	RGoB Implementing Agency
People Data Hub (PDH).	Department of Information Technology and Telecom, Ministry of Information and Communication
One-stop information centre (1-stop).	ICT Division, Directorate Services, Ministry of Economic Affairs
Bhutan Commodity Exchange (BCE).	Royal Stock Exchange of Bhutan, Royal Monetary Authority
eRegulations	Department of Industry, Ministry of Economic Affairs
E-commerce Ecosystem, (ECE).	Division of Policy and Planning, Ministry of Economic Affairs, supported by the ICT Division for ICT infrastructure matters
System of Tourism Statistics (STS)	Tourism Council of Bhutan

In terms of implementation, the project is going well and there are no major challenges and issues that could hamper the timely implementation of the project. The duration of the project is for three years.

5.1 (d) Major Achievement:

1. Installation of two potato grading machines worth of Nu. 14.4 million at the Food Cooperation of Bhutan Ltd's Auction Yard, Phuntsholing to improve online potato trading in the country. The grading machines are currently in full operation. Till date, around 12 traders and 162 farmers participated in the online auctioning of potatoes. The installation of grading machines has significantly improved online potato trading by reducing transaction cost and enhancing price transparency.
2. A grant support of Nu. 960,000.00 to the Agency for Promotion of Indigenous Crafts for promotion of textile industry in the country. The grant support has helped six raw material banks in eastern Bhutan to maintain adequate stock and more varieties of yarn in the yarn banks. The support has enabled 248 weavers and the community to procure yarns from their door step and have access to cheaper raw materials.
3. Training on international trade, export promotion, financial management, human resource management, business incubation center management on product design, packaging, branding & marketing, pasture development, financial management, food processing and livestock management for 287 officials from trade & trade related sectors, entrepreneurs and exporters. The training was aimed at enhancing knowledge and skills of the participants in their respective fields.

5.2 Trade Information Portal

The Department with the technical support from the European Commission under the *EU-Bhutan Trade Support* project is working on developing a Trade Information Portal (TIP) with an objective to enhance access to trade and market information.

The TIP once developed will provide important and necessary information to all Traders (Exporters and Importers) on Export/import guides and procedures, tariff and non-tariff measures, information of preferential treatments, market access requirements, market analysis tools and trade statistics amongst others.

The TIP project officially started in October 2018 with the first stakeholders workshop conducted on October 10, 2018 in attendance by the key stakeholders from the Department of Revenue & Customs, Bhutan Chamber of Commerce & Industry, BAFRA, Bhutan Standards Bureau, Bhutan Statistical Bureau, Bhutan Exporters Association, Bhutan Industries Association, Handicrafts Association of Bhutan and other relevant officials from the Ministry of Economic Affairs.

The Department will closely work with the experts in International Trade Centre (ITC) and key stakeholders in developing the portal. The TIP is expected to be fully functional and live by the end of 2019.

ANNEXURES

Annex 4: Total Number of Trade Licenses Issued and in Operation as of June 28, 2019

Sl#	Region/Dzongkhag	MTRC		Retail		Wholesale		Total	
		Issued	Operational	Issued	Operational	Issued	Operational	Issued	Operational
1	THIMPHU								
	Gasa	183	84	19	11	6	0	208	95
	Haa	438	180	106	56	20	12	564	248
	Paro	2391	990	989	559	64	31	3444	1580
	Punakha	1114	573	338	184	20	9	1472	766
	Thimphu	8517	3277	6573	3126	472	237	15562	6640
	W/Phodang	2031	813	565	272	50	15	2646	1100
		14674	5917	8590	4208	632	304	23896	10429
	PHUNTSHOLING								
2	Phuentsholing	2841	1256	3061	1287	390	203	6292	2746
	Samtse	2763	1564	678	366	86	57	3527	1987
		5604	2820	3739	1653	476	260	9819	4733
3	GELEPHU								
	Dagana	1502	611	670	139	39	18	2211	768
	Sarpang	3741	1345	1956	483	128	51	5825	1879
	Tsirang	1227	466	664	102	26	11	1917	579
	Zhemgang	793	320	520	136	25	11	1338	467
		7263	2742	3810	860	218	91	11291	3693
4	S/JONGKHAR								
	Pemagatshel	899	244	806	279	55	31	1760	554
	S/jongkhar	1222	360	1883	483	98	52	3203	895
		2121	604	2689	762	153	83	4963	1449
5	TRONGSA								
	Bumthang	906	342	731	202	26	8	1663	552
	Trongsa	803	323	558	176	33	10	1394	509
		1709	665	1289	378	59	18	3057	1061
6	MONGAR								
	Lhuntse	436	144	152	92	9	6	597	242
	Mongar	1616	537	396	234	31	19	2043	790
	Tashigang	1470	611	355	190	44	33	1869	834
	Tashiyangtse	493	183	133	74	19	12	645	269
		4015	1475	1036	590	103	70	5154	2135
	TOTAL	35386	14223	21153	8451	1641	826	58180	23500

Annex 2: Overall Balance of Trade

A. Trade including Electricity

Trade	2018	2017	2016	2015	2014
Export	41,413	37,297	35,258	35,229	35,585
Import	71,640	66,996	67,360	68,037	56,885
Balance	(30,227)	(29,699)	(32,102)	(32,808)	(21,300)

B. Trade excluding Electricity

Trade	2018	2017	2016	2015	2014
Export	30,835	25,314	22,226	23,105	24,951
Import	71,345	66,921	67,187	67,788	56,566
Balance	(40,510)	(41,607)	(44,961)	(44,683)	(31,615)

Annex 3: Balance of Trade with India

A. Trade including Electricity

Trade	2018	2017	2016	2015	2014
Export	32,170	31,618	32,052	31,801	31,801
Import	60,107	53,973	55,285	53,741	47,848
Balance	(27,937)	(22,355)	(23,233)	(21,940)	(16,047)

B. Trade excluding Electricity

Trade	2018	2017	2016	2015	2014
Export	21,592	19,635	19,020	19,677	21,168
Import	59,812	53,898	55,112	53,491	47,529
Balance	(38,220)	(34,263)	(36,092)	(33,814)	(26,361)

Annex 4: Balance of Trade with Countries other than India

Trade	2018	2017	2016	2015	2014
Export	9,243	5,679	3,206	3,428	3,784
Import	11,534	13,023	12,075	14,297	9,037
Balance	(2,290)	(7,344)	(8,869)	(10,869)	(5,253)