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towards the review of the Almaty
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EFFECTIVE TRANSPORT SYSTEMS

by

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**MULTI-YEAR EXPERT MEETING ON TRANSPORT, TRADE LOGISTICS AND
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Informal Session 4: Effective Transport Systems

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Bhutan

1. Introduction

Bhutan is not only a landlocked least developed country but is also a small rugged mountainous country beset with challenges typical of many such countries around the world.

Bhutan pursues a unique development strategy aimed at maximizing Gross National Happiness (GNH) – a distinctively Bhutanese development philosophy that holistically combines material well-being with more intangible cultural, spiritual and emotional needs. Under this multidimensional approach to development, the Royal Government, for the purposes of development planning, has identified four major areas as the main pillars of enhancing GNH. They are (i) equitable economic growth and development, (ii) preservation and promotion of cultural heritage, (iii) conservation of the environment, and (iv) good governance. The acceleration of economic growth and development is a very important pillar of maximizing GNH in order to meet the growing aspirations of our people for a prosperous and secure future.

2. Trading regime

Recognizing international trade as a crucial driver of economic growth and poverty alleviation, the Royal Government has been pursuing a fairly liberal trade policy regime. A number of initiatives have been taken to diversify the trading base and enhance Bhutan's integration into the international trading system.

At the bilateral level, Bhutan has a free trade agreement with India and preferential trade arrangement with Bangladesh. Initiatives are under way to establish bilateral trade agreements with Nepal and Thailand, with whom Bhutan has direct air links.

The free flow of trade between Bhutan and India was formalized by the Treaty of 1949. This arrangement was further enhanced with the signing of a free trade agreement between the two countries in 1972. Since then, this arrangement has been further reinforced and perpetuated with the renewal of the Agreement with mutually agreed changes and amendments, where necessary. Under the Agreement, Bhutan also enjoys transit rights through India for trade with third countries.

Trade with Bangladesh is conducted within the framework of a preferential trade agreement originally signed in 1980 and successively renewed in 2003 and 2009.

At the regional level, Bhutan is a member of the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Under SAARC, Bhutan is a contracting party to the South Asian Free Trade Area (SAFTA) which was signed in 2004 and the agreement entered into force in 2006. Under SAFTA's Trade Liberalization Programme, customs duties are being progressively reduced and by 2016, customs duties on majority of product lines are expected to be within 0-5%. SAARC Agreement on Trade in Services has been concluded and negotiations on specific commitments are ongoing. Bhutan is also actively engaged in the negotiations on BIMSTEC Free Trade Area on trade in goods and on BIMSTEC

Agreement on Trade in Services. As an LDC, Bhutan also benefits from the GSP schemes.

At the multilateral level, Bhutan joined as an Observer to WTO in April 1998 and is in the process of negotiations on accession to WTO.

3. Direction of trade

Bhutan's trade is largely confined to SAARC region. India has been and is the largest trading partner of Bhutan. In 2012, India accounted for about 84% of Bhutan's total trade (consisting of about 79% of total import, about 94% of total export). Export of electricity to India accounted for about 34% of Bhutan's exports to India. Bangladesh accounted for about 2% of Bhutan's total trade. Trade with the rest of the SAARC members constituted less than 0.50% of Bhutan's total trade. Trade with rest of the world excluding India and Bangladesh accounted to only about 21% of Bhutan's total trade consisting largely of imports. Bhutan's trade with India and Bangladesh is largely facilitated by the existing bilateral arrangements.

4. Issues

Despite the existence of numerous market access initiatives, Bhutan's international trade outside the traditional trading partners still remains insignificant which is an indication of the fact that Bhutan has not been able to exploit its trade potential yet. Like many other landlocked developing countries, Bhutan also continues to face constraints with regard to participation in international trade owing to lack of access to sea, remoteness and isolation from world markets which ultimately result in high transport and trade transaction costs. Studies have shown that countries that depend on transit trade, notably landlocked countries are confronted with a variety of practical constraints that increase the transportation costs of their international trade and indicated that LLDCs incurred on an average of about 50 per cent higher transport costs than transit countries thereby greatly reducing their trade potential. Further the rugged mountainous and steep gradient terrain, lack of productive capacity and limited export base have also posed considerable challenges to Bhutan in exploiting its trade potential.

In this increasingly globalized world, economic co-operation among nations has become vital to ensure the optimal utilization of benefits and opportunities presented by the globalization process. Trade-based globalization processes have been and can be made possible through advances in the areas of transport, communications and improved connectivity.

Physical transport and storage infrastructure, and other trade logistics are vital in facilitating countries build competitive productive capacities and ensuring the realization of the benefits of trade liberalization. It is, however, important that investments in such "hardware" solutions should be supported by corresponding streamlined managerial and administrative systems. Improvements in trade and transport infrastructure along with measures that bring about harmonization of cross-border trade administration systems would greatly contribute towards enhancement of business competitiveness and economic growth. Strong and well-connected transport infrastructure would greatly contribute towards unlocking economies of

scale and improving competitiveness, especially for the landlocked countries. This would also enable countries to fully tap the benefits of existing market access opportunities.

5. Initiatives on trade facilitation

National level

The Royal Government of Bhutan attaches great importance to address trade facilitation issues and the following measures are being taken at the national level:

1. The National Trade Facilitation Committee has been established in February 2013.
2. National implementation plan on trade facilitation prepared with TA from UNCTAD
3. Bhutan is a beneficiary of the Enhanced Integrated Framework initiative. Preparatory process for the development of Tier 2 project ideas has been initiated
4. Possibility of using Inland Water Transport in India and Bangladesh for bilateral and transit trade are being explored.

Under the South Asia Subregional Economic Cooperation (SASEC) program of ADB the following activities are being initiated:

1. Customs Management Module, Revenue Administration and Management Information System (RAMIS) is in progress
2. Accession to the Revised Kyoto Convention is in progress
3. Preparation for establishment of a mini-dry port and bypass road at Phuntsholing and Pasakha is at an advanced stage.
4. The road infrastructure in Bhutan is heavily constrained by the topography and roads are generally narrow with steep gradients. Improvement of national highways is in progress.

Bilateral level

Bhutan's international trade is conducted through India within the framework of the bilateral Agreement on Trade, Commerce and Transit between the two countries. While the existing arrangements smoothly facilitate Bhutan's international trade activities, regular bilateral consultations are being held to further improve trade facilitation measures within the framework of the existing arrangements.

Bhutan and Bangladesh is also in the process of considering a transit agreement for Bhutan's third country trade through Bangladesh.

Regional level

Recognizing the importance of physical infrastructure, appropriate Customs clearance and other facilitation measures including multimodal transport operations, and uninterrupted overland connectivity in enhancing higher intra-regional trade, the

Islamabad SAARC Summit in 2004 decided to strengthen transport, transit and communication links across the region. In pursuance of this decision that the SAARC, with financial and technical support from the ADB, initiated the *SAARC Regional Multimodal Transport Study (SRMTS)* in 2007 with the main objective of enhancing multimodal transport connectivity among SAARC member states. Further, the 16th SAARC Summit declared 2010-2020 as the “Decade of Intra-regional Connectivity in SAARC. Initiatives are being taken to identify and harmonize standards, trade procedures and other NTMs under SAFTA process as well.

A similar study titled as BIMSTEC Transport Infrastructure and Logistics Study (BTILS) was conducted in 2008 for the BIMSTEC countries with a view to bring about overall enhancement of intraregional transport infrastructure, improve logistics and reduce transport time and costs. Transit transport corridors and important policy framework and strategies for connectivity have been identified under these regional and subregional initiatives.

Under the SASEC program of ADB, project based activities that promote economic cooperation through enhancement of cross-border connectivity and facilitation of trade among the member countries of Bangladesh, Bhutan, India and Nepal are being initiated.

Progress in the implementation of the Almaty Programme Action largely depends on the enhanced financial and technical support of the international community to the landlocked and transit developing countries in establishing efficient transit transport systems.

In conclusion, I would like to thank UNCTAD for organizing this meeting and also for the financial support provided for my participation in the meeting. I would also like to place on record with appreciation the invaluable contributions made by the UNCTAD in the process and would like to solicit its continued support in advancing the process further to its intended levels of engagement.

Lastly, I offer my best wishes for a successful conclusion of the meeting.

Thank you.