

Bhutan in the World: Opportunities for Progress

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Introduction

Bhutan has made important strides in development over the past decades, but domestic and external challenges mean that it must now reposition its development strategy. In this article, we will argue that to achieve the ambitious targets under the 13th Five Year Plan (13th Plan), Bhutan will need to scale up its connections with the rest of the world and extract greater benefits from them.

In doing so, however, it is essential that the Himalayan Kingdom remains attuned to the broader shifts shaping the global landscape, ranging from climate shocks to pandemics, while new trends in globalisation amidst intense demographic and technological change are combining to create a more challenging and competitive external context. Opportunities will continue to abound but seizing them will require proactive approaches that place a premium on domestic reform.

The stakes are high, for Bhutan faces an existential moment. The aspirations of the Sustainable Development Goals (SDGs) remain largely unfulfilled. Recovery from the pandemic remains partial, uneven, and incomplete, especially in tourism. The export base remains overly reliant on hydropower, and macroeconomic vulnerabilities have heightened. Most significantly, the outmigration of labour has taken on unprecedented intensity.

These diagnostics are well known, and the 13th Plan sets forth a bold reform agenda, steered by National Key Performance Indicators (KPIs) in Economic, Social, Security, and Governance. These indicators, aligned with the Royal Vision for a “Developed Bhutan”, aim to drive socio-economic progress, targeting a surge in GDP to US\$5 billion by 2029 and US\$10 billion by 2034, with concurrent goals to improve social outcomes.¹

1 Zangmo, Thukten, “Draft 13th Plan Allocates Nu80 billion for Economy”, Kuenselonline, January 2024, <https://kuenselonline.com/draft-13th-plan-allocates-nu-80-billion-for-economy/#:~:text=This%20plan%2C%20slated%20to%20commence,USD%2010%20billion%20by%202034.>

Bhutan has embarked on an ambitious endeavour to attract foreign direct investment through the Gelephu Special Administrative Region (SAR). Rooted in the development philosophy of Gross National Happiness (GNH), the SAR strives to be a “mindfulness city”, promoting conscious and sustainable businesses inspired by Bhutanese values. It is envisioned as an independent economic hub with the liberty to shape laws and policies.

Against this backdrop of high ambitions amidst a shifting global context, this article considers ways to reinforce reform efforts, so they stand the greatest chance of success. In particular, it outlines three key recommendations for collective and collaborative action: Strengthen the strategic focus of the reform agenda; prioritise demand-side considerations; and adopt a more structured implementation approach.

Bhutan Today

Bhutan today reflects a development journey marked by long-term progress, but also persistent disparity and, especially recently, considerable disruption.

i. Progress

Bhutan’s progress is perhaps best exemplified by the country’s graduation from the United Nations’ list of Least Developed Countries (LDCs) in 2023. To qualify for graduation, a country must meet criteria on income, human assets, and economic and environmental vulnerability. Bhutan has made impressive progress in these areas. For instance, since the 1980s, Bhutan has sustained an average annual real GDP growth of 7.5%, while life expectancy increased from 47 to 72 years and primary health care coverage growing to 95% of the population.²

Bhutan has also made significant reductions in poverty. The monetary poverty rate at Bhutan’s national poverty line has declined steadily from 23.2% in 2007 to 12.4% in 2022.³ The rate of multidimensional poverty - a combined measure of living standards, health, and education - has dropped

2 The World Bank (2024), World Bank Open Data, <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=BT>

3 National Statistics Bureau (2022), Poverty Analysis Report, Bhutan (2022)

from 5.8% in 2017 to 2.1% in 2022.⁴

The recently released 2023-24 Human Development Report of UNDP further illustrates Bhutan's consistent advancement, with its Human Development Index (HDI) climbing from 0.582 in 2010 to 0.681 in 2022. This progress has elevated Bhutan's ranking to 125, marking a significant transition from the low human development category to the medium human development category over the past decade.⁵

Bhutan's latest achievement worth celebrating is its success in managing the COVID-19 health crisis. The country responded quickly and in a well-coordinated way to the discovery of the first COVID-19 case in March 2020. Despite a lower density of health workers compared to other nations, the swift reaction effectively contained the spread of the virus, averting thousands of infections and reducing the loss of lives through full vaccination of all eligible populations.⁶

ii. Disparity

Even with sustained progress over time, Bhutan continues to face issues in various areas.

Inequality, while not as pronounced as in some other countries, remains significant. The 2022 Poverty Analysis Report states that the lowest 20% of the population represents only 8.8% of per capita expenditure, while the wealthiest 20% claim 37.3%. In other words, the richest quintile spends four times as much as the poorest one.⁷

A considerable urban-rural divide explains much of the inequality numbers, with rural poverty significantly higher at 17.5% than urban areas at 4.2%.⁸ Resource and infrastructure, as in many other countries, are unevenly distributed between urban and rural areas, reflecting in part

4 Multidimensional Poverty Peer Network (MPPN), OPHI (2023), Bhutan Multidimensional Poverty Index 2022, <https://www.mppn.org/bhutan-multidimensional-poverty-index-2022/>

5 United Nations Development Programme (2024), Human Development Report 2023/2024

6 UNICEF (2021), <https://www.unicef.org/bulgaria/en/stories/unicef-hails-bhutan-successful-completion-full-covid-19-vaccinations-90population#:~:text=UNICEF%20hails%20Bhutan's%20successful%20completion,90%25%20of%20the%20population%20%7C%20UNICEF>

7 National Statistics Bureau (2022), Poverty Analysis Report Bhutan 2022

8 Ibid

different population sizes and densities. Correspondingly, urban centres not only tend to enjoy better access but also better quality of infrastructure and services.

Disparities in health and education remain pronounced. Educational access has improved a lot, but the quality of education remains a concern. The ongoing rapid development of digital technology also presents significant challenges to educational curricula in Bhutan. Similarly, while the health system has made significant strides in various aspects of public health and clinical indicators, disparities persist in health service delivery, human resource planning and deployment, health policy formulation, and health financing.⁹

The Bhutanese economy continues to be narrowly based on hydropower and tourism, with the private sector playing only a nascent role. The nation's strategic complexities are further compounded by its landlocked position between China and India, which presents logistical challenges for trade and transit. The mountainous terrain adds another layer of difficulty, hindering transportation and infrastructure development efforts.

iii. Disruption

Bhutan is increasingly feeling the disruptions caused by climate change in the form of floods, droughts, heatwaves, and forest fires. The country is also located in a region prone to natural disasters such as earthquakes and landslides, which pose significant risks to communities and infrastructure. From 2009–2017, total economic losses from disasters such as cyclones, earthquakes, fire, and floods were estimated at over \$100 million.¹⁰

The country's rapid response notwithstanding, the COVID-19 pandemic turned out to be disruptive. The pandemic exposed critical gaps in Bhutan's social protection systems and essential services. Concerns regarding online safety, cyber security, and the digital divide came to the forefront as education and public services transitioned online.

But the largest disruption was the economic one, in the form of a historic

9 Thinley et al. (2017), The Kingdom of Bhutan Health System Review (World Health Organization, 2017)

10 Asian Disaster Preparedness Center and UNDRR (2020), Disaster Risk Reduction in Bhutan, Status Report 2020

economic downturn causing strains in the financial sector and eroding fiscal space. GDP plunged by 10% in 2020. The economy showed signs of recovery in 2021 and 2022, when growth resumed at 4.4% and 5.2% but has yet to return to pre-pandemic trends. Unemployment, especially among youth, remains high at 15.9% and macro-fiscal vulnerabilities have heightened, with fiscal deficit remaining elevated at 9.7%.¹¹

An Existential Moment

Bhutan faces an existential moment that creates an urgent need for change to meet the aspirations of people, reduce heightened levels of human insecurity, and confront a likely more turbulent development landscape in the future.

i. Unmet Aspirations

At present, only about 29% of SDG targets have been achieved to date, while we are beyond halfway of the timeline to achieve them by 2030. This is not a Bhutan-specific issue. In fact, Bhutan compares favourably with the rest of Asia and the Pacific, where only 17% of targets have been achieved.¹²

Mitigating factors explaining this result include the disruptions of the pandemic and the ambitious nature of SDGs themselves. Yet, these do not take away from the fact that a large gap has opened between the nation's achievements and the population's aspirations.

Addressing this gap is crucial, especially considering Bhutan's significant labour outmigration, discussed next in further detail. Accelerating SDG progress is essential to project confidence and opportunity.

ii. Heightened Human/Job Insecurity

Human insecurity, especially job insecurity, appears to be at high levels in Bhutan, impacting especially the youth population. Many recent graduates encounter difficulty securing stable employment opportunities domestically. The youth unemployment rate reached 28.6% in 2022, marking a 7.7 percentage point increase since 2021.

11 National Statistics Bureau (2023), Quarterly Labour Force Survey Report; Ministry of Finance (2023), Budget Report for FY2023-24

12 UNESCAP (2024), Country SDG Profile-Bhutan, <https://data.unescap.org/stories/country-sdg-profile-bhutan>

This pervasive lack of prospects fosters feelings of discouragement and future uncertainty. According to one study, there has been a rapid escalation in migration figures since July 2022. The monthly average surged to 3,120, reaching a peak of 5,099 in January 2023, and 5,542 in February 2023. Whether this trend has peaked or will continue remains uncertain.¹³

Driven by limited local job prospects, a significant number of educated Bhutanese citizens seek career avenues abroad, draining the nation of its skilled workforce and impeding sustainable economic growth. Based on the same study, the civil service witnessed an average of 64 voluntary resignations per month between January 2015, and May 2022. Between June 2022, and February 2023, this number almost quadrupled to 234 per month.¹⁴

This migration, which has been referred to as an “exodus”, hampers governmental capacities precisely when needed to enact reforms. For a small country like Bhutan, the intensity of this trend is both extraordinary and unprecedented.¹⁵ Addressing the underlying issues of youth unemployment and the emigration of skilled workers is key to ensuring the nation’s stability and continued economic progress.

iii. A Potentially More Turbulent Future

Bhutan needs to connect better to external opportunities, but the world around Bhutan is continuously changing. What is different now is that the global and regional development landscapes appear to be more subject to overlapping and cascading risks that amplify themselves, thereby creating swings of larger amplitudes. Such phenomenon is perhaps best captured by the term “polycrisis”, even though the turbulence produced may also generate opportunity for those countries ready to swiftly adapt and tap into it.

UNDP’s 2024 Regional Human Development Report for Asia and the Pacific unpacks that uncertain future coming at us into three clusters of interacting risks.¹⁶

13 <https://kuenselonline.com/migration-of-bhutanese/>

14 Ibid

15 Bhutan’s jobs woes drive an exodus to Australia | Reuters news agency

16 UNDP (2023), 2024 Regional Human Development Report, Making Our Future: New Directions for Human Development in Asia and the Pacific

- The first cluster consists of existential threats, such as climate change and pandemics, which are intensified by ongoing urban expansion and humanity's increasing encroachment on the natural world. These threats require urgent attention due to their potential to disrupt the very fabric of societies and economies worldwide.
- The second cluster of risks impacts the engines of growth and job creation. New patterns in globalisation (a slower pace, geopolitical friction, and the maturation of global production networking) redefine growth opportunities. Meanwhile, disruptive technological change threatens jobs at a time of a regional demographic divide: Aging populations need greater automation while younger ones need robust job growth.
- The third cluster encompasses governance risks that slow the momentum of future-oriented reform and reduce the space for it. These risks are manifesting themselves in the region in the form of democratic backsliding, rising inequality and growing polarisation and populism.

Amidst these challenges, there is also the opportunity for growth by leading through its environmental stewardship and attracting green investments. Likewise, while the country must contend with demographic shifts and accelerated technological change, the rising middle class - 80% of which is expected from the region, much of it from China and India - provides potential for economic growth. More importantly, Bhutan must address the risk of polarisation and distrust in governance at a time of major reforms to ensure its success, by paying close attention to the political economy, including strengthening public discourse, transparency, and open communications.

Pathways to Success

The need of the hour now is to adjust Bhutan's development strategy, while continuing to respect its unique holistic approach towards cultural preservation and environmental sustainability. As discussed earlier, various initiatives under the umbrella of the 13th Plan are in the making. The question before us is what attributes are important for the reform agenda

to espouse so that it stands the greatest chance of success. This article proposes three pathways to success.

i. Sharpen Strategic Focus

Bhutan's reform agenda is ambitious and broad. At the same time, brain drain is eroding capacities in both public and private sectors to an extent not seen before. The suggestion therefore is that the overall strategy is restrategised, in the sense of identifying a few big bets that are both aspirational and attainable. Big bets could be articulated both vertically [identifying key sectors with the greatest development bang-for-ngultrum] and horizontally [identifying major cross-cutting bottlenecks, such as the e-payment gateway].

What Bhutan needs, in a nutshell, is confidence, scale and diversification:

- **Confidence.** By reinforcing the strategic orientation of the reform agenda, a clear signal can be sent that Bhutan is back on track. The communication of a clear and credible path forward may inspire confidence in investors and also affect the incentives of those exploring to leave the country, return to Bhutan, or engage with the country from abroad, including by sending remittances.
- **Scale.** Because of the small scale of the Bhutanese domestic market, development strategies that are inward-looking are bound to fail in accelerating development momentum. Bhutan needs to develop scale by tapping into external markets that are larger and more affluent. It needs to promote its outward orientation to do so.
- **Diversification.** This is the age-old story. It will take time but there are opportunities. Bhutan quite clearly can build on its well-established comparative advantages in tourism, forestry and agriculture, while also expanding into digital and exploring new opportunities with the Mindfulness City project.

Countries such as Singapore, the Republic of Korea (ROK), and more recently Rwanda, Costa Rica, and Estonia present compelling examples around how strategic prioritisation and holistic reforms can catalyse transformations across the economy.

Singapore's economic prowess was rooted in its emphasis on education and skills development, technological advancement, and leveraging of its strategic location. ROK's leap into high-tech industrial sectors is driven by investments in electronics, automotive and shipbuilding. Likewise, Estonia's strategic pivot towards digital innovation, e-governance, and education reform propelled the country into one of the most digitally advanced societies. Given the similarities, Bhutan can also draw inspiration from Costa Rica in leveraging its natural resources and human capital to transform its economy.

ii. Explore Demand More

Bhutan currently adopts a strongly supply-focused approach in its development strategy as is manifested in many ways. Tourism stands out but also the approach to FDI and exports more generally would benefit from a stronger focus on the demand side – along the lines of “think not (just) of what Bhutan wants from the world but think of what the world wants from Bhutan”. This would involve extensive market research as well as government initiatives to enable the private sector to access external markets and be incentivised to discover and seize opportunities within them.

For years, the East and South-East Asian countries witnessed unprecedented growth by focusing on demand driven export-led growth, significantly supported by foreign direct investments (FDI) and greater integration into the global value chains. While not directly comparable, China stands out as a successful model. In contrast, South Asian economies that have been less focused on external demand have consequently experienced lower and more volatile growth rates.¹⁷

Now is an ideal time for Bhutan to seize opportunities arising from the expanding global trade and the growing market shares of its close neighbours, India and China.

- Tourism holds great potential for Bhutan, both for job creation and distributional impacts. It would require ensuring policy stability, market orientation and strengthening the backend infrastructures

¹⁷ Asian Development Bank (2002), *Growth and Poverty: Lessons from the East Asian Miracle Revisited*

- accommodation and connectivity - to re-catalyse the sector.¹⁸

- Similarly, for the export-led sectors, Bhutan must focus on identifying high-demand products in the international market, and aligning its export strategy to cater to these demands. Special Economic Zones (SEZs) have played a crucial role in countries such as China, Taiwan, and Vietnam, in accelerating their economic growth. Global experiences show that integration of SEZs into the domestic market is vital for shared benefits and stimulating local economic growth through spill-over effects, including technology transfer and exposure of local businesses to competition.¹⁹ Bhutan's first SAR will benefit from these lessons.

The feasibility of all these initiatives, given Bhutan's small domestic market, depends on foreign investments. Creating a conducive environment through incentives and favourable policies in sectors with high potentials, such as renewable energy, sustainable agriculture, and eco-tourism, is vital for attracting investments.

To reap the rewards of a demand-oriented strategy, greater emphasis must be placed on a private sector-led economic model, founded on strong market institutions, such as property rights, enforcement of contracts, arbitration, and competition policy to boost productivity and innovation.

iii. Make It Happen

Visions, plans, and strategies are only as potent as the actions taken to implement them. What Bhutan now needs, more than anything else, is a sustained commitment to effective implementation that is continuous, consistent, comprehensive, and coordinated.

Making the reform agenda happen will require a focus on several issues.

- One is to appoint clear leadership roles to oversee the implementation process and establish accountability frameworks to ensure individuals and agencies are held responsible for meeting set targets and deadlines.

18 Ahmed et al. (2020), Systematic Literature Review of Tourism Growth Nexus: An Overview of the Literature and a Content Analysis of 100 Most Influential Papers, <https://onlinelibrary.wiley.com/doi/abs/10.1111/joes.12386>

19 The World Bank Group (2017), Special Economic Zones: An Operational Review of Their Impacts

- Another element is the implementation of robust monitoring and evaluation mechanisms to track progress, identify challenges, and measure the impact of reforms. Regular assessments enable timely adjustments to ensure alignment with the reform agenda's objectives and address any deviations from the plan.
- Fostering stakeholder engagement and participation is vital for garnering support for the reform agenda and ensuring its relevance and effectiveness. Engaging relevant stakeholders, including government agencies, civil society organisations, the private sector, and citizens, facilitates a strong feedback loop throughout the implementation process.
- Investing in capacity building and institutional strengthening enhances the government's ability to implement reforms effectively. Providing training, technical assistance, and support to public sector employees involved in the implementation process, as well as strengthening institutional structures, processes and systems, facilitates coordination, communication and decision-making.
- Embracing adaptive management approaches that allow for flexibility and agility in responding to changing circumstances and unforeseen challenges is crucial. Building flexibility into the implementation plan accommodates adjustments based on emerging needs, new information, or shifting priorities, while maintaining alignment with the overarching reform agenda.

In light of the brain drain, it becomes critical to evaluate the public sector's capabilities. In such a situation, leveraging partnerships with the private sector, civil society organisations (CSOs), and non-governmental organisations (NGOs) can be instrumental in implementing reform agendas. Such partnerships allow for knowledge and skills transfer from experienced professionals to public sector employees, help address skill gaps, and mitigate the impact of brain drain. It can also facilitate the adoption of new technologies and best practices in the public sector. Private sector expertise in areas such as digitalisation, data analytics, and process optimisation, can drive efficiency improvements and innovation within government agencies.

Conclusion

Bhutan's development journey has been one of long-term progress, but also persistent disparity and widespread disruption, especially in recent years. Looking ahead, there is an urgent need to rethink the development strategy because of unmet aspirations, heightened human insecurity, and the prospect of future turbulence. Bhutan has articulated a large number of ambitious initiatives. This article argues that for them to stand the maximum chance of success, it is important to sharpen strategic focus, explore more the demand side, and, above all, focus on making it happen through effective implementation.

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