

Short Takes on Bhutan's Economy

The Druk Journal Interviews Joseph Stiglitz

TDJ: The world (World Bank Group) categorises economies as low income, lower middle income, upper middle income, and high income. Bhutan has declared itself a lower middle-income economy (in late December 2023), which means it will receive less aid and be more dependent on itself. Is this a good strategy?

Professor Stiglitz: The categories are largely defined by the World Bank so that as Bhutan's income rises, it will "graduate" from one category to the next. Graduation is a sign of progress, which is obviously positive, and will, for instance, be recognised as such by outside investors. At the same time, access to aid at concessional terms will diminish. Such aid needs to be directed at those countries most in need. Obviously, Bhutan would like assistance on as favourable terms as possible, and graduation means Bhutan will have to be more self-reliant. Overall, that's positive, but it also means Bhutan has to think more broadly about what kinds of development strategies it can undertake on its own that will be sustainable.

TDJ: What are the advantages/disadvantages of Bhutan joining the World Trade Organisation (WTO)?

Professor Stiglitz: The intent of the WTO was to create a rules-based international trading system that would facilitate the flow of goods and services around the world. It was the product of complex international negotiations in which, not surprisingly, the rules that were written tended to favour the large and powerful countries, not the developing countries. Particularly problematic were the rules concerning intellectual property, which resulted in vaccine apartheid during the pandemic, with poorer countries finding it more difficult to get access to not just vaccines but other Covid-19 related products.

The WTO has now fallen on even harder times, as the US has refused to allow the appointing of judges to the appellate body that resolves disputes and broken rules by massive subsidies - with no mechanism for it to be disciplined.

Whether Bhutan should join today entails a careful balancing of the benefits (in terms of increased access to certain markets) versus the costs (the imposition of rules that constrain what Bhutan can do, including those related to intellectual property). Given the uncertain future of the WTO, caution might be advised.

TDJ: The world is often led to believe that capitalism is the model for all economies. How applicable is this for smaller countries and economies like Bhutan?

Professor Stiglitz: I've argued that all countries need a mix of institutional arrangements, including for-profit firms ("capitalists"), but also not-for-profits, cooperatives, and public institutions. Given Bhutan's situation and values, the mix that might work best for Bhutan might entail a larger role for not-for-profits and non-capitalist enterprises, but in some arenas, more conventional for-profit firms should also play an important role.

TDJ: Bhutan is aspiring to be a developed country. In the context of global economic trends, what should be the priorities of its economic development?

Professor Stiglitz: Globally, there is now a recognition that the predominant economic model, neoliberal capitalism, has not worked well. Development strategies need to be sustainable and inclusive - and this is especially important for Bhutan. It is also being increasingly recognised that the predominant economic models, while they may increase material consumption, have not increased "gross national happiness". GNH has been central to Bhutan and needs to continue to be central as its development proceeds.

TDJ: If GNH means a more holistic approach to development and growth, what should a GNH economy look like? What kind of economic public policy would be GNH inclined to?

Professor Stiglitz: First, as I have already commented, it needs a richer and more diverse ecology of institutional arrangements, with the government encouraging a variety of firms of individual and collective action that are consistent with sustainable development - recognising that the economy is supposed to serve citizens, rather than the other way around. There needs

to be strong regulations protecting the environment, and policies that encourage the distinctive aspects of Bhutanese society and culture.

TDJ: Bhutan has declared a southern region as a Special Administrative Zone to invite investors and develop into a regional hub. What could investors who are attracted to Bhutan learn from GNH and Bhutan's emphasis on spirituality and balanced socio-economic growth?

Professor Stiglitz: Citizens all over the world have become disillusioned with the direction in which neoliberal capitalism has led society - with individuals who are more greedy and selfish, often more dishonest, typically more materialistic, and societies that reflect these perversities. They are looking for alternatives, for alternative ways to do business, to live their lives, and to interact with others. Bhutan can provide models illustrating these alternatives and be a convening place, where those committed to putting alternative visions into reality can interact, exchanging views and experiences.

TDJ: You've done studies on risk aversion – can you speak about this (risk aversion) and how it might apply to Bhutan which aspires to be a GNH country while aspiring to become a more “developed” nation?

Professor Stiglitz: One of the things that has plagued many countries is that, even as they advance, their citizens feel continuing, if not even increasing, levels of insecurity. This is partly because of the role of materialism - they worry that they might lose the material goods that they see as so central to their well-being. A GNH country addresses this in two ways: It redirects attention away from such materialism, and it creates a sense of community, in which it is natural for individuals to support each other and for the community (through government or voluntary associations) to help everyone manage the vagaries of life.