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Foreign trade policies and WTO accession in Bhutan

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Abstract
This paper explores various dimensions of trade liberalization policies and potential impact of WTO accession in Bhutan. Foreign trade policies of Bhutan are undergoing significant changes concerning trading partners and import trade. Bhutan's import from Chinese Republic is recently rising although India remains still the major trading partner. Bhutan successfully devised various policies for diversifying export base of non-hydroelectric products. Potential impact of forthcoming WTO accession would be diversification of exports and declining dependence on India. But it would likely to impede keeping balance between economic development and socio-cultural-environmental resilience which is uniquely maintained in Bhutan.

Keywords: Trade liberalization, WTO accession, Bhutan foreign trade

Introduction
A small, mountainous, landlocked, and economically vulnerable Least Developed Country (LDC) the Kingdom of Bhutan confronted a severe contraction in 2020 due to COVID-19 pandemic. However, the economy rebounded in 2021 and Bhutan's GDP growth rate reached an estimated 3.5 percent in 2021 [1]. Income inequality remains a burning issue despite the fact that poverty has been removed substantially. Development perspective of the country is completely different from that of the rest of the world. Sustainable development has been major goal, and Gross National Happiness (GNH) remained principal philosophy of development.

The economy of Bhutan is heavily dependent on foreign trade, particularly on exports of electricity to India. Liberalization of trade was achieved through the signing of a few preferential and free trade agreements between India and Bangladesh. However, Bhutan's domestic markets were gradually opened up to the rest of the world and currently the country maintains trade relations with 105 countries [2]. The country is fully prepared for WTO accession before its graduation from LDC which is scheduled on 13 December, 2023 [3]. WTO accession will have some obvious benefits and some serious consequences.

This paper intends to investigate the nature and trends of Bhutan's external trade and trade liberalization policies, level of globalization and potential impact of WTO accession. This research is based on country level secondary data and analytical investigations have found some interesting results which are unique for Bhutan.

Trends of Trade
Literature shows that, in the past, Bhutan maintained substantial trade relations with Bengal, Tibet, Assam, Nepal and China. The most important trading partner that time was Tibet [4]. Bhutan mainly imported salt, soda, wool, gold dust and silver from Tibet and exported there silk fabrics, dyes and brass utensils. Bhutan imported mainly dried fish, grapes, rice, cotton cloths and tobacco from Bengal. In Assam, Bhutan exported ponies, rock salt, bee-wax, spices, gold and imported manly paddy, rice, eria silk cloth, and various types of cotton cloths. Tariff on exports was collected in terms of cash while that on import was collected in kind. During that time, Bhutan's balance of trade was positive [5].

At present, Bhutan's principal trading partners are India, Bangladesh, Nepal, Japan, Malaysia, Italy, Germany and Netherlands. India is the major partner in terms of shares of both exports and imports and that of other top eight countries are very small. Out of total exports of 258.7 million US dollar in 2005, share of export to India 87 was percent. This share gradually increased and 98 percent in 2021 [6]. In 2021, exports to Italy was second highest (4.3 million US dollar) followed by Bangladesh and Nepal.

In 2005, out of Bhutan's total imports of 387.2 million US dollar from the above nine countries, import from India was 75 percent which increased to 89 percent in 2021.

In 2015, second highest source of Bhutan's imports was Singapore (29.7 million US dollar) followed by Japan (28.9 million US dollar) and Thailand and that from Chinese Republic was only 15.8 million US dollar. As of 2021, second highest source of imports was Chinese Republic (173.2 million US dollar) followed by Korean Republic (42 million US dollar) and Singapore (36.8 million US dollar). In 2021, imports from Chinese Republic increased manifold. Bhutan's overall trade balance is negative, but the balance of payments remains favourable due to inflows of external assistance [7].

In 2021, export of electricity to India was the highest (331.47 million US dollar) followed by base metals, and articles of base metal (232.19 million US dollar) and mineral products including oils and fuels (70.67 million US dollar). Bhutan's highest imports from India are mineral products including oils and fuels (199.1 million US dollar) followed by machinery, mechanical, electrical appliances, equipment and parts (169.79 million US dollar). Regarding exports to other eight countries, exports of mineral products including oils and fuels was the highest (63.1 million US dollar) followed by vegetables, fruits, tea, spices, cereals, grains and animal products (16.8 million US dollar. Exports of these primary products have significant environmental consequences due to Bhutan's agro-climatic conditions. Bhutan's highest imports from these countries are machinery, mechanical, electrical appliances, equipment and parts (145.2 million US dollar) [8].

Trade Policy Initiatives

The Indo–Bhutan Treaty of 1774 was a major landmark for free trade between Bhutan and British India. In this treaty, it was mutually agreed that Indian wood cutters will not be debarred by the Bhutanese from the cutting of timbers, while the British would secure free movements of Bhutanese caravans to Rangpore, Bangladesh [9]. In the Sinchula treaty [10] of 1865, free-trade agreement between Bhutan and British India was signed which was revised in 1910 without any remarkable success. Free-trade agreement was successful only after revision of the treaty in 1949. Indo-Bhutan trade began to strengthen and Bhutan's inland trade with Tibet was closed due to Chinese occupation of Tibet in 1959 [11].

Indo-Bhutan trade agreement of 1972, that of 1995, Bhutan's membership of SAARC in 1985, ratification of SAPTA in 1995 and SAFTA in 2006 all are the measures for the liberalization of trade in South Asia. Bhutan is a member of the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC), a regional grouping under which members will progressively reduce and ultimately eliminate tariff and non-tariff barriers [12]. A preferential trade agreement was signed between Bhutan and Bangladesh in December, 2020 for tightening the existing trade relations between the two countries [13].

The Royal Government of Bhutan has made efforts to diversify export potential in terms of commodities as well as trading partners. Bhutan's foreign trade used to be handled by the State Trading Corporation of Bhutan (STC), a purely public sector agency [14]. However, since the Sixth Five Year Plan (1987–1992), privatization of foreign trade emerged as an important element of its foreign trade policies. Export credit guarantee schemes were undertaken by the government for the promotion of export trade. Seven strategies and activities have been identified for the promotion of exports [15]. These include institutional capacity building, expansion of trade infrastructure, improvement of logistics, improving standards, branding, market access supply side capacity and development of service sector.

Potential Impact of WTO Accession

WTO accession will have some beneficial and some repulsive impacts in Bhutan. LDC graduation threshold set by the United Nations comprise per capita gross national income (1222 US dollar (as of 2021)), human asset index (66 as of 2021)) and economic and environmentally vulnerability index (32 as of 2020) [16]. In 2021, Bhutan's GNI per capita was 2,982 US dollar, human asset index 79 and in the year 2020 EVI stood at 25.7 [17]. Therefore, the country is eligible for graduation with respect to all the three criteria.

If WTO accession precedes LDC graduation, Bhutan would get all the benefits an LDC avails for WTO accession before LDC graduation due to special and differential provisions of WTO regulations which take into account particular needs and interests of LDCs [18]. The LDCs are granted some flexibilities and special (differential) arrangements in the WTO regulations such as longer period of implementation of commitments, favourble safety measures and promotion of socio-economic capacity due to their inherent capacity constraints [19]. Special and differential treatments for LDCs are beneficial

Bhutan's WTO membership seems to play catalytic role for export diversification and tariff and quota free markets at the global level. It would attract foreign direct investments (FDI), raise competitiveness among domestic firms and foster institutional development. Bhutan's educated youth may try to fetch for white collar jobs in the service sector. Tourism industry will attract more tourists and tourism income is expected to rise. Domestic consumers will benefit from expanded choice set. Sustaining WTO standards would lead to improved quality of exported local products and imports of quality goods [20]. To achieve full benefits of WTO accession, the country would require scaling down transportation costs of imports and exports [21].

However, WTO rules on non-discrimination, elimination of quantitative restrictions and rules on technical barriers generally contradict collection of green tax by the countries [22]. Curtailing trade barriers immediately would reduce government revenue. As a member of WTO, the country cannot enact regressive laws and rules. For example, in the well-known 'Tuna-Dolphin' debate, the United States banned Mexican tuna imports because the fishing method using those tuna resulted in huge death of dolphins. In 1991, Mexico obtained a General Agreement on Tariff and Trade (GATT) panel verdict that the United States violated GATT obligations for imposing such a ban [23]. This type of prohibition influences national sovereignty.

Bhutan's WTO membership may accentuate income inequality because the membership benefits industrialists and the cash croppers. It would also adversely affect agricultural production due to imports of agricultural products. WTO will expose the economy to external goods and services, western customs and ideas and values. Consumerism, individualism and economic modernization seems to adversely affect long-cherished Bhutanese values such as joint family form, traditional gift giving ceremony and support to poorer relatives. These social capitals serve as potential mechanisms for social safety net, cohesion, harmony and collective actions in Bhutan.

GNH is a holistic approach to balance between monetary dimensions of life with non-monetary aspects of Bhutanese populace consisting of nine domains such as psychological wellbeing, health, education, time use, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience and living standards, consisting of total thirty three component indicators. The indicators within the domains of cultural diversity and resilience, ecological diversity and resilience and community vitality are likely to be affected most by the WTO regulations. Therefore, policy issues under WTO regime have to be designed by balancing WTO rules, development perspectives and socio-cultural-environmental resilience.

Conclusion

This research is an initiative to explore the major features of Bhutan's foreign trade and trade liberalization policies. The research revealed that India is the major trading partner of Bhutan in terms of both imports and exports. Recently, trade is increasing with the other countries, particularly that with Chinese Republic. The country has achieved substantial liberalization of foreign trade in South Asian region and that in rest of the world is underway. Bhutan fulfills all the criteria for LDC graduation. Potential benefits of WTO accession include diversification of export base and qualitative change in traded goods. However, possible risk of the accession is that it may affect Bhutan's unique traditional value systems, widen income inequality and distort environmental resilience. Inclusive growth and persistence of Bhutan's ongoing sound environmental policies can mitigate the adverse effects of WTO accession.

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