

**Embassy of India  
Thimphu**

**COUNTRY NOTE ON BHUTAN**

**Introduction**

Nestled in the heart of the great Himalayas, Bhutan remained in self-imposed isolation for centuries, aloof from the rest of the world. Since its doors were cautiously opened in 1974, visitors have been mesmerized by the beautiful scenery and landscape and the pristine environment. Traditional architecture which still remains alive in Bhutan is striking and adds character to the landscape. The people are hospitable and charming, and the culture is unique in its purity.

2. Despite the huge potential of its natural resources, shunning the '*profit at all costs*' mentality of the rest of the world, Bhutan was one of Asia's poorest countries till the 1950s. With one foot in the past and one in the future, it now moves confidently towards modernization, on its own terms, fiercely protecting its ancient culture, its natural resources and its Buddhist way of life.

**History**

3. Little is known of the early history of Bhutan or Druk Yul (Land of Thunder Dragon). Archaeological evidence suggests Bhutan was inhabited possibly as early as 2000 BC. Buddhism was probably introduced in the 2nd century although traditionally its introduction is credited to the visit of Indian Saint Padmasambhava (Guru Rimpoche) in the 8th century A.D. Guru Rimpoche is the most important figure in Bhutan's history, regarded as the second Buddha.

4. Before the 16th century, numerous clans and noble families ruled in different valleys throughout Bhutan, quarrelling among themselves and with Tibet. This changed in 1616 AD with the arrival of Ngawang Namgyal, a monk of the Drukpa Kagyu school of Buddhism from Tibet. He taught throughout the region and soon established himself as the religious ruler of Bhutan with the title Shabdrung Rimpoche. He repelled attacks from rival lamas and Tibetan forces and transformed the southern valleys into a unified country called Druk Yul (Land of the Dragon). While the political system he established lasted until the beginning of the 20th century, the announcement of the Shabdrung's death in 1705 was followed by 200 years of internal conflict and political infighting. There were also conflicts with Tibetans and Cooch Behar rulers. The British (East India Company) got involved in the conflict between Cooch Behar and Bhutan, and subsequently fought a few wars with Bhutan, annexing several Duars.

5. Instability lasted until 1907 when Ugyen Wangchuck, Penlop (Governor) of Trongsa, was elected, by an unanimous vote of Bhutan's Chiefs and Principal Lamas, as hereditary ruler of Bhutan. He was recognised as such by the British Government of India. Thus the first king was crowned in 1907 and the Wangchuck dynasty began. In January 1910, a treaty was signed between the British Government and the Government of Bhutan at Punakha. It provided that British India would not interfere in the internal affairs of Bhutan and Bhutan agreed that it will be guided by British advice in its external relations. Over the following four decades, King Ugyen and his heir, King Jigme Wangchuck, brought the entire country under the monarchy's direct control. Upon independence in 1947, India

recognised Bhutan as a sovereign country. India also returned to Bhutan about 82 sq. km of duars, including Deothang, annexed by the British. India Bhutan Friendship Treaty was signed in 1949 which was also revised in 2007.

6. The Third King, Jigme Dorji Wangchuck (1952-1972), is regarded as the Father of Modern Bhutan because of the development plans he initiated. The country was formally admitted to the United Nations in 1971. The Fourth King, His Majesty King Jigme Singye Wangchuck (1972-2006) ascended the throne in July 1972. He continued the policy of controlled development with particular focus on the preservation of the environment and Bhutan's unique culture. Among his ideals is economic self-reliance and what he nicknamed 'Gross National Happiness'. Subsequent to his announcement of abdication of the throne, Crown Prince, HRH DASHO JIGME KHEGAR NAMGYEL WANGCHUCK took over as the Fifth King of Bhutan on 9<sup>th</sup> December 2006 through a Royal decree. The formal coronation ceremony for the Fifth King took place on 6<sup>th</sup> November 2008.

### **Area and population**

7. The country has an area of 38,394 sq km and a population of a little over 7.4 lacs. The population growth rate is 1.16% according to latest figures. With the development in health facilities, life expectancy has increased dramatically from 47.5 in 1984 to about 70 years now.

8. Northern Bhutan consists of high mountain ranges with rugged peaks covered with snow. The range has mountain peaks rising up to 7300m. In addition, the Black Mountains which run from north to south cut Bhutan into two, both geographically and linguistically. Central Bhutan has beautiful valleys at heights ranging from 1880m to 2400m. They are comparatively broad and flat. High mountain ranges with heights of 3600 to 4500 meters separate these valleys in the region. Valleys in the central region of Eastern Bhutan are at a height of about 900 meters. Southern Bhutan consists of low foothills with an intricate maze of streams and rivers merging into the southern plains in West Bengal and Assam. This area of Bhutan is a 5-10 km wide belt, running from East to West, separating the plains from the valleys of Central Bhutan.

### **Environment**

9. Bhutan's ecosystem is virtually intact and boasts of the most varied habitats and a rich array of animal and plant species. Under Bhutanese law, 60% of the kingdom will remain forested for all time. There is currently 72.5% forest cover with more than 5000 plant species, including over 300 medicinal strains. There are 165 species of mammals including many rare and endangered animals such as the golden langur, snow leopard and red panda. So far, 675 species of birds have been recorded, including the rare and endangered black-necked crane.

### **Natural Resources**

10. Bhutan has deposits of slate, gypsum, dolomite, copper, graphite, limestone, coal and tungsten. Bhutan has considerable potential for hydropower development. The deep gorges of fast-flowing rivers, fed by the snow-melt of the Himalayas, provide enormous hydro-electric power potential. Forests covering about 70% of the land are another major natural resource.

## **Languages**

11. There are four main languages spoken in Bhutan:
- (a) Dzongkha: spoken in western and northern Bhutan and is also the official language of the country;
  - (b) Bumthangkha: spoken in Central Bhutan,
  - (c) Sarchopkha: spoken in Eastern Bhutan,
  - (d) Nepali: spoken in Southern Bhutan

Nepali is written in Devanagiri and the other three languages are written in the Tibetan script.

## **Religion**

12. A majority of the Bhutanese are Mahayana Buddhists of the Drukpa Kagyu sect. The people of Nepali origin, who are concentrated mainly in the hot and humid *duars* of Southern Bhutan, are predominantly Hindu. The main monastic group, the Central Monastic Body (comprising 5000 monks) is led by an elected Head Abbot (Je Khenpo) who is the religious head of the nation. Most Bhutanese art, dance, drama and music are steeped in Buddhism. These traditions can be seen in all their glory at Bhutan's religious dance festivals called *tsechus*.

## **Constitution and Form of Government**

13. Traditionally, the Monarch in Bhutan enjoyed absolute power. However, Jigme Dorji Wangchuck, the third King of Bhutan, progressively took steps to liberalize the country's political structure by establishing institutions associating the people in running the affairs of the State. In 1953, he established the *Tshogdu* or National Assembly. It had 150 members, viz., (a) people's representatives; (b) monastic representatives; and (c) official representatives. A smaller body consisting of 9 members (6 people's representatives, 2 monastic representatives, and a Chairman appointed by the Cabinet) called the Royal Advisory Council was set up in 1965 comprising representatives of the people, the Lamas and the Government. These two institutions were dissolved in August 2007.

14. In a significant development, the Fourth King set up a Constitution drafting committee in 2001 to draft the first Constitution of the Kingdom. Chief Justice Lyonpo Sonam Tobgye, was appointed the Chairman of the Constitution Drafting Committee. The draft Constitution was distributed nationwide and launched on the Internet on 26 March 2005. The last version of the draft Constitution was released to the public on 1<sup>st</sup> August 2007.

15. The draft Constitution was discussed in all the 20 districts first by the Fourth King and later by the present King and the then Crown Prince through a public consultation mechanism. The Constitution was discussed by the Joint Session of the new Parliament in May 2008 and was signed on 18<sup>th</sup> July 2008. The form of government in Bhutan is Democratic Constitutional Monarchy. The Legislative Powers are vested in the Parliament which consists of the King, a National Assembly and a National Council. The National Assembly which originally had a maximum of 55 members now has 47 according to current delimitation. The National Council has 25 members. A primary round of elections is held to select two main political parties for the general elections. The two political parties

having the highest number of votes in the primary round contest the general elections held on constituency basis. The party which wins the majority seats in the general elections is the ruling party and the other the opposition party.

### **National Council Elections 2013**

16. Elections to the National Council, upper house of the Bhutanese Parliament were held on 23<sup>rd</sup> April 2013. The NC comprises a total of 25 members, of which 20 are elected by the people of the 20 dzongkhags (districts) while 5 are nominated by the King. The NC is the house of review and the members are apolitical. The first NC elections were held in 2008.

### **National Assembly Elections 2013**

17. The first round of National Assembly elections, called the primary round was held on 31 May, 2013. Druk Phuensum Tshogpa (DPT), People's Democratic Party (PDP), Druk Nyamrup Tshogpa (DNT) and Druk Chirwang Tshogpa (DCT) contested in the elections. Bhutan Kuen-Nyam Party (BKP), yet another party, was disqualified to participate. DPT won the highest share of votes (44.5%) followed by PDP (32.5%). DNT and DCT stood third and fourth respectively. DPT and PDP therefore, contested for the general elections held on 13 July, 2013. The total turnout of voters for this round was 66%. PDP had the landslide victory securing 32 out of 47 seats. The Bhutanese electorate appeared to have voted for "change". Cabinet under the leadership of Prime Minister Tshering Tobgay was constituted on 25 July 2013.

### **Economy**

18. The decline in Bhutan's economic growth since the last several years has continued with real GDP growth hitting an all-time low of 2.1% in 2013. Real GDP growth in the last few years was:

2007	2008	2009	2010	2011	2012	2013
17.9% <sup>@</sup>	4.7%	6.7%	11.7%	7.9%	5.1%	2.1%

<sup>@</sup>The high growth rate was due to Tala HEP going on stream.

19. The sharp decline in growth is said to be policy-engineered. It has been nearly 3 years since Royal Monetary Authority of Bhutan had to take several unconventional measures to address pressures from growing external imbalances. These imbalances emanated from deep rooted underlying structural factors and manifested as a severe shortage of Indian rupee in the country. In March 2012, in an effort to stem the rising rupee shortage, the Royal Monetary Authority imposed credit and import restrictions, particularly in import-heavy activities such as construction and transport that required large Rupee payments. This step had a negative impact on the economy. The revenue situation is expected to improve with the commissioning of the Dungsam cement plant and the Dagachhu HEP and the three mega hydropower projects of Punatsangchu I and II and Mangdechu. There is continuous increase in Bhutan's external debt levels. It stood that at USD 1.8 bn which is 101.3% of GDP as of June 2014 – convertible currency debt has reached USD 629.5 mn as of June 2014 while INR debt stood at INR 67.9 bn, increasing by 8.7% and 10.6% respectively from a year ago. However, almost all of the convertible

currency debt are concessional loans used to finance various socio economic development projects while 83.4% of INR debt are hydropower debt. The debt-GDP ratio which is 101.3% in June 2014, is expected to go up over the next 3-4 years but will come down after 2018 to sustainable levels as revenues from new hydropower projects begin to flow in. Nevertheless, Bhutan's narrow export base and high current account deficit make the country vulnerable and pose a moderate risk.

20. Bhutanese economy has undergone a significant structural changes thanks to export of electricity and power-intensive products like cement, dolomite, gypsum etc. The rapid growth of hydropower, manufacturing, construction and mining sectors compared to agriculture has led to a noteworthy change in the composition of GDP. Even though over 60% of the population depends on agriculture, forestry and livestock, the share of this primary sector was only 16.2% per cent of GDP in 2013. The secondary and tertiary sectors have now become the main driving force of the economy, contributing 42.3% and 41.5% of the GDP respectively. In recent years electricity, construction, hotels and restaurants and transport and communications have been the main contributors to growth.

21. Bhutan's per capita GDP in 2013 decreased marginally to USD 2440 from USD 2533 in 2012. Poverty rate is 12%. Unemployment rate is estimated at 2.9%. . With increase in levels of education, youth are reluctant to take up jobs involving physical labour. Problems of educated unemployed is likely to grow in the short to medium term.

22. While the agriculture tax was abolished in 1970, the bulk of the revenue comes from indirect taxes, corporate income tax, and royalties and dividends from public sector corporations. The internal revenue generation has increased mainly due to sale of power from Chukha, Kurichhu and Tala projects and is now more than sufficient (over Rs. 10 billion) to cover their recurring expenditure. Personal income tax (PIT) has been introduced w.e.f 1 January 2002 which has significantly contributed to the internal revenue generation.

23. Monetization of economy is still limited and Indian Rupee, which is at par with Ngultrum, and accepted within the country. Apart from the Royal Monetary Authority, established in 1982 to provide central banking services, the financial sector consists of the Bank of Bhutan, owned by the Royal Government with the State Bank of India having 20% stake, the Bhutan National Bank with 40% of the equity held by ADB and Citibank and Royal Insurance Corporation of Bhutan. Druk PNB, a joint venture of PNB, has also opened its several branches in Bhutan. Another private sector bank Tashi Bank has also opened in Thimphu and Phuentsholing in 2010.

24. Rupee Crunch: Bhutanese economy has been facing INR shortage since some time but became evident from early 2012. The reasons for the INR shortage has been attributed to the increase in trade deficit with India and hydropower loan increase in domestic consumption due to expansion of credit in Bhutanese economy leading to increasing construction activities, import of vehicles which has led to the increase in fuel consumption. In the meanwhile, Bhutan's exports to India have remained limited.

25. In March 2012, the Royal Monetary Authority (RMA), the Central Bank of Bhutan, adopted a series of measures to address the problem. First and foremost it specified INR as 'foreign currency', putting a ceiling on cash INR withdrawals by both Bhutanese and resident foreign nationals, disallowing INR remittances by Bhutanese nationals (though

foreign residents are allowed INR remittances through banking channels), banning import of non-essential items (vehicle imports and import of construction materials for housing purposes by individuals/ business entities, registered after 8 March 2012 are specifically banned), and imposing a blanket ban on opening of any deposit accounts in the name of non-resident foreigners w.e.f. 9 March 2012 and closing all existing deposit accounts in the name of non-resident foreigners by 15 March 2012. RMA took loans from SBI & PNB. RMA also sold US \$ 400 million convertible currency in recent times, to India to buy INR. India has extended Standby Credit Facility of Rs. 1000 crore (at the interest rate of 5% p.a.) to Bhutan to help deal with the rupee crisis. RMA also signed a currency swap agreement with RBI that allows withdrawal of up to US\$ 100 million. The swap is offered in US \$, euro or INR. With the improvement in liquidity/rupee reserves, RGoB has started lifting bans on certain imports. In early 2014, ban on import of Indian beer and furniture was lifted. The ban on vehicle import has also been lifted in the second half of 2014.

26. In June 2014, Bhutan's gross international reserves stood at USD 997.9 million. Out of this, USD 829.3 million were convertible currency reserves, while the remaining equivalent of USD 168.6 million (Rs. 10.1 billion) were Indian Rupee reserves. The total forex reserves of USD 997.9 mn (including INR reserves) were sufficient to cover 13 months of merchandise imports. while covering 56.9% of public external debt

### **External Relations**

27. Bhutan began to emerge from centuries of self-imposed isolation in 1962, by joining the Colombo Plan. It joined the United Nations (1971), Non-Aligned Movement (1973) and SAARC (1985). Bhutan does not have formal diplomatic relationship with any of the permanent members of UN Security Council. Bhutan now has diplomatic relations with 53 countries and the EU. Bhutan has established resident Embassies in India (accredited to Nepal and Japan), Bangladesh (accredited to South Korea, Sri Lanka and Pakistan), Kuwait (Switzerland and Bahrain) and Thailand and also Permanent Missions to the United Nations at New York and Geneva (accredited to Austria, Switzerland, Denmark, Sweden, Norway, Netherlands and Finland and the EEC). Bhutan has also appointed Honorary Consuls in Belgium, Canada, San Francisco, Washington, Macau, Seoul, Osaka and UK. Thailand has appointed an Honorary Consul in Bhutan. Bhutan recently set up their Embassy in Brussels. Bhutan has diplomatic relations with all the member countries of SAARC. Kuwait established its resident Mission, in Thimphu, in December 2010.

28. While India continues to be the largest development partner, Bhutan has been receiving aid from UNDP and other multilateral agencies, such as UNICEF, WHO, IMF, IBRD, ADB, etc., and assistance from Japan, Denmark, Australia, UK, Switzerland, Austria, the Netherlands etc. Bhutan became a member of the International Monetary Fund, World Bank in 1981 and Asian Development Bank in 1982. Bhutan has applied for membership to WTO. An internal debate is continuing on this issue. Based on consultations and deliberations on WTO membership of Bhutan, a report will be submitted to the Bhutanese Cabinet to take further decision. Bhutan has been admitted as a member of BIMST-EC. It is a member of various international sports bodies like IOC and FIFA.

\*\*\*\*\*

*8<sup>th</sup> December, 2015*