

Bhutan 2020: A Vision for Peace, Prosperity and Happiness



**Planning Commission
Royal Government of Bhutan**

PART I

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DEDICATION ---

It is a great privilege for me, on behalf of the people of Bhutan and my Cabinet colleagues, to dedicate this Vision Statement to His Majesty King Jigme Singye Wangchuck on the occasion of the 25th anniversary of his accession to the throne.

The privilege is tempered by a deep sense of humility born of the recognition of the role His Majesty has played in shaping and guiding the development of our nation. This recognition is shared by everyone in Bhutan, as is the profound sense of gratitude. His Majesty has provided us with a constant source of wisdom and inspiration. He has not only been the master architect behind the rapid social and economic transformation of our nation. He has also provided us with the philosophy and concepts required to ensure that the process of transformation has remained anchored in the values and beliefs that we have held for centuries and which continue to give meaning and direction to our lives. Through his thoughts and actions, His Majesty has made it possible for us to follow a distinctively Bhutanese path of development that is increasingly attracting the attention of the world. The same thoughts and action have provided us with the confidence to travel an uncharted path in the firm belief

that it is within our power to build a nation that will in some respects stand apart from others and which our children and future generations will be proud to call their own.

Much against the will of the Tshogdu, His Majesty decided in June 1998 to withdraw from the position of Head of Government, a position that he occupied with singular distinction for a quarter of the century. Through this decision, he has chosen to place responsibility for the Kingdom's further development more firmly in the hands of the elected Lhengyel Shungtshog and the people of Bhutan. It is against this background that the publication of this Vision Statement acquires a particular significance and comes at a particularly appropriate time.

The Vision Statement draws extensively upon the philosophy and concepts that have been articulated by His Majesty over the period that has seen our nation emerge from relative isolation and obscurity to one in which we are able to face the future with pride and confidence, secure in the knowledge that our future is firmly in our own hands. In a real sense, the Vision Statement provides lasting testimony to the inspiration and guidance provided by His Majesty that emboldens us to clearly determine our own destiny.

The Vision Statement also sets out directions that will enable us to retain our commitment to our distinctive model of development. The product of a broad-based consensus achieved through a process of review and consultation. The directions it sets out and the process used to arrive at them may suggest that His Majesty's confidence in the Lhengyel Shungtshog and the people of Bhutan is not misplaced.

Without a longer-term vision for the future, there is a risk that small nations like Bhutan could be overwhelmed by the forces of change and modernization. If we are to prevent this, we must build a broad-based consensus on the values we hold dear and are determined to conserve, with the values finding concrete expression in the directions we choose for the nation's future development.

In uncharted territory it will be easier for us to lose our way without a longer-term vision that provides us with a road map for the journey ahead and with signposts against which we can

measure the distance we have travelled towards our preferred destination.

This Vision Statement is a strategy document. Given its 20-year perspective, it can be neither a blueprint nor a plan in the conventional sense of a document that specifies in detail the objectives to be achieved and the instruments to be used to attain them. The future is the greatest enemy of detail, and a Vision Statement containing detailed prescriptions would inevitably be condemned to a short life. A Vision Statement must be concerned with directions. It must be thematic in character and driven by an understanding of challenges and issues. It cannot be confined by the traditional sectoral nomenclature used for development planning, even though the vision presented will need to be translated into sectoral strategies policies and instruments. The elaboration of preferred directions into concrete strategies is the task of development planning, and we will continue to make use of National Five-Year Development Plans and other instruments for this purpose.

The preparation of a Vision Statement is not without its attendant risks. There is always the danger that we will be prisoners of the conceptual world we know rather than advocates of the one we desire. There is also the risk that informed analysis can give way to wishful thinking, resulting in a view of the nation that is beyond our reach. This document seeks to fuse desirability with feasibility, suggesting that, with wisdom and forethought, it will be possible for us to meet challenges of historical dimensions and to bequeath to future generations a nation they will be proud to call their own.

Because the Vision Statement embodies the development philosophy of His Majesty and sets out directions that give clear expression to this philosophy, I would like to use this opportunity to call upon all officials of the Royal Government, other development actors and partners, and the people of Bhutan to work together in translating the vision presented in this document into concrete reality. Let the inspiration provided by His Majesty serve as our compass as we chart a course into the next millennium, secure in our knowledge and conviction that there is no challenge that we are together unable to meet. Let us pledge ourselves to the vision presented in this document. Our children will expect nothing less from us.

Lyonpo Yeshey Zimba

Chairman of the Planning Commission and Minister of Finance

May, 2, 1999

PREFACE

Since 1961, seven Five-Year Development Plans have been completed successfully, despite the great challenges we faced. Our latent potentials have been realized beyond our expectations. Now, the pace of change is so great that it seems to propel us into the future. But the future cannot be what it brings to us, it must be how we want it to be. The socio-economic changes must be what we seek, not completely what the forces beyond our control compel us to accept. Visioning is a means of determining our own future. Periodic reviews and preparation of long term plans are complementary activities in this direction. The Planning Commission Secretariat is pleased to coordinate the publication of a vision document whose perspective extends to 2020.

Without a vision, we are unlikely to choose the right direction and pace of development. The sectoral policies and programmes may be mutually inconsistent, and not well focused on the priority national objectives. We might mislead ourselves to adopt short term solutions to long term problems.

The contributions of so many people in all spheres of life are reflected in the common vision in this document. The draft document was circulated extensively for the purpose of encouraging critical discussion. People in all sections of society, such as academics, officials, lamas, monks, pandits, students, youth, teachers, industrialists, administrators, diplomats, NGOs, community leaders, businessmen and women, expatriates and villagers have participated in formulating and reviewing the document.

The vision presented in the document is holistic and balanced. It is holistic because of the enriching diversity of views brought to bear on long term initiatives. Their different positions in the society have enabled them to approach the vision from different perspectives, but they all share the same vision. The vision is balanced because the elements contributing to the vision are coherent and consistent. The vision attempts to strike a balance between development and environment, modernization and tradition, values and technology, immediate and long term, individuals and the society, and realism and aspirations.

In addition to the views of numerous people, the vision document draws liberally on the thoughts and words of His Majesty the King. Many profound long term goals emanate

from His Majesty. His Majesty's initiatives in the spheres of political and administrative decentralization, private sector development, environmental conservation, cultural promotion, and the spiritual and emotional well-being of his people have given not only Bhutan but the world a new philosophy of development. Because of His Majesty's innovative approach to development, our country did not follow the treadmill of conventional development strategies. Ours is not a developing country in a classical sense of the term. Along several dimensions, ours is a highly developed and sustainable society. Historically and politically too, our experiences are different. The historical and political overview that we have been an ancient and independent nation with unique political institutions must be remembered with pride.

There are several purposes for bringing out a vision document. The vision document offers a general scenario of development within which specific activities can be embedded. It should guide development agents in future. We hope that it will become a useful reference in the course of planning. Another role of the vision document is to promote consensus on the path of society's change. A society that is committed to a particular vision is effectively able to motivate and work for its realization. As the vision is widely shared, countervailing interests and pressures are minimized. The general framework of development in the vision document ensures the continuity of policies over the long term. It would also bring about consistency among many cross-cutting issues. Lastly, the vision document serves as a general declaration to all our development partners about the strategies and goals we are going to pursue, so that they can make informed choices about contributions to the long term development of our country.

The vision document addresses, in particular, the Bhutanese people. Bhutanese society consists of many overlapping sections. However, it is assumed that the readership of this document is made up of four major groups: youth or students; businessmen and women; public servants; and farmers and villagers. Each of these groups will find the vision document informative and useful.

Youth and students of today will become adults in the period covered by this vision document. We hope that they will internalize the vision so that they can contribute to its realization. Their transition from students to workers will occur in this period, and career and employment plans should be made within the context of the economic expansion and social changes described in the vision document.

For the farmers and villagers, the vision document sketches important improvements in amenities and facilities. With the increase in literacy and widespread facilities in rural Bhutan, the standards of living in rural areas will rise rapidly. But the villagers and farmers must become more responsible, through collective and cooperative efforts, for development activities in their own areas. The document will be of considerable interest for the members of GYT_s and DYT_s who are crucially involved in the formulation and implementation of plans.

For the businessmen and women, the vision document can be useful as a reference for business opportunities that will emerge from the envisaged path of economic growth. At the same time, private sector entrepreneurs will have to play a greater role in the creation of wealth, and contribute to the economic self-reliance of the country. As a special message, the vision document asks the nation's business people to integrate commercial and industrial activities with environmental concerns.

The last group of readership is public servants or government officials. It is hoped that most civil servants will familiarize themselves with the vision document, and consult it as often as it is necessary. Sectoral policies and programmes must always be placed within the larger framework of idealism and the vision set for our country. Because of the sensitive roles of many government officials, they have to be conscious of the high ideals set for them, and the sacred trust of His Majesty the King and the people in them. We hope that they will continue to serve the Tsa-wa-sum with integrity and honour.

The vision document focuses on the period up to 2020. Over such a time, it will not be possible for us to achieve all our aspirations. When the situation changes substantially, the document will be updated and revised. It will thus be a living document that will serve as a milestone for planning and guidance.

We have devised strategies that seek to fulfil our ambitions and which play to our inherent strengths. However, the goals shown in the document could be adversely affected if certain conditions are not fulfilled. We have sought to examine the potential obstacles along the path we have set to 2020.

In the next ten to fifteen years, the realization of our vision will depend on the availability of financial assistance. It will be particularly necessary for the timely completion of hydropower projects that will generate much-needed revenues. It will also depend on changes in the macro-economic environment in the economies closely linked to our own. Further, the fulfillment of

the vision will be compromised by the growth of population beyond the targets set out in the document. For a small country, the adverse impacts of explosive population growth on our sensitive ecology is as vivid as the perils of an AIDS epidemic for a small population. We must endeavour to achieve a stable population at the earliest opportunity.

We must continue to enrich and reinforce our culture and values since this is one of the main ways of protecting our future and our sovereignty. Culture is a living system. It must be adapted, and we must ensure that it retains its vitality in our lives. We must not allow it to be displaced and overwhelmed by globalization. There is a risk that future generations may become losers, by being assimilated into another culture and be alienated from ones own history and culture. We urge our youth to meet these difficult challenges of the erosion of culture and national identity.

His Majesty has been the source of many sublime goals and strategies for our country. Among other profound goals, he has emphasized the promotion and preservation of our culture and environment. These are the things that sustains a nation. His Majesty thinks in terms of millennia of national survival, not for the convenience of the immediate. His Majesty the King and the institution of monarchy are the true anchors of Bhutan's sovereignty and progress. Therefore, we should abide by his noble thoughts and aspirations.

No leader has introduced decentralization and public participation in the decision-making like His Majesty the King. This development is profoundly changing the way governance and administration are influenced by ordinary people. Such liberty can be exercised for the common good only when all the Bhutanese people become responsible and conscientious citizens. We hope that this empowerment reinforces the loyalty and dedication to the *Tsa-wa-sum*. There cannot be a greater abuse of this privilege if the pursuit of selfish motives go against the larger interests of the Kingdom.

For centuries, Bhutanese have protected their independence and national integrity. A nation can survive and prosper only if its people are loyal to it, and are ever ready to defend it in whatever form is necessary. The spirit of self-sacrifice must be kept alive in each of us to sustain the sovereignty of our beloved country.

25, April, 1999

PART I

BHUTAN'S DISTINCTIVE PATH OF DEVELOPMENT

PERFORMANCE, CHALLENGES AND PROSPECTS

INTRODUCTION TO PART I

Part I of this Vision Statement seeks to take stock of the current situation. It looks back at the path we have travelled as a nation in the past three decades. It notes the progress we have recorded in a number of fields, examines the reasons that help to explain our achievements, and draws conclusions on our distinctively Bhutanese path of development that appear particularly relevant for the future (Chapter 1).

Part I also takes stock of the many challenges that await us as a nation in the years ahead (Chapter 2). The challenges are not presented under traditional sectoral nomenclature used for national development planning, but rather under broader thematic headings encompassing the nation, our people, our economy, our natural environment, and our institutions.

Chapter 1

PAST DEVELOPMENT PERFORMANCE: THE ROAD WE HAVE TRAVELED

1. REVIEW OF PAST PERFORMANCE

As we stand on the threshold of a new century, it is not only an appropriate time to look ahead but also to look back at the path we have travelled as a nation and to reflect on the progress we have recorded in raising the levels of welfare and well-being of our population. An understanding of this progress and of the forces that have made it possible will help us to chart a course for the next 20 years.

Viewed from the perspective of today, it is easy for us to forget that Bhutan of only a few decades ago was in many respects a very different place from the country we know today. In the early 1960s, when Bhutan cautiously opened its doors to the forces of change and modernization, the nation possessed very little of the infrastructure that we today associate with a modern nation state. The vast majority of Bhutanese lived rugged lives of isolation. Life was hard and conditions were harsh. Bhutanese toiled from dawn to dusk for modest rewards. They were almost totally dependent upon the land and the forests for survival, producing or collecting not only the food they required to nourish them but also the materials required to clothe them in an environment that could be unforgiving. The small surpluses produced were bartered for the goods like salt which people were unable to produce themselves. Food was cooked and houses warmed with the wood collected from the forests, and the darkness of night was illuminated by the oils and fats they themselves produced. Although secure in community, kinship and family relationships, the world in which most Bhutanese lived was a small one, endowed with spiritual significance. There were no roads and no motor vehicles. There was no electricity, nor were there telephones or postal services that connected different parts of country or with the outside world. Transport was confined to centuries old tracks. Distances that today can be covered in a few hours required days or weeks of hazardous travel and long periods of preparation.

Life was not only harsh, it was also short. It has been estimated that a Bhutanese born in 1960 could expect to live to the age of about 35. Prior to opening its doors to the world in 1961,

Understanding the past enables us to better understand the future.

Thirty years ago, Bhutan had little of the infrastructure associated with a modern nation state.

Life for the vast majority of people was both harsh and short.

Bhutan's health infrastructure consisted of four small hospitals and a handful of dispensaries. There were only two trained doctors in the whole of the country, and two of the hospitals were staffed by untrained compounders. Almost everyone was dependent upon the skills of indigenous doctors and their knowledge of the medicinal qualities of the plants collected from the forests. Communicable diseases were widespread, and more than one-half of the children born to women died at birth or within the first few years of their short lives. Smallpox epidemics sometimes wiped out whole villages. In some parts of the country, malaria claimed hundreds of lives every year, while in others such diseases as leprosy deformed and ultimately killed many people. Water supplies were largely confined to springs and streams.

It was a similar story with education. In the early 1960s, the Kingdom possessed 11 primary schools that catered to the needs of less than 500 children, and it was not until 1968 that the first 20 Bhutanese completed high school education within the country. The Kingdom was without the capacity to produce teaching materials or to train teachers. Those fortunate enough to live near *dzongs* and monasteries could choose to send their sons for instruction by monks and *gomchens*, who sought to enlighten their pupils not only by teaching reading and writing but also through instruction in poetry, ethics and morality. For the vast majority of people, however, education was either simply unavailable or a luxury that had no place in family survival strategies. Few Bhutanese were able to read and write, and most of those who could were men.

Since that time, our nation has undergone a major transformation. The Kingdom's economy is no longer one that is entirely dependent on subsistence production. In the past decade it has grown at an annual rate of nearly 7 percent, more than twice the annual rate of population growth, and a rate matched by few other least-developed countries. The key to this growth has been the prudent harnessing of our natural resource potentials, especially for the generation of hydropower. The electricity produced from hydropower is used not only to generate the export revenues but also to establish a small modern industrial sector based on the exploitation of natural resources producing both for export and the domestic market.

In the past three decades, Bhutan has undergone a major transformation...

Since 1980 we have added more than 5,000 ha of land that can be used for intensive cultivation. Bhutanese farmers no longer toil in isolation. The vast majority are able to draw upon a system of agricultural services that today consists of 4 agricultural research centres, 5 sub-centres, 186 agricultural extension centres, 158 livestock extension centres, 11 seed and plant production farms, 3 farm machinery centres and 2

... there has been major progress in agriculture...

training centres. The services provided penetrate into the most inaccessible and rugged parts of the Kingdom, reaching 40,000 farmers in the past five years alone. They have made it possible to significantly increase yields of basic grains. In the past 20 years, for example, the average maize yield has almost doubled and wheat yields have increased nearly four-fold, with recent years having witnessed an annual increase of more than 2,500 tonnes of cereals produced by the Kingdom's farmers. At the same time, farming has become more diversified, being less dependent on the production of cereals. New crops, especially fruits and vegetables, have been introduced that have not only enriched traditional diets but also provided many farmers with a new source of income as well as Bhutan with new export crops that are being exported in ever-larger volumes to neighbouring countries. These changes have fundamentally changed the dimensions of subsistence agriculture as well as the lives of farmers. While life for many engaged in agriculture is still hard, cash incomes have increased and opportunities and horizons have been expanded.

The development of transport and communications has transformed the Kingdom from an undifferentiated economic space into an increasingly integrated national economy. Since the 1960s a road network of more than 3,300 km has been constructed - 1,300 km in the last decade alone - nearly 2,000 km of which is asphalted, with the network today linking 19 of the nation's 20 dzongkhags. More than 150 bridges, with a combined length of more than 4,000m, today form part of the nation's road network, and an additional 300 suspension bridges have been constructed that have served to bring many rural communities out of their isolation and to make it possible for them to market their agricultural surpluses, to acquire goods that were previously unavailable to them, and to obtain access to essential services.

...the development of transport and communications has integrated different parts of the Kingdom...

Table 1: Selected Development Indicators, 1977 and Most recent estimates(MRE)

	1977	MRE(1999)
Crude birth rate(per thousand)	43.6	39.9
Crude death rate (per thousand)	20.5	9.0
Life expectancy (years)	46.1	66.1
Immunization coverage (%)	n.a.	90
Infant mortality rate (per 1,000 livebirths)	n.a.	70.7
Maternal mortality rate (per 100,000 livebirths)	n.a.	3.8
Under five mortality rate (per 1,000 livebirths)	162	96.9
Number of hospitals	10	28
Number of dispensaries	38	
Number of Basic Health Units	31	145
Number of doctors	52	101
Number of primary schools	92	250
Number of junior high schools	14	44
Number of high schools	6	18
Number of tertiary and training institutions	n.a.	10
Primary school enrollment rate (%)	n.a.	72
Number of students in school	14,553	1,00,198
Students in tertiary education	866	2004
Number of teachers	922	2785
Adult literacy rate (pilot) (%)	17.5	46
Population served with electricity	n.a.	31,639
Population (rural) with access to potable water (%)	31	58
Population(rural) with access to safe sanitation (%)	n.a.	80
Number of telephone exchanges	15	26
Number of telephone lines		9314
GDP per capita (US\$)	100	551
Human Development Index	n.a.	0.510

Source: Royal Government of Bhutan

Electricity is today much more widely available. The development of more than 20 hydro electric schemes as well as the installation of diesel generators has made it possible to electrify 39 towns, 375 villages covering over 31,639 goongs. Similarly, a modern system of telecommunications has been developed that links different parts of the country and Bhutan with the outside world. Communications are also served by a national postal service based on the existence of more than 100 post offices that in 1995 handled more than 2 million items of mail, while a national airline today carries the name of Bhutan

to neighbouring countries and further afield. Bhutan is no longer an isolated Kingdom but increasingly forms part of the world system.

The progress recorded in the diversification of the economy and the development of physical infrastructure has been more than matched by progress in the social sectors. In the field of health, today we have a decentralized system of health care consisting of 28 hospitals, nearly 145 Basic Health Units and more than 454 outreach clinics that deliver free basic health care to over 90 percent of the nation's highly dispersed population. The nation's population is able to draw upon the knowledge and skills of more than 101 trained doctors, 111 health assistants, 355 trained nurses, 154 Basic Health Workers and more than 1,000 Village Health Workers. These developments have made it possible to achieve remarkable improvements in the health of the population. In the last decade alone, the Infant Mortality Rate and the Maternal Mortality Rate have been halved, from 142 to 71 per 1,000 livebirths and from 7.7 to 3.8 per 100,000 livebirths respectively, while the Under 5 Mortality Rate has fallen from 162 to 97 per 1,000 livebirths. Bhutan has led South Asia in the use of oral rehydration therapy for preventing deaths from diarrhoea and it was the first country in the region to iodize its entire salt supply, which has resulted in the virtual elimination of iodine deficiency. Immunization has been extended to over 90 percent of the nation's children and such deadly diseases as polio, neo-natal tetanus and diphtheria have been virtually eliminated, and malaria and leprosy are today also under control.

... electricity is far more widely available...

... and Bhutan is linked with the outside world.

These positive developments have in part been made possible by progress recorded in bringing potable water and safe sanitation to the Kingdom's population. In the period 1987 to 1995, the percentage of the rural population with access to safe water supplies increased from 31 percent to 58 percent and is projected to reach 100 percent within the next five years. With respect to sanitation, more than 80 percent of the rural population has today access to safe means of excreta disposal, while piped sanitary sewerage systems have either been completed or are under construction in Thimphu, Phuentsholing and four other towns.

Nowhere does this progress find clearer expression than in life expectancy. A child born today can expect to live to be 66, more than 20 years longer than one who was born only a decade ago.

Progress in the field of health has been matched by progress in the field of education. Education is no longer the privilege of a few but a basic right of all our young people. Today, we have a modern system of education that penetrates deep into the most

There has been major progress in the provision of basic health care...

inaccessible parts of the nation as well as a well-developed capacity to train teachers and to develop new and innovative teaching materials. The educational infrastructure consists of nearly 250 primary schools, 44 junior high schools, 18 high schools and a range of other institutions that provide specialized education and training. Since 1977, the number of educational institutions has more than doubled, from 112 to 322, while the number of teachers has trebled from around 922 to more than 2,785. In 15 years, gross primary enrollment has increased from less than one-third of the relevant age group to nearly three-quarters, and is currently growing at the rate of 8 percent per annum, higher than the 6 percent that has been used for planning purposes, suggesting that universal primary enrollment can be achieved a little after the turn of the century. This rapid expansion of basic education finds immediate expression in the nation's literacy rate. In the past 20 years this has increased from an estimated 18 percent in 1977, to 28 percent in 1984, to 54 percent in 1996.

Secondary education is also growing rapidly. This is not confined to those who are fortunate enough to live close to schools. No less than 11 junior high schools and 7 high schools have boarding facilities for nearly 5,000 students. This growth has been paralleled by significantly enlarged opportunities for Bhutanese young people to acquire the technical, administrative, managerial and vocational skills required by the nation to maintain the pace of our social and economic development. In the period 1977-1998, enrollment in the 10 tertiary and training institutions increased almost five-fold, from 866 to some 2,004, thereby significantly enlarging the nation's trained human resources as well as reducing the need to resort to overseas training.

Our many achievements find clear expression in the composite indicators traditionally used to measure a nation's development performance and its progress towards sustainable human development. According to calculations made by the Ministry of Planning, the Kingdom's Human Development Index (HDI), based on a methodology constructed by UNDP, increased from 0.310 in 1984 to 0.510 in 1995. This increase is matched by few other countries that have been classified by the international community as being 'least-developed', and it is made even more significant by the fact that Bhutan's population is not only highly dispersed but also inhabits one of the most rugged environments to be found anywhere on earth. This greatly adds to the cost of providing and maintaining the infrastructure and services required to achieve improvements in welfare and well-being. As the World Bank has observed, Bhutan should be considered one of the few countries where

Basic education has become an inalienable right of all Bhutanese.

The progress recorded in the past three decades is unmatched by most developing countries... our Kingdom is one of the few so-called 'least developed countries' that is classified by UNDP as a 'medium human development country'.

the quality of life of its people is higher than would be expected from traditional development indicators.

In 1961, our per capita GDP was estimated at US\$ 51, then the lowest in the world. Today it stands at US\$ 551, one of the highest in South Asia. Our HDI of 0.510 would place us in the United Nation's 'medium human development' category of countries, being one of a very few least developed countries that could be categorized as such. This is confirmation of the progress we have recorded as a nation and it is one in which we can take justifiable pride.

Most Bhutanese alive today have been born in the last 20 years. They have grown up in a world that, in many respects, would have been unimaginable to their grandparents. While many of our people have yet to reap the full benefits of the process of development, it is no exaggeration to suggest that, when viewed from the perspective of social and economic development, more has happened in our nation in the past three decades than that occurred in the previous three centuries.

From the viewpoint of social and economic development, more has happened in the past 30 years than that has occurred in the previous 300 years.

2. COUNTING OUR DEVELOPMENT ASSETS

The story of our development is one of broad-based progress from the most modest of beginnings. It is one that stands in contrast to the experience of many other least-developed countries, some of which appear to be losing ground in their efforts to improve the living standards of their populations.

Why have we succeeded where others have been less successful? It cannot be because the constraints that have confronted us have been less severe or because the starting points for our nation's development were more favourable or benign. Indeed, there can be few other countries that were more isolated and remote and in which the terrain is more forbidding and the population so dispersed.

The progress recorded can be explained by our numerous development assets

It is impossible to explain the progress we have recorded without the existence of tangible development assets. The attention that we and others often give to our problems sometimes serves to divert attention away from these assets. This makes them no less tangible or important. Some of our assets are firmly rooted in our history, which may mean that we tend to take them for granted, while others are more recent phenomena. Viewed together, they are more numerous than we sometimes imagine.

We have succeeded in building unity out of diversity.

First, we have built unity out of diversity. This unity was not preordained but has been achieved through a process of nation

building that extends over 350 years. The image that many outsiders appear to hold of Bhutan as an isolated ‘shangrila’ is at best a half truth. Since the emergence of Bhutan as a single political entity with the arrival of Shabdrung Ngawang Namgyal in 1616, our history has known periods when we have been compelled to resist external aggression as well as prolonged periods of civil strife. The emergence of Bhutan as a nation state has been dependent upon the articulation of a distinct Bhutanese identity, founded upon our Buddhist beliefs and values, and the promotion of a common language. These have been defining elements in our history and they have made it possible to unify the country and to achieve national homogeneity and cohesion among various linguistic and ethnic groups. This identity, manifest in the concept of ‘one nation, one people’, has engendered in us the will to survive as a nation state as well as the strength to defend it in the face of threats and dangers. It is a unity that binds us all together and enables us to share a common sense of destiny.

Second, we take a quiet pride in our independence. Unlike many other developing countries, we were able to resist colonization and we entered the modern world in the confident knowledge that we were our own masters. We were never forced to adopt an attitude of inferiority and subservience that colonial masters imposed on subjugated peoples. There was no ‘mother country’ that was ready to insist that it knew what was best for us or that was ready or even keen to absorb our most talented people. We realized and accepted early that, while others may have considered us poor and backward, our future was firmly in our own hands and that the future we would build would be the result of our own efforts. This independence of spirit and mind contributed to the formation of our distinctive Bhutanese identity. It has given us dignity as a nation and helped to shape a common sense of purpose.

Third, unity and development would have been impossible without the continuity and vision that have been bestowed upon our nation by the institution of a hereditary monarchy. It is the monarchy that has led the way in establishing the conditions required for development as well as in the articulation of the nation’s approach to development. The pivotal role played by the monarchy in the setting and elaboration of policies has provided a source of cohesion and consistency and prevented the changes and drift in the nation’s selected directions so characteristic of many other developing countries. Our institution of monarchy is much more than a respected tradition that is held in the highest possible esteem, it has also been the main force for change and innovation.

*We take pride in
our independence
... our
independence of
spirit and mind
has given us
dignity as a nation.*

*We have been
blessed by the
institution of an
hereditary
monarchy that has
provided a
constant source of
wisdom and
inspiration.*

*Our approach to
development has
been nurtured by
the beliefs and
values we have
held for more than
1,000 years.*

*We have been able
to draw upon our
strong tradition of
self-reliance.*

Fourth, our approach to development has been shaped by the beliefs and values of the faith we have held for more than 1,000 years. Firmly rooted in our rich tradition of Mahayana Buddhism, the approach stresses, not material rewards, but individual development, sanctity of life, compassion for others, respect for nature, social harmony, and the importance of compromise. Our approach to development has sought to both draw upon and conserve this rich fund of social and cultural philosophy and to achieve a balance between the spiritual and materials aspects of life, between *peljor gongphel* (economic development) and *gakid* (happiness and peace). When tensions were observed between them, we have deliberately chosen to give preference to our understanding of happiness and peace, even at the expense of economic growth, which we have regarded not as an end in itself but as a means to achieve improvements in the well-being and welfare of the people. The clear articulation of a cultural imperative has not only been used to guide our distinctive process of development but also to cushion us against alien influences and the many disruptive and undesirable impacts of indiscriminate modernization. It has been our anchor in a sea of change.

Fifth, our development has been able to draw upon our strong tradition of self-reliance, self-sufficiency, self-help and self-organization. Our highly dispersed populations developed over centuries into tightly-knit and self-regulating communities, bound together by unwritten laws, practices and customs that governed kinship and community relations and the use of such shared resources as irrigation water and grazing land. Without this tradition of cooperation and compromise, communities would have been unable to cope with threats and adversity or, indeed, to have survived in the harsh conditions that characterize most parts of our nation. While development agencies espouse the importance of local self-reliance, it has been a basic fact of life in our mountain Kingdom, for centuries.

Sixth, we are a strong-willed, disciplined and law-abiding people with a respect for authority and honest leadership. Embodying our Buddhist culture and values, our society is one in which the wisdom and experience that comes with spiritual development and old age are held in high esteem, children occupy a special place in our affections, respect for parents is considered normal, and men and women stand as equals before the law. These qualities form part of the social cement that binds us together and, although we tend to take them for granted, their value as a tangible development asset is most clearly in evidence in the many cases elsewhere in the world where they are much less abundant.

Bhutanese are a strong-willed, disciplined and law - abiding people with a respect for honest leadership.

Our development process has been an ‘inclusive’ process.

Bhutanese are an enterprising people

We have pursued policies that have been both wise and sound.

Seventh, the development of Bhutanese society has traditionally been an ‘inclusive’ process. Our rural communities made full use of the knowledge and skills of all members of society, including the functionally illiterate and the elderly. They were societies without discrimination. The inferior position occupied by women in many countries was unknown in Bhutan. Women have always held the same rights as men and, under our inheritance laws, they enjoy the same entitlements as male heirs, and in some parts of the nation it is customary to favour female succession in land. Unlike many other countries, no shame is attached to the dissolution of marital relationships, and a one-parent mother seldom fears social stigma.

Eighth, we are not only a hardworking but also an enterprising people. We have repeatedly demonstrated our readiness to seize opportunities whenever they could be created to invest in the future of our families and communities. This enterprise has been reinforced by our technical dexterity reflected in the traditional and multiple skills of our people and the importance we attach to artistic expression and to the *zorig chusum* which carry for us a cultural and spiritual significance as well as a material value. This enterprise has been complemented by our capacities for social and cultural innovation and our ability to accept useful innovations and to reject those that we consider harmful or damaging. We are ‘social synthesizers’ with the demonstrated ability to assimilate influences from far afield and to transform them into something that is consistent with our system of values and is distinctively Bhutanese.

Ninth, the enterprise and skills of our people have been matched by the soundness and the wisdom of the policies we have pursued. These have been both bold and cautious. They have been particularly bold in the field of social development, reflected in the ambitious targets we have set and achieved in the areas of health and education. They have been more cautious in the area of economic development, where our overriding concern has been to ensure that such development does not compromise national sovereignty, contribute to the growth of inequalities, or undermine our cultural heritage. This concern finds concrete expression in our investment regulations and cautious approach to tourism, and in our conviction that economic growth should not be viewed as an end in itself but rather as a means to achieve more important ends.

Tenth, our approach to development has led us to emphasize the importance of institutions that are able to guide and manage the process of development as well as to foster participation. Although still bereft of many of the human resources required to sustain the process of development, we

We have accorded high priority to the development of institutions and innovative systems of governance.

We have respected and conserved the natural environment and our resource endowments

We have benefitted from the assistance received from the Kingdom’s development partners

have accorded high importance to the development of the institutional capacity required to deliver the infrastructure and services required to promote well-being and increase standards of living. High priority has also been accorded to the establishment of decentralized systems of decision-making that have served to empower local communities and give them a voice in the nation's development. The creation of *Dzongkhag Yargye Tshogchung* (District Development Committees) in 1981 and *Geog Yargye Tshogchung* (Block Development Committees) in 1991 has established fora for local decision-making that provide direct links between concerns and aspirations expressed by elected representatives at the local level with national processes of policy formulation and development planning. Such initiatives have not only democratized processes of decision-making on development but also significantly enlarged the horizons and opportunities of communities that were formerly isolated and remote from the mainstream of social and economic development.

Eleventh, the values underlying our approach to development have meant that we, unlike many other developing countries, stand on the threshold of a new century with our natural environment still largely intact. This can in part be attributed to the nation's low population/resource ratio. It is also the consequence of our system of beliefs and values. In rural Bhutan, the fusion of Tantric Buddhism and animistic Bonism with our mainstream beliefs and values leads us to interpret nature as a living system in which we are part rather than as a resource base to be exploited for material gain. Bhutanese society is one that has evolved in terms of relationships with the environment that have given rise to a complex of institutions, rules, customs and folklore governing the use of natural resources. We have been practicing environmental conservation long before it was referred to as such.

Twelfth, we must acknowledge that we have been assisted by others in our efforts to modernize and transform our nation. Our achievements would have been far less numerous without the support of our development partners who have respected our approach to development and shared our hopes and aspirations for the future.

Thirty years ago, external aid financed the whole of our development budget and, although the importance of aid has declined since then, we are still more dependent than we would like to be on external assistance for maintaining the pace of our social and economic transformation. While grateful for the support that has been extended to us, we have used it with discretion, rejecting offers of assistance when we were unconvinced that it was able to support our policies and

programmes. We have established a reputation as a developing country that is able to make full and effective use of the assistance available to it, and the progress we have recorded suggests that the confidence of our development partners in our ability to achieve the goals and objectives we have in the past set for the nation's development has not been misplaced.

3. CONCLUSIONS

The above helps to explain the progress we have been able to record since we cautiously opened the doors to change and modernization. Despite the brevity of the exposition, the review justifies several conclusions that appear to hold particular importance for the identification and assessment of relevant directions for the nation's future development:

First, our development assets have been built up over centuries. These cannot and should not be explained solely in contemporary terms of GDP, comparative advantage, resource endowments, and savings and investment rates and the like, as important as they may be. Our understanding of development assets is much more broadly based. For us, there are imperatives that transcend such narrow economicistic interpretations. They are linked to our formation and survival as a nation state and they can only be fully understood when viewed in their full historical context.

Our development assets have been built up over centuries.

Second, our view of the world, approach to development and understanding of development assets are inextricably entwined with our Buddhist system of beliefs, values and customs. Unlike many other developing countries, ours is a nation in which secular development is closely linked to religious history. It is a country which recognizes monastic institutions not only as part of a rich and glorious cultural heritage but also as institutions that impact on the everyday life of the Bhutanese population and continue to influence the ways in which people think and act. In our country, the views of the Buddhist lama carry no less weight than those of the development expert.

Our approach to development is inextricably entwined with our Buddhist worldview.

*Third, and related to the above, our traditional Buddhist interpretation of development is often at odds with conventional theories of development. These theories have no place for such notions as *sangyal wai lam* (spiritual path) or karmic evolution. From our traditional perspective, poverty and underdevelopment should not be defined only in terms of the absence of wealth but also in terms of the persistence of ignorance and prejudice. At the same time, many of the priorities now advocated by international development institutions, such as human development, environmental conservation, self-reliance, decentralization, participation and*

We have adopted a distinctively Bhutanese approach to development that departs in significant ways from development orthodoxy.... The approach of a nation that takes pride in its history and is self-confident in its actions.

empowerment, and gender sensitivity, are not new for Bhutan. Although we have not always referred to these priorities in the terminology favoured today, they have for decades been essential components of our distinctively Bhutanese approach to development.

Fourth, the decision to travel an uncharted path could only be taken by a nation that takes pride in its history and is self-confident in its actions. This self-confidence has occasionally been interpreted by outsiders as arrogance. Such a misinterpretation represents a failure to understand the strength of our commitment to our own distinctive model of development. Without an understanding of this model and the forces and values that underpin it, it is impossible to explain the progress we have recorded in such a short period of time.

Chapter 2

THE CHALLENGES AHEAD

1. INTRODUCTION

In the past three decades we have accomplished much and we can take justifiable pride in our achievements. We are able to look ahead to the next few decades with considerable confidence, secure in the knowledge that we have built a strong foundation for the Kingdom's future development. Although we can look ahead from a position of strength, our past achievements must not divert our attention from the challenges that confront us, nor must they give rise to complacency. We must harbour no illusions about the length of the path we still have to travel or about the magnitude and severity of the challenges that await us.

We have almost completed the first stage of the nation's social and economic transformation. As we move into the next development stage, we will be confronted with new challenges that make those we have successfully addressed seem modest by comparison. Some challenges will clearly be more formidable than others. It will be our response to a dozen challenges that will in large measure determine whether we are able to continue along the path we have set for ourselves. These challenges are summarized below under five main headings covering our nation, people, economy, environment and institutions.

2. OUR NATION

The main challenge facing the nation as a whole is the maintenance of our identity, sovereignty and security as a nation state. We must never lose sight of the fact that we are a small nation state sandwiched between two of the world's giants. Our existence is not an historical accident. It is the result of conscious actions taken over several centuries that have sometimes compelled us to seek isolation and, at others, to seek alliances without compromising our sovereignty. Nor must we ever lose sight of the fact that our nation is the last surviving independent Mahayana Buddhist Kingdom in the world. We are the sole surviving custodians of a social and cultural system that once extended beyond the eastern Himalayas to embrace a large part of Eastern and Southern Asia. The world has been impoverished by the loss of this social and cultural system, which is today unique to Bhutan where it both survives and flourishes.

*Our past
achievements
should not distract
us from the
challenges
ahead...*

*... some are more
daunting than
those we have
addressed in the
past.*

*We must never lose
sight of the fact
that our country is
the last surviving
Himalayan
Buddhist Kingdom
and we must seek
to maintain our
identity,
sovereignty and
security as a
nation state.*

The stability we have built over several centuries stands in sharp contrast to the situation prevailing in some other parts of the sub-region. Our low population density and the fact we have conserved our natural resource base also distinguishes us from some of our neighbours and make us a favoured and natural destination for those who live in unremitting poverty in an environment that has been damaged beyond repair. As custodians of a distinctive and unique culture we must be ever conscious of the threats to our security and unity. The vigilance can only be exercised when we maintain good and constructive relationships with our neighbours, and when we actively defend our interests and express our concerns in the international fora in which we are members.

Our future sovereignty as a nation state will continue to depend upon the articulation of a cultural imperative that asserts our distinctive Bhutanese identity. The maintenance of our distinctive model of development will also be contingent upon our ability to maintain and conserve our development assets. We must recognize that modernization is a powerful force. It is both a destroyer and creator of values. The values destroyed are typically those that are traditional and indigenous, while the new values are more universal, modelled in the mould of the technologies that fuel the modernization process and which seek to create a world in their own image.

Against this background, we cannot allow ourselves to assume that everything that is new and alien to us should be unconditionally accepted. We must accept that some forces that promise change and progress may erode the assets we have built up over centuries and which continue to serve us well. However, this does not mean that we should regard our values, assets and customs as inherently superior to all those of others and that everything we have inherited from the past should be accepted dogmatically and without question. We must recognize that assets and values are never static but are always subject to a continuous process of redefinition as they adapt to the needs and aspirations of a society in development. Assets that are defined in static terms will eventually have no other home than in a museum.

The key to the redefinition of assets and values is the exercise of a cultural imperative that makes it possible for us to distinguish between positive and negative forces of change. In exercising this imperative we must continue to be 'social synthesizers' and assimilate the positive forces for change, making them our own and accommodating them within our own distinctive model of development.

Our future is dependent upon the articulation of an unambiguous cultural imperative...

... which compels us to adopt a discriminatory approach to the forces of modernization.

Although we have a low population density, our population growth rate is among the highest in the world...the growth rate carries many negative consequences.

3. OUR PEOPLE

Sustainable Population Growth

Our population density is the lowest in the region and there are large tracks of land that remain unoccupied. This could lead to the assumption that the Kingdom, unlike many of its neighbours, is free of population pressures. Such a view is misplaced. One of the greatest challenges that confronts us is the nation's rapid rate of population growth, which stands as one of the highest in the sub-region. If the current rate of growth of 3.1 percent per annum remains unchecked, the Kingdom's population will double in 23 years. This is a disturbing prospect that carries many negative consequences; for the environment, food security, nutrition, employment creation, the balance of payments; for the pace at which the Kingdom will be able to sustain the process of development and to achieve sustainable increases in levels of well-being and welfare. The more rapidly the population grows, the slower standards of living will rise, and we will have proportionately less to spend on health, education, roads, electricity and other basic infrastructure and services for each community and individual, with negative implications not only for the availability but also the quality of the services provided.

We have set ambitious targets for reducing the rate of population growth...but even if we succeed in achieving them, the Kingdom's population will continue to grow for the next 50 years.

The current high rate of growth provides testimony to the effectiveness of the policies we have pursued in the health sector, which have significantly reduced the death rate. However, the sharp declines recorded have not yet been matched by a fall in fertility. On the contrary, in the period 1984-94, fertility rates actually increased among adolescents (15-19 years) and young women (20-24 years) and the overall fertility rate today stands at over 5. Given its age structure, with 43 percent under the age of 15 years, our population has an enormous potential for growth as more and more young women move into childbearing age. Without positive measures to reduce the rate of population growth, the rate of increase would continue to rise long before it begins to fall.

We have already set ambitious targets to address this challenge. Our aim is to achieve a 61 percent reduction in fertility in 15 years, and to achieve a replacement rate of 2 surviving children per women by the year 2012. This reduction will make it possible to progressively reduce the overall rate of population growth to 1.3 percent by the year 2017, by which time our population will number around 932,000. Even if we succeed in achieving these ambitious targets, Bhutan's population will continue to grow in absolute terms for the next 50 years

The centrepiece of our policies for addressing this challenge is reproductive health care, including family planning. We have set the immediate target of increasing the contraceptive prevalence rate from the present level of 25 percent to 60 percent within five years. Its attainment will require an increase in the number of acceptors of modern contraceptives by nearly 150 percent within this period. This is in itself a major task. However, we must recognize that reproductive health cannot alone provide an adequate response and that there are no short cuts to achieving the required decline in the rate of population growth. The experience of other countries tells us that fertility progressively declines as levels of economic development and educational attainment increase. This suggests that rising levels of education, especially for girls, the creation of productive employment, and increased economic security must all be seen as part of a concerted response to the problem of population growth. We are already pursuing policies and programmes in all these areas. The main challenge now is to extend them to the whole nation and to ensure that investments are maintained or increased with the aim of achieving the positive synergies between programmes in health, nutrition, employment, basic education and reproductive health.

The Creation of Productive Employment

Bhutan's demographic transition will mean that the growth in the demand for jobs will far exceed the rate of population growth. In the next five years alone, around 50,000 young people will leave school and enter the labour force, and five years from now more than 100,000 children will be enrolled in primary school, with around 60,000 young people in secondary education, the majority of whom will be poised to enter the labour market. Looking even further ahead, a total of 267,000 jobs will, even under the most favourable demographic assumptions, need to be created in the next 20 years. This figure takes no account of those of working age who may choose to leave the RNR sector and migrate to urban centres or of those who may be displaced from it as a consequence of agricultural modernization. Nor does it make allowance for those who may lose their jobs due to a decrease in the labour productivity of many existing forms of employment. The real numbers of job seekers will thus be considerably higher.

With the rapid expansion of basic education, many of our young people will end their schooling in rural areas with little prospect at present of finding productive employment outside the farming activities of their parents and family. Despite the progress made in the adaptation of school curricula, our young people will have had little exposure to the world of work and to

In the next 20 years, we need to create nearly 270,000 jobs for young people entering the work force.

Despite the progress we have made in the field of education, many of our young people are not equipped with the skills required for productive employment...and some may have aspirations that may be difficult to fulfill.

The pace of rural-urban migration has measurably quickened.

If the current rate of growth continues, around 400,000 Bhutanese will live in urban areas in 2020...more than four times the present number

the practical and applied studies that equip them with the skills required for employment. While some young people will choose to remain in rural areas to take advantage of new opportunities being created in the RNR sector, the majority may be inclined to regard education, even basic education, as an opportunity to leave forever the RNR sector. They may be supported in this view by their parents who may themselves have hopes and expectations for their children that extend beyond subsistence agriculture. Many young people will harbour aspirations for white-collar jobs, especially in government service. Given our policies for the civil service, with their emphasis on the formation of a compact, professional and efficient organization, most will not succeed in finding the jobs they seek.

Rural-Urban Migration

Our population is already on the move. Although ours is one of world's least urbanized countries, with only 15 percent of the population some 90,000 people are living in urban areas, the situation is changing rapidly. Although patterns of rural-urban migration have yet to be established with certainty, available evidence suggests that it is the larger urban centres, especially Thimphu and Phuentsholing, that are the main receiving centres. Although available statistics on the growth of Thimphu's population can be interpreted in different ways, some estimates suggest that growth in recent years has averaged around 10 percent per annum, more than three times the rate of national population growth, and a figure only slightly higher than the estimate for Phuentsholing. Longer-term estimates suggest that, if present trends continue, the nation's urban population could approach 400,000 more than four times the present level within the next 20-25 years. This figure is equivalent to two-thirds of the present population and it would mean that close to one-half of our population would live in urban areas by around 2020.

Although some may argue that urbanization is an inevitable consequence of modernization as well as an indicator of development, we should view the prospect with some alarm for a number of reasons.

- *First*, our towns and villages have grown up where they could, sometimes in narrow valleys, and the land required to accommodate large increases in population is either limited or almost non-existent. Some estimates suggest, for example, that the Thimphu valley may be able to accommodate some 80,000 people. At the town's current rate of growth, this figure would be reached by 2006.

The rapid rate of rural-urban migration constitutes a major challenge for a variety of reasons...

... many towns are physically unable to absorb many new inhabitants...

...many towns are poorly-equipped to deal with new inhabitants...

... rapid urbanization could be environmentally destructive...

...many migrants may be unable to find the work they seek...

.. and social problems may follow in the wake.

- *Second*, our towns are at present poorly equipped to deal with a rapid influx of new migrants. Land markets and land legislation are not well-developed, the availability of affordable housing is already in short supply, city corporations are already under severe pressure to provide and maintain physical infrastructure and urban services, and many urban development plans can be shown to be out-of-date, being confined largely to physical plans drawn up without the benefit of accurate topographical maps and up-to-date cadastral mapping and land registration systems.
- *Third*, rapid urbanization can be expected to be environmentally destructive. Already forest cover in areas close to population centres is becoming degraded as a result of heavy natural resource utilization, and sewage and waste disposal is contaminating rivers and streams. Because the majority of urban populations continue to rely on firewood for cooking and heating, urbanization can be expected to significantly increase pressures on the resource base, while the general absence of flat land near population centres could easily result in the settlement of steeper valley slopes that could be best left under vegetation cover, adding to the risks of erosion, the disruption of water courses, and the possibility of flooding and landslides during monsoon periods.
- *Fourth*, those who migrate to urban centres will do so for a variety of reasons. One of the main ones will be the expectation that they will be able to find work that is less laborious and more rewarding than can be found in rural areas. Given current patterns of job creation, many may be faced with disappointment.

This combination of factors is conducive to the rapid formation of squatter settlements a phenomenon so far virtually unknown in Bhutan with a potentially wide range of negative impacts that include social and environmental problems. The experience of other developing countries cautions us against the negative effects that can trail in the wake of unfulfilled expectations, especially in a country like Bhutan that places such a high value on social harmony. It may be a short step from youth unemployment to alienated and disfranchised youth, reflected in increasing crime rates, juvenile delinquency, drug use and prostitution, all of which are in increasing evidence in urban areas. Some studies have already made reference to an emerging ‘generation gap’ in which illiterate adults are increasingly at odds with their more educated children who, for the first time in our nation’s history, appear to be unsure of their place in society and uncertain of their future prospects.

Such developments add social challenges to the many others that await us in the years ahead.

We must also recognize that rural-urban migration will have positive as well as negative effects. Migration will, for example, reduce population pressures in rural areas on available agricultural land, especially important given that virtually all land in the nation suitable for intensive forms of cultivation is already in use. Migration will slow and may even reverse trends towards smaller plots and the fragmentation of land holdings, thereby helping to defuse the forces that give rise to landlessness and sharecropping arrangements, both of which are beginning to emerge in some parts of the nation. Because it could encourage land consolidation, it would facilitate greater mechanization and increased agricultural productivity. This would in turn help to commercialize agriculture, which is itself a requirement for higher farm incomes. In remoter areas, migration would contribute to a reduction in pressures on the population-resource ratio that would also help to maintain the viability of the integrated farming systems practiced by rural households, which are dependent upon the maintenance of the biological productivity of our forests. This suggests that rural-urban migration could provide a positive stimulus to agricultural development and prove instrumental in raising the cash incomes of farmers.

Urbanization moves part of the challenge of sustainable development from rural to urban areas. It is a challenge that we are not yet ready to fully meet. The speed at which migration is occurring has taken us by surprise. Our understanding of the patterns of migration and of the relative importance of the different 'push' and 'pull' factors underlying them is still incomplete and our growth centre and human settlement development strategies have not yet been developed in sufficient detail, nor have we yet been able to determine whether our strategies meet all the requirements of economic feasibility. The experience of other developing countries, many with a legacy of urban sprawl and squalor, tells us that regional development and growth policies must respond to economic logic. If they do not, they are likely to be little more than catalogues of good intentions.

Human Resources Development

Although we have made rapid strides in the field of education and human resources development, there is still a long way to go before our nation is equipped with the human resources required to sustain the process of development. The nation's skills base is extremely narrow and just over one-half of our population can be considered literate and numerate. Although

We must also recognize that rural-urban migration has positive effects.

We must meet the challenge of rapid urbanization in both rural and urban areas.

Despite the progress we have recorded in human resources development, the nation's skills base is still very narrow.

we can draw satisfaction from the rapid growth in primary and secondary school enrollment, the high drop out and repeater rates provide genuine cause for concern. Less than one-half of all those who enter primary school actually complete primary education, while less than 40 percent of young people of secondary school age are actually in secondary education, and a large number will fail to complete it.

Problems are compounded by school curricula and perceptions of job prospects. Despite the enormous efforts made to 'Bhutanize' imported curricula, much still needs to be done to adapt teaching programmes to the longer-term needs of the nation, especially through the strengthening of components that inculcate a work ethic and respect for the dignity of labour. More of our young people must be encouraged to pursue technical and vocational occupations that can only be found in the private sector. The reluctance of young people to enter the private sector has several reasons. They fail to see real growth within the sector, are apparently dubious of career prospects, and fear job insecurity. Unlike many other developing countries, wage differentials between the public and private sectors are modest, except at the highest levels, and negative perceptions often find no compensation in higher rates of pay and other financial incentives. These negative perceptions find concrete expression in the underutilization of capacity in technical and vocational training institutions that the nation can ill-afford. They also constitute a major obstacle to the growth of the private sector.

They also translate into a continued reliance on expatriate workers, not only in skilled but also semi- and unskilled work. Although the number of expatriates in government service has fallen sharply, from 50 percent in 1980 to only 11 percent in 1995, they continue to account for around 40 percent of all jobs in the private sector and around 70 percent of all jobs in such sectors as mining and quarrying. Moreover, it is not only unskilled and semi-skilled workers who are displaying a reluctance to join the private sector. It is increasingly applying to graduates. In the period 1991-95, a total of only 86 graduates - less than 20 percent of those who completed their training in the period - were placed in the private sector, and many of those joined the firms of families and friends. Because those graduating can no longer assume that a job awaits them in government service, this development raises, for the first time, the prospect of a 'brain drain' in a nation that is still bereft of many of the skills required to sustain the process of social and economic transformation.

A wide range of measures are being implemented to address such problems, including career counselling and legislation to

Many young people seem reluctant to follow technical and vocational occupations...in part explained by their negative perceptions of the private sector.

Patterns of job creation and the continuing reliance on expatriate workers in some areas raise questions about the effectiveness of our policies for education and human resources development.

The benefits of development have not been shared equally.

better regulate working conditions and terms of employment in the private sector. However, they raise broader issues about the effectiveness of the nation's policies in the fields of education and human resources development. They point to the need for us to reassess the role and functions of education with the aim of correcting conceived imbalances and removing impediments to the nation's further development. This reassessment must go beyond 'training plans' that seek to address supply side problems. Greater attention will need to be given to demand side considerations aimed at achieving an improved match between the social demands for education and the future requirements of the economy on the one hand and the imperative of creating productive employment on the other.

The legitimate aspirations of vulnerable and disadvantaged groups have not yet been fully met.

Vulnerable and Disadvantaged Groups

Although the vast majority of our population have benefitted in very tangible ways from the process of social and economic development, the benefits have not been shared equally. This is an inevitable consequence of modernization in a country in which the population is so scattered, the terrain so severe, and infrastructure still incomplete. Despite the rapid expansion of the road network, more than one-half of our population lives more than half a day's walk from the nearest motor road, while in more isolated and remote areas communities are still dependent on trails, muletracks and ropeways for communication. It is in such areas that the full benefits of development have still to be felt.

Despite the progress we have recorded, our economy is still in its infancy and the nation's economic structure is both narrow and shallow.

In these remote and isolated areas lives are still characterized by vulnerability and uncertainty and by the sheer drudgery of toil from dawn to dusk in order to satisfy daily survival needs. Food shortages of some three months, coinciding with planting seasons, are not uncommon in a few *dzongkhags*, while in isolated pockets within them food insecurity is more severe and malnutrition widespread. Although free basic education and health care are today reaching these pockets of disadvantaged and vulnerable groups, the need to contribute to the construction and maintenance of buildings, the cost of travel, contributions to school welfare funds, the cost of school uniforms and so, while modest, are sufficient to place the services beyond the reach of the poorest farmers and their families. In such areas, legitimate expectations and aspirations are not being fulfilled and ensuring that disadvantaged and vulnerable groups are able to benefit more fully from the process of social and economic development is a challenge that must be met in the years ahead.

The growth of the private sector is essential for the promotion of future economic growth.

4. OUR ECONOMY

Economic Growth and the Private Sector

Although we have made considerable progress in developing our economy, it is still in its infancy. It is not yet fully monetized, reflected in the estimate that only two-thirds of the money that could be expected in an economy of our size is actually in circulation. The nation's economic structure is still shallow and narrow, with the main impulses to economic growth having so far come from the exploitation of our vast hydropower potentials and the establishment of natural resource-based industries that make use of the cheap power we are able to produce. The main benefits of both have so far resided in the generation of export revenues. Only 7,000 jobs have so far been created in these modern industries. They are concentrated in the southwest corner of the nation, close to the border with India, and around one-half of the jobs are occupied by expatriates.

So far, the Royal Government has been the driving force behind the nation's economic development. We have, however, since the Sixth Five-Year Plan, declared that the private sector should play an increasingly important role in fostering economic growth and as a source of employment, with the Royal Government seeking to create the conditions which make it possible for the private sector to become the main engine of the nation's future economic growth. The growth of the private sector is also essential for the enlargement of the nation's tax base.

We have already done much to promote economic growth and the private sector. We have, for example, implemented policies that have maintained macroeconomic stability while liberalizing the financial system, with measures having included the establishment of a stock exchange, interest rate liberalization, and the lifting of foreign exchange restrictions on current account payments and transfers. We are well advanced along the path of privatization and corporatization of public sector enterprises. We have special programmes to foster the development of cottage and small industries. We are constructing industrial estates and have established industrial service centres, and we have improved the access of businesses to the credit they require for investment as well as established special credit programmes for small and micro enterprises.

While some of these initiatives have yielded positive results, their overall impacts have so far been modest and the response of the private sector to liberalization has so far been sluggish. The structure of production is still relatively shallow and the

The response of the private sector to liberalization and other measures has so far been sluggish.

This can be attributed to a variety of factors and to obstacles that must still be overcome

The manufacturing sector is confronted with formidable constraints, some of which are structural in character

pace of private sector development in both urban and rural areas continues to lag behind expectations. Given current rates of private sector growth, especially in the crucially important manufacturing sector, it may take longer than expected before it can assume the role of engine of growth and is able to create the productive employment required to absorb a rapidly growing work force.

The slow pace of change can be attributed to a variety of factors. Efforts to establish an enabling environment have left some obstacles, such as the absence of unambiguous commercial law and cumbersome licensing arrangements, still largely untouched. The number of people covered by entrepreneurship training programmes has been modest, and the credit programmes that have been established to support the establishment of new enterprises have worked less well than expected. Our institutional capacities to identify 'viable' projects is still being developed, and we often lack important information on available resource endowments that is required to identify and evaluate investment opportunities. The growth of manufacturing activity has also been severely hampered in some parts of the country by the lack of required physical infrastructure, such as roads and electricity. Moreover, the private sector in Bhutan is still at an early stage of development and is not yet well organized.

Economic Diversification and Industrial Development

These constraints we will overcome with time, and measures for addressing many of them are presented in the Eighth Plan. However, looking beyond the Eighth Plan, we must recognize that further efforts to deepen and broaden the nation's economic structure, especially in the manufacturing sector, are confronted with more formidable obstacles that can only be addressed in the longer term. These include the lack of semi- and skilled labour, the small and still fragmented size of the domestic market, the low purchasing power of our population, and severe diseconomies of scale in production and distribution. These translate into high production costs, especially when compared with those of neighbouring countries, which already meet most of the nation's needs for consumer, intermediate and capital goods.

Our potentials are seen to reside in two main areas: the further development of our vast hydropower potentials and the development of small and micro enterprises. The first is undoubtedly enormous. So far only an estimated 2 percent of our hydropower potentials have been utilized and the energy produced can, in addition to being exported, be used for the development of natural resource-based processing industries.

We are already mining significant volumes of dolomite, limestone, gypsum, coal, marble and quartzite, with some of the minerals processed into products for export. Although only one-third of the country's land area has been mapped geologically and an even smaller area has been prospected in detail for mineral wealth, Bhutan is known to possess deposits of lead, zinc, copper, tungsten, graphite, iron, phosphate, pyrite and gold, although the commercial value of these deposits has in most cases not yet been assessed. Although the abundant and cheap power we are able to produce will make it possible to transform these and related potentials into new natural resource-based industries, the technologies required will typically be capital intensive and labour extensive. The industries are likely to be characterized by simple input-output structures with few backward and forward linkages with the rest of the economy. While they may generate significant export earnings, their employment effects will be localized, and the number of jobs they create is likely to be very modest.

These developments may stand in sharp contrast to the remainder of the mining and manufacturing sector. Although there have been encouraging signs of growth in the number of mining and manufacturing enterprises, from only 66 in 1980, with the figure doubling in the period 1989-94 from 168 to 303 respectively, the enterprises are predominantly small scale and involved in a limited range of activities. Well over one-half of all enterprises are confined to food and wood processing, making use of simple technologies. Around one-quarter of all enterprises employ fewer than 5 persons and three-quarters less than 20.

Against this background, a challenge to development policies and planning is the prevention of the emergence of a so-called 'dual economy' in which a small, modern and export-oriented enclave is set in a sea of small and micro enterprises producing low-value products with simple technologies for a small domestic market, with few interactions between them.

The Services Sector

We also face challenges in the further development of our service industries. No where is this more so than in the area of tourism. This is a sector where it is unnecessary for us to search for a comparative advantage, given the uniqueness of our culture and environment. It has been our concern for conserving both that has led us to adopt considerable caution in the exploitation of our comparative advantage. Despite this caution, the sector has grown rapidly in recent years, with tourist arrivals passing the 5,000 mark for the first time in 1996, when the sector contributed more than US\$ 2 million to

Our main potentials are seen to reside in hydropower production and natural resource based industries that make use of cheap power.

A key challenge is to prevent the emergence of a dual economy in which a small and modern sector is set in a sea of small and cottage enterprises using simple technologies, with few interactions between them

Our comparative advantage in the area of tourism is undisputed...

... and the sector has become the third most important source of foreign exchange.

government revenues, making it the nation's third most important source of foreign exchange. This growth was achieved with a low level of capacity utilization, suggesting that further growth can be achieved without the creation of new infrastructure.

We must explore new options based on the concept of high value/low volume tourism.

While our future policies will need to be guided by the concept of low volume/high value tourism, there are numerous niche markets, such as eco-tourism and cultural tourism, that offer significant growth potential, have yet to be fully explored, and would be consistent with other development objectives. Our future policies should also recognize that the sector is labour intensive with considerable potential for employment creation. The need to accelerate the pace of employment generation provides a compelling reason for us to reconsider the place of tourism in our future growth strategies. The creation of a more dynamic tourism sector would also be wholly consistent with the promotion of the private sector.

5. OUR ENVIRONMENT

For its size, Bhutan probably has the greatest biodiversity of any country in Asia, and it is for very good reasons that our nation has been declared one of the world's 10 most important biodiversity 'hotspots'. We have received international acclaim for our commitment to the maintenance of this biodiversity, reflected in our decision to maintain at least 60 percent of our land area under forest cover and to designate more than one-quarter of our territory as national parks, reserves and other protected areas. Our long commitment to the maintenance of biological diversity and productivity is rooted in our understanding of the importance of forest systems to the survival strategies of remote and isolated communities, our beliefs and customs, and our understanding of sustainable development. We have placed environmental conservation at the core of our development strategy. We do not treat it as a 'sector' but rather as a set of concerns that must be mainstreamed in our overall approach to development planning and which must be buttressed by the force of law. The first 'modern' legislation enacted was the 1969 Forest Act that was specifically aimed at protecting our forests. Since then many of the nearly 100 laws enacted are related, directly or indirectly, to the conservation of the environment.

Our commitment to the environment can be attributed to our system of beliefs and values...and we have placed the environment at the core of development strategy.

Although our heritage is still largely intact, we cannot take it for granted and the conservation of the natural environment must be added to the challenges that will need to be addressed in the years ahead. There is already evidence of mounting pressures on the environment. In some areas, extraction rates for fuelwood, timber and other forest products are already approaching

Although our natural heritage is still largely intact, we cannot take it for granted...it is subject to increasing pressures.

Our ecological systems are particularly vulnerable...and pressures will certainly mount in the years ahead.

unsustainable levels, and in areas close to population centres an estimated 10 percent of forest area is degraded as a result of heavy natural resource utilization. The progressive removal of vegetation cover, especially in critical watershed areas, is beginning to affect the hydrological balance, leading to the localized drying up of perennial streams and flash flooding. In some cases, this has been aggravated by poorly conceived new road construction and irrigation systems.

These pressures will certainly increase in the years ahead and the increases will occur in one of the most fragile ecosystems to be found anywhere on earth. Our location near the heart of the Himalayas, the world's highest and most active mountain range, means that no less than 45 percent of our land area has an elevation of more than 3,000 metres. The topography of the nation is characterized by steep and precipitous slopes that descend rapidly into narrow river valleys. The tectonic movements that are inexorably adding to the height of the Himalayas are also crushing the underlying rock, thus increasing its penetrability and absorptive capacity. Monsoon rains make the thin layer of covering soils particularly vulnerable to erosion. We do not need to look far beyond our boundaries to see what the consequences can be when the associated risks are ignored.

Pressures on the natural environment will be fuelled by a complex array of forces. They include population pressures, agricultural modernization, hydropower development, mineral development, industrialization, urbanization, sewage and waste disposal, tourism, competition for available land, and road construction and the provision of other physical infrastructure associated with social and economic development. The full monetization of the economy is also placing pressures on land management systems built up over centuries and based on the principles of participation and cooperation.

The challenges posed by growing pressures on the natural environment cannot be seen in isolation to other challenges. They will need to be met in watersheds and steep valleys as well as in the minds and attitudes of our people, many of whom, while recognizing the importance of the environment, are inclined to regard it as a free good and have yet to fully appreciate that the many products of a consumer society cannot be disposed of in the same way as the biodegradable gifts of nature.

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*Meeting the
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6. OUR INSTITUTIONS

In many developing countries, colonialism and its legacy resulted in the destruction of traditional institutions and their replacement by alien institutions that were frequently unable to take root in their new environment. Many developing countries are today still struggling to make sense of institutions that were never their own, and this struggle is one that hampers their development. In Bhutan, we were spared this invasion. Our institutions are our own and they have developed over time in response to changing needs and requirements.

Our system of governance and development planning have a number of distinct features. First, the Royal Government has so far been almost solely responsible for the nation's social and economic development. Second, given the role played by the Royal Government, we have given high priority to the development of a strong and professional civil service, made up of our most talented people, that is able to guide and manage the nation's long term development. Third, we have developed a unique system of decentralization, based on our local institutions and customs, that effectively links the central level with the local level on decision-making on development. Fourth, although the Royal Government has guided and given content to the nation's development, the financing of development programmes has been in large measure dependent upon the availability of external assistance. This points to the existence of challenges in four main areas:

- **Redefining the role of the state.** We must continue with the progressive redefinition of the role of the Royal Government from that of 'provider' to that of 'enabler' of development, with a continued emphasis on the creation of conditions that mobilize the energies and imagination of people, enable entrepreneurship to flourish, and make it possible for the private sector to become a more active partner in the nation's future development. This redefinition should not be interpreted as an abrogation of responsibility. The Royal Government will continue to chart the future course of the nation's development, seek to ensure that the distinctive features of our approach to development are respected, that the benefits of development are shared equitably between groups and regions, that our natural resource base is conserved, and that participation and empowerment at the local level continues to be actively promoted. It does imply deliberate efforts to broaden the basis of development in ways that promote sustainable economic growth, create new sources of employment, and generates the wealth required to achieve further increases in standards of living and well-being.

Our institutions are our own and they have developed over time in response to new challenges.

Challenges exist in a number of key areas....

... the redefinition of the role of the Royal Government

- **The management of development.** We must complete the process of developing the capacities required for the management of a development process that is becoming substantively more complex. Given these complexities, capacity building must continue to focus on the development of the human resources required to sustain the process of economic and social transformation and to manage the process of development. Greater priority must also be accorded to the development of the information systems required for informed decision making and development planning. The growing complexity of the issues that call for policy responses are placing new demands on the quantity, quality and timeliness of the information required for improved policy analysis and formulation and for programme implementation, monitoring and evaluation. We are not yet able to fully meet these demands. The paucity of reliable data currently frustrates analysis in numerous areas, such as the dynamics of rural-urban migration, patterns and processes of employment creation, and the social, economic and cultural determinants of fertility behaviour. Given our commitment to decentralization, the development of the information systems required for more informed decision-making cannot be confined to the national level but should also extend to the *dzongkhag* level, and eventually even to the *geog* level.
- **Decentralization.** We must not allow the redefinition of the role of the Royal Government and the need to further strengthen capacities for the management of development to slow the pace of decentralization. With the initiation of DYT_s in 1991, the system of decentralization extends to the *geog* level, with each *geog* having its own elected representatives. Development planning entails a unique system of consultation in which the needs and aspirations of local communities, as expressed through their elected representatives, constitute important inputs into plans, while programmes for each *dzongkhag* and *geog* are only finalized after a further process of consultation. This participatory approach to development has few if any parallels in the developing world. It is an approach that empowers local communities within a framework of local institutions and time-honoured customs. Our challenge now is to build upon the decentralized system of decision-making that we have established in ways that make it possible to both increase administrative efficiency and to further enlarge opportunities for those at the *geog* level to participate in the making of decisions that have a direct bearing on their lives and livelihoods and the future of their communities.

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□ **Development financing.** The reliance on external assistance poses a two-fold challenge. First, we must make greater efforts in the area of domestic resource mobilization. Although our revenue base is recognized as being narrow and inelastic, there are opportunities for achieving an increase in tax and non-tax revenues and these should continue to be explored as a matter of priority. Second, while we are meeting nearly 100 percent of recurrent costs, it will be some time before we are able to finance the nation's development entirely from our own resources, and we must seek to further strengthen our capacities for aid management. We are entering a period in which challenges are becoming more numerous and complex at a time in which the environment for development assistance is becoming less favourable. Overall levels of ODA have been in decline since the early 1990s and an ever-greater share is being used to combat emergencies. In addition, several important bilateral donors are progressively reorienting their policies along two main lines that distinguish between larger developing countries in which poverty is endemic and more industrialized developing countries with large domestic markets where development cooperation is becoming increasingly indistinguishable from commercial cooperation. Our nation belongs to neither category and, as a small developing country in which the basic needs of the population are largely met, it may be required to compete harder for assistance than has so far been the case if the present pace of development is to continue. Our capacity to compete will be enhanced by the further development of mechanisms that provide additional evidence to our development partners that we are effectively able to absorb and utilize available assistance and to manage it to the nation's best possible advantage.

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All these challenges are difficult enough. They are made even more formidable by the many and complex relationships existing between them. Given these relationships, our responses to one challenge may well in part determine the outcome of others, sometimes in ways that may be unpredictable or unexpected. This means that if we are to deal effectively with one challenge, we must think about them all. This substantive complexity is the enemy of traditional approaches to development planning. It requires us to expand our analytical and time horizons and to deliberately trespass traditional sectoral nomenclature in the search for solutions. This search must be built firmly on a foundation that gives unambiguous expression to our social and cultural values and preferences. This places even greater demands on our capacities for innovation and, in a real sense, constitutes the greatest challenge of all.

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