

BTI 2010 | Bhutan Country Report

Status Index	1-10	4.36	# 102 of 128	
Democracy	1-10	4.65	# 82 of 128	↗
Market Economy	1-10	4.07	# 103 of 128	➔
Management Index	1-10	5.71	# 40 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	0.7	HDI	0.62	GDP p.c.	\$	4154
Pop. growth	% p.a.	1.8	HDI rank of 182	132	Gini Index		46.8
Life expectancy	years	66	UN Education Index	0.53	Poverty ²	%	49.5
Urban population	%	33.3	Gender equality ¹	-	Aid per capita	\$	135.7

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

On 18 July 2008, the fifth king, Jigme Khesar Namgyal Wangchuck, signed the constitution marking the final stage in the transformation of Bhutan into a constitutional monarchy. The period between 2007 and 2009 was marked by a strong focus on democratization and the creation of the first lawful political parties in the country. The Election Commission continued the important process of developing a voter data base and registering voters in preparation for the first national elections held in 2008.

The first national elections to the restructured National Assembly were held on 24 March 2008. Voter turnout was excellent, with 79.4% of registered voters casting their vote. The reports of international observers were overall positive about the conduct of the elections. However, the elections were contested by only two political parties, the People's Democratic Party (PDP) and the Druk Phuensum Tshogpa Party (DPT). After a miscount of the votes in Phuentsholing, the DPT won 45 of the 47 seats in the National Assembly. The PDP received 32% of all votes cast but only two seats. Accordingly, the DPT dominates the National Assembly.

The United States, Canada and Norway began a process of resettlement of up to 60,000 of the approximately 100,000 Lhotshampa (Bhutanese Nepalese) refugees. The resettlement program provoked incidents of intimidation and violence against those families seeking to be included in the program. Reports from refugees settled in the United States suggest that the refugees are experiencing problems with integration and gaining employment. Equally, the resettled refugees are being invited to tell their stories as refugees and present their own interpretations and even rejection of the recent political changes in Bhutan.

History and Characteristics of Transformation

In June 1998, direct royal rule was ended by royal decree (*kasho*) and a Cabinet of Ministers appointed. This initial step towards democratization was followed in September 2001 by the announcement that a written constitution should be prepared, by order of the king. This began a period of increasing speculation about the form of government that would be proposed by the Constitutional Drafting Committee, chaired by the chief justice of Bhutan. On 25 March 2005, the draft constitution was publicly released. In a series of presentations and meetings with ordinary Bhutanese men and women throughout the kingdom, the king and his government presented the draft constitution to the people. On 18 July 2008, the constitution was formally enacted.

The constitution provides, for the first time in Bhutanese political history, for the creation of political parties. It establishes a parliamentary system with a governing party, elected by simple majority, and an opposition party. Between 2004 and 2007, the National Assembly debated and enacted a range of legislative measures to govern the formation of political parties, the elections and, importantly, the establishment of an Anti-Corruption Commission.

In April and May 2007, mock elections were held with fictional political parties to help educate the voters in the election process. In the first round, four parties competed against each other. The two parties with the largest share of the votes then entered a runoff competition. The Druk Yellow Party “won” 46 of the 47 seats. This fictional party was associated with traditional, pro-monarchical values, whilst the defeated Druk Red Party was associated with industrialization and development. The outcomes of the mock elections were to prove, in retrospect, very similar to the general elections in 2008.

Elections for the newly created National Council followed in December 2007 and January 2008. Finally, in March 2008 the first elections featuring universal adult suffrage were held between two newly formed political parties – the Druk Phuensum Tshogpa and the People’s Democratic Party. In the elections, the PDP achieved only two seats with the DPT winning virtually total control of the National Assembly. The election results highlight a range of concerns expressed by many ordinary Bhutanese about the future of their country, the nature and long-term impact of the political reforms, and the role of the monarchy.

Bhutan remains a primarily rural country. Its economy remains primarily agricultural, but with the development of education a trend toward rural-urban migration began in the 1980s. This migration has increased since the mid-1990s, leading to the rapid development of the capital, Thimphu. Until the early twenty-first century, the Royal Civil Service offered employment for school and college graduates. However, since 2000 and 2001, the number of graduates has outstripped the number of available posts, and there is a growing concern at the lack of private enterprise to provide alternative means of employment. Recent reports from Thimphu suggest

that new social problems are emerging, including random attacks by youths on pedestrians. Therefore, although Bhutan continues to make improvements in the provision of education, and adult literacy is increasing, new policy concerns, primarily urban-focused, are emerging.

The so-called “southern question” relating to Lhotshampa refugees who fled or were expelled from Bhutan in the early 1990s remains unresolved. Although the governments of Bhutan and Nepal have entered into a joint program verifying the status of refugees, the verification process ceased following acts against Bhutanese officials in December 2003. The United States, Canada and Norway have offered to resettle up to 60,000 refugees, and this process of resettlement began in 2007 and 2008. In a meeting with Bhutanese officials in January 2009, the US Assistant Secretary of State, R. A. Boucher urged the governments of Bhutan and Nepal to work together to resolve the resettlement of the remaining refugees.

Transformation Status

I. Democracy

1 | Stateness

In the run-up to the 2008 election, a number of bombs exploded. The government suspected Nepali-speaking Bhutanese of trying to disturb the election process. The Bhutanese security forces subsequently killed five supposed Maoist insurgents in a clampdown near the border. Nevertheless, the government exercises control over Bhutan. However, the Royal Bhutan Army remains a small force. The founder of the country, Zhabdrung Ngawang Namgyal, created local militias and these were resurrected in 2003. India continues to maintain a considerable armed presence, coordinated by the Indian army. In December 2003, the Royal Bhutan Army, led by the fourth king, appeared to successfully remove various Indian guerrilla organizations from a series of camps along the southern border. Their presence from the mid-1990s onwards impacted on the development of these areas, and India increasingly brought pressure on the Bhutanese government to act against them. However, there have been a series of bombings along the southern border, notably in Gelephu and Phuentsholing, that suggest a potential threat to the government remains. The radicalization of Lhotshampa refugees living in exile similarly presents an unresolved threat to the stability of Bhutan.

Monopoly on the use of force

There are three main minority groups in Bhutan. The Ngalong reside in the west of Bhutan. The Sharchop dominate the eastern region, and the Lhotshampa reside along the southern border. Each of these minority groups speaks its own language – respectively Dzongkha, Sharchop and Nepali. In addition to these three large minority groups, there are an additional seventeen language groups. These groups share similar cultural traditions with the Ngalong and Sharchop, are Buddhist, and form the majority of the population. Dzongkha, the language of the Ngalong, was traditionally the language of government from the 17th century to the early 20th century. It was made the official national language in the 1960s. The Lhotsampa are generally thought to have started settling in Bhutan from the late 19th and early 20th century. Several additional waves of migration from eastern Nepal occurred during the 1930s and 1950s.

State identity

From the mid-1980s onwards the Bhutanese government has sought to promote a homogenous national identity. Concerns over the preservation of Bhutan's identity led the government to develop a "One Nation, One People" policy that emphasized shared customs and history. In 1985, the grounds for citizenship were tightened as part of the process of maintaining the state's identity. The provisions of the 1985 Citizenship Act have been codified in Article 6 of the Constitution. The 1985 Act, together with a census conducted in 1988 and a royal edict reemphasizing the practice of driglam namzha (code of conduct) provoked conflicts between the government and members of the Lhotshampa community. In turn, these conflicts led up to 100,000 Lhotshampa to leave Bhutan. There are no longer conflicts between the government and the remaining Lhotshampa population. However, it is unclear what proportion of the population of Bhutan is now formed by the various ethnic groups. The last census did not publicly provide information based on either ethnicity or language.

The constitution enshrines in Article 6 aspects of Bhutanese citizenship policies that have been widely criticized in the international community. Under Article 6, to be a "natural born citizen of Bhutan" both parents must be citizens of Bhutan. Article 6(2) states that those "domiciled in Bhutan on or before December 31, 1958 and whose name is registered in the official record of the Government of Bhutan shall be a citizen of Bhutan by registration." This requirement has proven to be very problematic for members of the Lhotshampa community. Information on how many Lhotshampa remain in Bhutan and are not recognized by the Bhutanese government as full citizens is not available.

Under Article 3(1) of the constitution, "Buddhism is the spiritual heritage of Bhutan, which promotes among others the principles and values of peace, non-violence, compassion and tolerance." However, unlike Sri Lanka, Bhutan has not made Buddhism the state religion. Indeed, the constitution promotes secularism and religious tolerance. It was emphasized during the process of consultation with the people on the draft constitution across Bhutan that religion and politics were to be separated.

No interference of religious dogmas

A key aspect of the new system of government created by the constitution was the removal of all representatives of the state-sponsored Central Monk Body from the political process. More importantly, monks, nuns, and other religious figures are not permitted to vote. There was initial concern that the category of "religious person" would include lay people, known as gomchen. The Chief Election Commissioner clarified that lay people who are engaged in religious activities would be able to vote.

The basic administration of Bhutan remains largely unchanged. The fortified monasteries/administrative centers (dzong) remain the focus of regional government. There are 20 districts (dzongkhag). Each district is divided into

Basic administration

gewogs (village block) and chiwogs (sub-units of the gewog).

2 | Political Participation

Although the Bhutanese were able to vote for local candidates in the *gup* (a local administrator) election in 2002, the first general election to elect representatives to the National Assembly took place in March 2008. This move marked the introduction of political parties to Bhutan and the transformation of the political process. The election was contested between only two parties. The constitution envisages that if more than two political parties compete in elections, the two parties with the most votes will continue to a run-off election. In the event that there are more than two competing parties, the unsuccessful parties, which do not form the opposition, will be expected to disband. Although this is not specified in the constitution, there is an assumption in the system that unsuccessful parties will disband and only reform to compete in subsequent general elections. As a result there will be limited continuity in political parties, with the exception of those that form the government and opposition. On polling day, former Prime Minister Jigme Thinley's Druk Phuenam Tshogpa (Bhutan Peace and Prosperity Party, DPT) won 45 seats, compared to only two for the People's Democratic Party (PDP), headed by one of the king's uncles. This left the royalist forces in firm control over the newly elected parliament and the "elected" government.

Free and fair elections

The new government elected in March 2008 controls 45 of the 47 seats in the National Assembly. Former Prime Minister Thinley took office on 5 April 2008, and the country's new constitution was promulgated in July. The constitution and the outcome of the parliamentary election leave substantial power in the hands of King Jigme Khesar Namgyel Wangchuk, who was formally crowned in November. While the new government is a consequence of the sufficiently free parliamentary elections of March 2008, it is evident that the monarchy remains in control of the political process. However, it must be mentioned that among the Bhutanese political elite and citizens there seems to be firm support for the form of "royal dictablanca," that is, soft authoritarianism under the leadership of the king. Even though Bhutan cannot be considered a democracy, the political system clearly is in transition, and the mode and direction of the transition process is supported by most actors.

Effective power to govern

Article 7 of the constitution is silent on the right of assembly. However, article 15(1) states that "political parties shall ensure that national interests prevail over all other interests and, for this purpose, shall provide choices based on the values and aspirations of the people for responsible and good governance." The article continues by stressing that no party may "resort to regionalism, ethnicity and religion to incite voters for electoral gain." Candidates must "bear true faith and allegiance to this constitution and uphold the sovereignty, territorial integrity, security and unity" of Bhutan. Although these can be read as preventing

Association / assembly rights

Lhotshampa groups from obtaining parliamentary representation, several Lhotshampa were in fact elected to the new National Assembly. Rather, these qualifications reflect concerns over the political conflicts among its neighbors, notably Nepal and Sri Lanka, rising out of competing claims based on religion, regionalism and ethnicity.

With the formation and registration of the first political parties in September and October 2007, the right to associate was for the first time lawfully available in Bhutan. Prior to the introduction of legislation and regulations governing political parties, there were no lawful political parties in Bhutan. Those political parties that existed prior to the legislation were illegal and remain unrecognized by the Bhutanese government. Under the terms of the constitution and the regulations, the general election was envisioned as a process of elimination with parties being registered before each election, and the two parties with the largest share of votes proceeding to a run-off election. Any other parties competing in the first round and which were unsuccessful in reaching the run-off were expected to dissolve. However, this did not happen in the 2008 election. A third party sought to register but was disqualified. Accordingly the election was held between two political parties, each vying for a majority of seats in the National Assembly.

Article 7(2) states that “a Bhutanese citizen shall have the right to freedom of speech, opinion and expression.” The Bhutanese media continues to develop. There are three main newspapers: Kuensel, the Bhutan Times and the Bhutan Observer. The Bhutan Broadcasting Corporation remains the only television channel. Internet access is increasing across the country and the government does not seek to control access to it. Satellite channels are available, though a few have been banned due to their perceived negative effect on children and young adults.

Freedom of
expression

According to the Media Impact Study 2008, there has been significant change in the way in which Bhutanese people view the media. According to the draft report of the study, the media is increasingly viewed as critical player in the political process, as well as simply a source of news and information

Although Article 7(2) sets out the right to freedom of speech, critical comments about the monarchy or the royal family are still out of bounds. There remains a high degree of self-censorship in the media towards certain institutions.

In a report issued in January 2009, a Lhotshampa journalist who had been living in exile was sentenced to six years in prison after being arrested when visiting relatives in Bhutan. He was charged with subversive activities against the state, including attending military training, a charge which the Association of Press Freedom Activists (Bhutan) denied.

3 | Rule of Law

The constitution establishes a separation of powers, and indeed calls for the most effective separation of power in Bhutan to date. The residual authority and prestige of the monarch also serves as a power center. With the legislature currently dominated by the DPT, it will be difficult for it to act as an effective balance to the executive. A Supreme Court has been established, tasked with upholding the constitution and ensuring the effective separation of powers, but there is as yet no indication as to how assertively it will play this role.

Separation of powers

Under the Judicial Service Act of 2007, the independence of the judiciary was firmly and explicitly established. Prior to the 2007 Act, the judiciary had established its independence by means of a series of decisions in the 1990s.

Independent judiciary

The Anti-Corruption Commission continues to educate the public about the importance of reducing corruption. Bhutan remains less corrupt than its neighboring countries. However, a 2007 survey of public perceptions of corruption found the main forms of corruption were nepotism, favoritism and the misuse of public funds. Notably, 43.8% of respondents believed that corruption was increasing. Of course, this perception may reflect an increasing awareness of corruption based on the increasing number of cases reported. The Office of the Attorney General continues to prosecute cases with vigor.

Prosecution of office abuse

Under Article 7, the fundamental civil rights of all Bhutanese are set out and guaranteed. These include freedom of speech, opinion and expression and the right to vote. Bhutan abolished the death penalty in 2005 and Article 7(18) enshrines the nation's opposition to capital punishment. In addition to the standard civil rights set out in Article 7 these rights are balanced in Article 8 by duties incumbent on the Bhutanese citizen. Exiled opposition groups argue that notwithstanding the terms of Article 7, the Lhotshampa refugees lack recognition and are discriminated against by Article 6, while the Lhotshampa who continue to live in Bhutan are subject to indirect discrimination.

Civil rights

4 | Stability of Democratic Institutions

Before the March 2008 election, there was no democratically elected national institution in Bhutan. The recently initiated process of political liberalization has been a uniquely top-down process. At the first national elections, 79.4% of registered voters turned out. However, as noted elsewhere, the resulting National Assembly is dominated by the DPT, which won 45 of the 47 seats. It is therefore too early to comment on the performance of the National Assembly and other democratic institutions.

Performance of democratic institutions

There seems to be a strong sense of commitment to the new constitutional order, notwithstanding the dominance of the National Assembly by the DPT. The PDP and DPT both agreed publicly to work in pursuit of the “Gross National Happiness” and welfare of all Bhutanese. The judiciary is supposed to demonstrate its own support for the new institutions through the Supreme Court and its role as guardian of the constitution. However, it remains to be seen whether this also connotes a strong support for “democracy,” especially in a conflict between government/parliament and the monarchy (which at the time of this writing appears unlikely in the near future).

Commitment to democratic institutions

5 | Political and Social Integration

The first legal political parties were registered by the Election Commission in September and October 2007. Detailed regulations were prepared and promulgated by the Election Commission. Registration of political parties was permitted only in 2007 and represents a major transformation of the political structure and process. Before 2007, all political parties were illegal and were associated with violent opposition towards the government. Under the terms of the constitution, only two parties will enter the National Assembly. The party with a simple majority of seats will form the government, while the second party will form the opposition.

Party system

The first party to register was the People’s Democratic Party (PDP), led by former minister Sangye Ngedrup, uncle to the fifth king. The second, the Druk Phuensum Tshogpa (DPT) party, is led by former minister Jigme Thinley. Each party issued lengthy manifestos. The PDP became associated with development and industrialization, whilst the DPT was viewed as more conservative.

Interest groups that focus on specific issues and concerns are gradually emerging. RENEW and the Tarayana Foundation promote work and education on gender issues, domestic violence and health education. Recently, several small private organizations have sought to highlight a range of needs, notably around disabilities and the environment. However, these interest groups do not challenge the government. There remains a prohibition on interest groups based on ethnicity, language or religion.

Interest groups

Traditionally, consensus forms the basis of decision-making. There is a historical tradition that emphasizes mediation and consensus-building that continues to influence decision-making and policy development. In preparing the country for the constitution, the fourth king and the government held consultations in each of the twenty districts. As a result of the consultations, the draft constitution was revised and the official Dzongkha version amended to ensure that it was understandable. However, it was equally noticeable that while local people expressed their concerns over “democracy,” the government and the king were determined to ensure the

Consent to democratic norms

constitution would be adopted. A striking feature of the political debate and canvassing for the first elections was the restrained and relatively polite approach adopted by all the candidates towards their opponents. Following the elections in March 2008, both parties undertook to work together to “promote the Gross National Happiness of Bhutan” demonstrating the ongoing importance of consensus in Bhutan.

Bhutan never possessed a substantial aristocracy, and what did exist ceased to have any political power in the middle of the twentieth century. The country also lacked an urban bourgeoisie or middle class until very recently. Therefore, western civic or urban associations are very rare in Bhutan. On the other hand, traditional forms of collective action and associations are still intact, though found mainly in the countryside. These contribute substantially to the creation and recreation of social capital, although rarely help to cut across or bridge social boundaries.

Associational
activities

There has been limited industrialization, mainly in the south, and with the exception of Thimphu and Phuentsholing, urbanization levels remain low. Significant construction projects undertaken in the capital, Thimphu, have provided work mainly for non-Bhutanese migrant laborers. Recent reports from the capital suggest that social problems among the unemployed and young are increasing, highlighting possible social tensions and a breakdown in traditional social ties.

II. Market Economy

6 | Level of Socioeconomic Development

The level of socioeconomic development is gradually increasing. In October 2008 The World Bank ranked Bhutan at 137 (out of 207) with an average per capita gross national income of \$1,770 (at purchasing power parity). Bhutanese life expectancy has increased from 63.4 to 65 years, with adult literacy at 54.3%.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	679.4	771.2	872.4	1053.4
Growth of GDP	%	7.0	6.7	6.4	14.0

		2004	2005	2006	2007
Inflation (CPI)	%	4.6	5.3	5.0	5.2
Unemployment	%	-	7.9	-	-
Foreign direct investment	% of GDP	0.5	1.2	0.7	7.4
Export growth	%	20.9	30.4	37.8	29.3
Import growth	%	23.1	25.6	8.8	4.7
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	593.3	636.7	697.3	775.0
External debt	\$ mn.	593.3	649.2	713.3	775.0
Total debt service	% of GNI	1.8	0.9	1.2	3.0
Cash surplus or deficit	% of GDP	2.1	-	-	-
Tax Revenue	% of GDP	7.9	-	-	-
Government consumption	% of GDP	20.4	21.2	21.3	19.8
Public expnd. on edu.	% of GDP	-	7.0	-	5.7
Public expnd. on health	% of GDP	2.8	2.6	2.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Bhutan is ranked 124th (out of 181 economies) in terms of ease of doing business. The impact of the global economic downturn resulted in a new section in the 2009 – 2010 budget. The World Bank's Global Economic Prospects 2009 report provides no discussion of Bhutan due to a lack of data. However, the report does illustrate the problems facing the Indian economy. Recognizing the potential impact of the global recession on Indian trade and industry policies, the need for provisions enhancing credit availability and strengthening existing financial institutions was stressed. Trade and industrial targets for 2008 were down, indicating that the development of increased market competition will be a challenge. As a result of the economic downturn, capital investment to lengthen the highway linking Bhutan's

Market-based
competition

southeast and west highways has been reduced, with total construction falling from 247 km to 127 km. Similarly, proposals to build a second airport near Gelephu have been dropped.

Article 9 of the constitution sets out the principles of state competition policy. Article 9(10) declares that “the state shall encourage and foster private sector development through fair market competition and prevent commercial monopolies.” At present, the scope of private sector activity is limited. In principle, at least, the state will seek to prevent the development of monopolies, but today continues to dominate economic development. For private enterprise to develop, greater relaxation of business regulations will be required.

Anti-monopoly
policy

The largest economic sector is agriculture, and the country’s economy primarily rural. Small and medium-sized enterprises have emerged, producing low-value items such as handicrafts and incense, but these do not contribute significantly to the national economy. As a landlocked mountainous country it has practical problems with transportation of local merchandise to markets in neighboring countries.

Liberalization of
foreign trade

Imports primarily from India and luxury goods from Thailand dominate foreign trade. Hampered by lack of support from India, the opening of an embassy in Dhaka may enable trade between Bhutan and Bangladesh to increase. Bhutan imports a wide range of consumer goods and has limited resources to develop items for export. Hydroelectric power, produced by plants built by India, is the only major export. Plans to develop domestic hydroelectric sites have been set out in the 10th Five Year Plan, though the proposed output has been reduced from 2705 megawatts to 1602 megawatts. Project leaders hope this will be enough to ensure electricity for all settlements in Bhutan.

At the time of this writing, a review of the country’s banking system was currently underway. A de facto currency union with India limits the role of the central regulatory authority, the Royal Monetary Authority. The Bank of Bhutan, the nation’s largest commercial bank, has been partly privatized and is partly owned by the State Bank of India. ATMs have been introduced in the capital, though these provided limited services to the local population. In addition, there is a small stock exchange, the Royal Securities Exchange of Bhutan, and an insurance company, the Royal Insurance Corporation of Bhutan (RICB). The reputation of the RIBC was damaged by financial scandal in 2008.

Banking system

8 | Currency and Price Stability

The pegging of the Bhutanese currency (ngultrim) to the Indian rupee makes Bhutan vulnerable, as the country’s inflation rate now moves in tandem with

Anti-inflation /
forex policy

India's. Primarily reflecting the increase in global commodity prices, the consumer price index in Bhutan rose at an annualized rate of 8.9% in the fourth quarter of 2008, averaging 6.4% for FY 2008. Money supply (M2) recorded modest growth in 2008.

GDP growth in 2008 was estimated at 11.5% (down from 14.1% in the previous fiscal year). The economic downturn in 2008 is a cause for concern. The reliance of the country on foreign imports and the increasing numbers of foreign tourists may place serious stresses on the economy. The private sector remains weak, though the number of small and medium-sized enterprises granted licenses has increased. Rising prices, notably for food stuffs, and the high level of interest charged on bank loans, could lead to overall increases in inflation. As nearby India begins to experience the impact of the global economic downturn, Bhutan may experience spillover effects.

Macrostability

9 | Private Property

Article 7(9) of the constitution guarantees citizens' rights to hold property. Bhutan remains a primarily rural country and therefore agricultural land is the main type of property owned by people. In Thimphu, land values have increased significantly as private individuals have built a mix of residential and commercial properties. Land ownership remains governed by the Land Act of 1979, which in theory restricts land holdings to 25 acres. Some larger landholdings do exist, however, notably among the royal family. A new cadastral survey was completed in 2003.

Property rights

There is a strong need for development of the private sector. The state continues to own the main industries, and the lack of a strong private sector has restricted the development of new avenues of employment for the increasing numbers of secondary school and college graduates. As of 30 June 2005 – the most recent information available at the time of writing – almost 38,000 trade and industrial licenses had been issued by the Ministry of Trade and Industry. The trade sector accounted for 54% of these licenses, the service sector 18%, production and manufacturing only 3%, and contract licenses 25%. As much as 98% of the private sector consists of small and medium enterprises, which contribute very little to Bhutan's total exports.

Private enterprise

10 | Welfare Regime

Kinship and social ties remain intrinsically important in Bhutanese society. The monasteries and local religious institutions continue to fulfill an important social role, providing assistance as required to individuals and communities alike. There is limited government welfare and the practice of granting kidu (compensation) is increasingly being controlled by the government. Kidu can range from grants of

Social safety nets

land to more practical assistance to individuals or communities that have suffered misfortune. No recent reports provide details on the current level of GDP spent by the government on social security and welfare.

Bhutanese women enjoy considerable personal freedom and equal opportunity in government and in society. However, in the first local elections featuring universal suffrage (based on candidates, not political parties), turnout by female voters was generally low. A key factor preventing greater participation by women is the low level of female literacy. Traditionally, women typically inherited a family's property, and therefore had control over the main assets of a family. However, with enhanced social mobility, the traditional patterns of matrilineal succession may be transformed, particularly by provisions of the Inheritance Act of 1980 which divides assets between siblings. Next to gender inequality, there are evident inequalities between ethnic groups and social classes.

Equal opportunity

11 | Economic Performance

Bhutan's economy has continued to develop, though the effects of the wider global economic downturn – especially the decline in tourism – may have an impact. Due to its structural disadvantages and the close links between the Indian and the Bhutanese economies, India's difficulties in the 2009 global economic crisis will indirectly affect Bhutan.

Output strength

12 | Sustainability

The Bhutanese government has pursued environmental policies and is conscious of the fragility of the country's environment. Concerns are increasing over the threat of flooding originating in glacial lakes, which could threaten populations living along the riverbanks. Recent work in the Punakha valley has threatened the habitat of cranes, suggesting that tensions are developing between development goals and the declared desire to protect the environment and wildlife.

Environmental policy

Until the 1950s, the only education available was monastic. There are currently 391 monastic schools. From the 1930s onwards, some Bhutanese boys were sent to be educated in missionary schools in Darjeeling. Formal, secular education was introduced as part of the reforms instigated by the third king. There are now 24 private, 261 community, 81 primary, 89 lower secondary, 44 middle and 24 higher secondary schools. In addition, there are 10 tertiary institutes under the Royal University of Bhutan, seven vocational and 747 non-formal centers. There are no recent surveys of literacy in Bhutan. Separate figures for men and women are only available in a relatively old UNESCO report, which estimated literacy levels at 56.2% for males and 28.2% for females. The UNDP Human Development Report

Education policy / R&D

2006 estimated literacy rates for the country as a whole to be 47%.

Transformation Management

I. Level of Difficulty

Bhutan is a small, land-locked country with few national resources aside from hydropower. Latent ethnic tensions, the lack of modern infrastructure and a small domestic market add to unfavorable structural conditions for successful transformation. On the other hand, following the first general elections held in March 2008, the main political constraint is the lack of an effective opposition in the National Assembly. The monarch, rather than the royal family, remains central to Bhutan's new political structure. Although opposition parties outside Bhutan are deeply critical of the monarchy, there is no internal public criticism of the current monarch or of the fourth king who abdicated in December 2006. In general, there is widespread support for the monarch, though there are private criticisms of certain of his relatives. It is thought by Bhutanese that these concerns were reflected in the failure of the People's Democratic Party to secure more than two seats in the National Assembly.

Structural
constraints

Civil society remains weak in Bhutan. Although a number of NGOs funded by international donors exist, there are few local NGOs. Neither the Central Monk Body nor other religious institutions and monasteries play a significant civil role. The constitution bars religious practitioners from participation in the political process, including commenting on or supporting political parties or candidates. However, the monasteries and the clergy do exert a high degree of influence in terms of promoting popular awareness of important social issues. Notably, a number of clerics were trained to provide HIV and AIDS counseling, and to educate people about how to prevent infection.

Civil society
traditions

The regional tensions that emerged in the mid-1990s have significantly eased. Access to a wide range of government positions, as well as increased development, has addressed anti-government complaints among sections of the Sharchop community. Although there has been no move to resume the joint verification process for the refugees in eastern Nepal, shared by the governments of Bhutan and Nepal, the issue of those remaining refugees who have not been relocated under the program supported by the United States, Canada and Norway remains unresolved.

Conflict intensity

The government elected in 2008 will face increasing problems related to developing

the private sector. The number of educated young college graduates has grown, and their lack of employment opportunities has created a major social and political problem. While graduates could depend on jobs in the civil service in decades past, the growing number of educated students has exceeded the administration's capacity to absorb them.

II. Management Performance

14 | Steering Capability

The election of the new government in March 2008 and the enactment of the constitution in July 2008 should finally remove the king from setting the strategic priorities of the government. The indications so far are that the fifth king is keen to act as head of state and to remain outside the political process, but he will almost certainly be consulted by the government.

Prioritization

The former National Assembly and Cabinet of Ministers oversaw the passage of legislation underpinning the new political framework. The government, the fourth king and the current monarch oversaw a process of consultation with the people on the draft constitution and the proposed changes to the political structure. The Election Commission played a key role in developing the voter database and the regulations for registering the first lawful political parties in Bhutan. The mock elections held in April – May 2007, together with the election to the National Council in December 2007 and January 2008, were successfully carried out and enabled practical issues to be addressed ahead of the first general election on March 24, 2008.

Implementation

The preparation for the constitution illustrates the care with which Bhutanese leaders consider reforms and the introduction of new policies. The Bhutanese have consistently sought advice from international experts. In their reflections on the advice received, officials consider its application to Bhutanese society. This approach is underscored by a desire to balance the processes of modernization with extant social and cultural values.

Policy learning

15 | Resource Efficiency

Bhutan continues to carefully manage its two main economic resources: hydroelectric power and the forests. Bhutan has considerable hydroelectric

Efficient use of assets

potential, with some estimates placing the country's potential hydropower resources as high as 30 gigawatts. There are currently four hydroelectric projects in operation. Following completion of Tala, GDP has increased. Notwithstanding the significant investment in hydroelectricity production, around 90% of the country's household energy needs continue to be met through biomass (such as wood fuels). The forests are actively maintained and their resources controlled by the Forestry Department.

Bhutan mines dolomite and limestone for export to India, along with slate and gypsum. Four mines are operational in Samtse, run by Bhutanese companies. There is also some marble, lead, zinc, copper and iron. However most mining is on a small scale. A new Natural Resources Development Corporation was formed out of the Forestry Development Corporation to oversee sand quarrying in Bhutan.

The main college, Sherubtse in Kanglung, continues to provide pre-university level teaching. The Royal University of Bhutan was established in 2003. While not yet fully operational, it is slated to be fully functioning in the near future. In 2007, the 10 colleges and institutes served a total of 4,190 students. The majority of these were at graduate level, with 183 at a postgraduate level. The government does provide generous funding for selected students to study abroad, typically in India, or further afield, usually for advanced degrees, if international support is available. The number of graduates is steadily increasing, especially as middle-class children are increasingly being sent to study in India or even Thailand, with the cost borne by their families.

The government has been successful in ensuring policy coordination and creating coherent policy. The scale of Bhutanese government and the importance of collaboration among key government officials have been instrumental in ensuring this coordination. From the early indications of the new government elected in 2008, this ability to coordinate activity despite conflicting objectives appears to be continuing. In part, this reflects the abilities of the prime minister and his cabinet, based on their prior experience.

Policy
coordination

Bhutan continues to be one of the least corrupt societies in South Asia. The Anti-Corruption Commission was established in 2004. Since its creation, the Anti-Corruption Commission has worked to promote awareness of its role and there have been increasing numbers of cases referred to it. The prosecutions brought to date have shown that the courts actively enforce anti-corruption legislation.

Anti-corruption
policy

16 | Consensus-Building

The constitution was enacted in July 2008, establishing Bhutan as a democratic constitutional monarchy. The first general election resulted in the DPT dominating the reformed National Assembly, with a numerically weak opposition. Following

Consensus on goals

the election, both the DPT and the PDP promised to work for the benefit of the country and its “Gross National Happiness.” In their election manifestos, both parties emphasized the importance of Gross National Happiness, a concept that has become a central pillar of government policies in recent years. As a consensus-building concept, its lack of precise definition or clear indicators for evaluation allows for a wide degree of flexibility and interpretation.

The most vocal critics of the government remain in exile. The illegal political parties and organizations that emerged during the 1990s have no legal status in Bhutan. The guerilla forces that settled in areas of southern Bhutan were driven out in December 2003 as part of a military campaign conducted by the small Bhutanese army. Since 2004, a series of bombings, mainly in the south, has led the government to conclude that potentially violent opponents remain, with links across south Asia to other militant groups.

Anti-democratic
veto actors

Internally, legislation continues to restrict citizenship, thereby preventing potential veto players from participating in elections. The terms of the 1985 Citizenship Act have been enshrined in the constitution. As a result, any reforms to the rules on citizenship eligibility will require a constitutional amendment.

Traditionally, conflict at the local level was addressed through consensus building and mediation. However, as Bhutanese history demonstrates, regional and local tensions have always existed. The emergence of a stronger state in the 20th century, and the subsequent control over public protest, helped contain conflict. The reforms introduced by the third king were arguably calculated to contain internal pressure for political, social and economic change, and retain royal control over Bhutan’s transformation.

Cleavage /
conflict
management

The tensions that emerged in the early 1990s between the Lhotshampa and the government were quickly crushed, as were the mid-1990s conflicts between members of the Sharchop communities and the government. Dissent was made problematic, as it called into question loyalty to the Tsa Wa Sum (a term roughly encompassing the concepts of king, country, and government). The Tsa Wa Sum originally mentioned in the Supreme Laws issued in 1958 came to prominence as concerns developed over the security and integrity of Bhutan during the 1980s. Following the violence in 1990 and 1991, the Tsa Wa Sum became an important part of the vocabulary of patriotism, creating an environment in which criticism of the government could be interpreted as “acting against the Tsa Wa Sum.”

This self-imposed censorship may now change with the introduction of political parties and the move to a parliamentary democracy. However, it will require significant changes in attitudes for a robust political culture allowing for frank debate to emerge.

The development of civil society remains slow in Bhutan. However, there has been a marked increase in confidence among young Bhutanese. This new sense of self-confidence, and the associated ability to translate lessons from outside Bhutan into local application may see a more vigorous civil society emerge in the next few years.

Civil society participation

Although the educated middle class tends to be viewed as the main source for the development of civil society, it should be emphasized that Bhutanese rural people have traditionally worked in a consensual manner at the grassroots level, with activities including the provision of support to those who require it. Therefore, the potential for the development of civil society exists across all sections of Bhutanese society. As political consciousness is transformed and invisible hierarchical barriers to comment and criticism are removed, civil society may develop. RENEW (Respect, Educate, Nurture and Empower Women), established in 2004, remains one of the most prominent local NGOs. The group's success has stemmed from its ability to handle sensitive issues and build constructive working relationships across government departments and organizations. This approach provides an excellent model for other local NGOs as they emerge.

The resettlement of up to 60,000 Lhotshampa refugees by the governments of the United States, Canada and Norway began in 2008. Tensions over the resettlement program led to violence and intimidation by political organizations in the refugee camps against those who chose to apply for resettlement. Reports from refugees settled in the United States have indicated that they face a range of problems preventing integration, hampering them in their ability to build new, constructive lives. The longer-term implications of the resettlement program and its goal of enabling the refugees to develop new lives are still unclear. Although these individuals have the opportunity to become citizens of the host countries, they may remain a vocal opposition to the Bhutanese government. Therefore the resettlement program may not remove or neutralize the tensions.

Reconciliation

17 | International Cooperation

Bhutan continues to be selective in its choice of development partners. In general, with the exception of India and Japan, Bhutan continues to work with smaller donor countries such as the Netherlands (and particularly that country's SNV development organization). The majority of foreign investment continues to come from India, in the field of hydroelectric energy. Although Bhutan is looking at improvements to its banking system, and considering modernizations that would allow better integration with international financial and banking markets, there is still limited private international cooperation. The notable exception in this regard is in tourism and the private financing of luxury hotels. However, the economic downturn that began in

Effective use of support

2008 may have serious deleterious effects on Bhutan's tourism sector.

The introduction of parliamentary democracy enhanced Bhutan's credibility with outside donors and the international community. However, a shadow continues to be cast on Bhutan by the ongoing refugee situation in Nepal. Despite the resettlement operation, there will remain a sizeable refugee community in eastern Nepal. These individuals' future is unresolved, and although the reduction in their numbers may appear to address this shadow, problems may persist for Bhutan on two fronts. The international community may continue to view the unresolved refugee issue negatively, especially as resettled refugees draw attention to the plight of the remaining refugees in their host nations. Secondly, the resettled refugees could provide valuable material support for opposition groups.

Credibility

India remains the principal country with which Bhutan interacts. Although Bhutan was given control over its foreign policy following the signing of a new Friendship Treaty in 2007, limited cooperation with its neighbors has emerged. The leadership has evinced a desire to develop trade with Bangladesh, but India has offered little or no assistance in developing better relations between Bhutan and Bangladesh. The announcement in January 2009 that Bhutan will open its first embassy in Dhaka may be a sign that trade between these two nations is on the verge of expanding. Bhutan was among the founding members of the South Asian Association for Regional Co-operation (SAARC), the South Asian Preferential Trade Area (SAPTA) and the South Asia Free Trade Area (SAFTA).

Regional
cooperation

Strategic Outlook

The devolution of power from the monarch to an elected parliament in the space of 10 years has been remarkably smooth. The “king’s gift,” as the constitution is referred to by Bhutanese, seeks to establish a sustainable and credible political system to safeguard the stability and integrity of Bhutan. The landslide election of the DPT party, which now controls the National Assembly, reflects a desire among the mainly rural population for moderate change and stability. The rejection of the PDP and its failure to gain more than two seats may suggest a failure of the political system. However, the PDP candidates were unsuccessful less due to their ability than to a deeply rooted distrust felt by many ordinary Bhutanese for the relatives of the PDP leader, Sangye Ngedrup, who ultimately stepped down as party leader in December 2008.

There are lessons to be learned from the spectacular failure of the PDP in the March 2008 elections. In future elections, emergent parties will need to consider what factors may attract or repel voters. Although a report submitted by EU election observers commended the transition to democracy, it also appended 42 recommendations to its observations of the electoral process. Notably, the report recommended that the National Assembly consider awarding “compensatory seats” to the PDP, in order to bring the distribution of seats across the two parties closer into line with the nationwide proportional vote. The legislature did not act on this suggestion. A more practical recommendation might be the removal of the educational qualification for political candidates, in order to ensure that a broader section of the populace can stand for election. Similarly, individuals married to non-Bhutanese citizens should not be prevented from becoming candidates – a point highlighting the wider implications of the restrictive citizenship rules and their application. Other recommendations were linked to broader concerns over the rule of law, included the creation within the Election Commission of a legal unit to handle legal reforms and legal issues surrounding future elections. This would strengthen and maintain the role of the Election Commission. Similarly, the Supreme Court, in its role of interpreting and upholding the constitution, should emerge as a robust, independent institution. With the coronation of the fifth king in November 2008, there is a need to ensure that the new democracy is secure, and that participation in political debate is encouraged. The new government should seek to enhance and promote the development of civil society.

The Lhotshampa refugee question remains unresolved. The process of resettlement for up to 60,000 refugees will not end this ongoing problem. In June 2008, the Core Working Group on the Bhutanese Refugees in Nepal condemned attacks within the camps on those seeking resettlement. It pledged to work with the governments of Nepal and Bhutan to find “a comprehensive and sustainable solution for [the] refugee population that best meets the individual needs of the refugees.” Under the present scheme, about 40% of the refugees will remain in the camps in eastern Nepal, and the potential for radicalization by extremist pseudo-Marxist groups will continue to present a threat to Bhutan’s integrity. The explosions that from time to time occur along the border serve as important reminders that Bhutan continues to be under threat from various groups that seek to undermine and destabilize the current government.