

Trade Logistics Service Liberalization in Bhutan by Mr. Tandin Tshering

Introduction:

1. Bhutan has ended the long period of country's isolation and increase the degree of integration of its economy with the rest of the world and wishes to develop a strong and sustainable position in the regional and world trade. This because of the fact that globalization is inevitable, irreversible and the benefits of economic integration will eventually outweigh the cost in the long run. Global economic integration is increasingly viewed as an economic and political necessity rather than a matter of choice. This is evident from the growing membership of the WTO and Bhutan's intention of joining the bandwagon. The positive impact of the integration to the global economy is contingent on the level of preparedness of the acceding country to compete and benefit from enhanced market access. Successful economic integration is a factor of export competitiveness an area where county like Bhutan is significantly disadvantaged due host of factors inter alia poor resource endowments, technological backwardness, locational disadvantages.
2. The Royal Government is pursuing more open and liberal policy towards international trade in order to encourage and stimulate export growth from the private sector as a key engine for economic dynamism.
3. The objectives of the Royal Government for the international trade are:
 - stimulate the growth of exports and enhance export earnings;
 - promote the integration of Bhutan into international and regional trading system
 - create an open , liberal and stable enabling environment conducive for the growth of private sector and trade
4. Bhutan is a member of two regional economic cooperation namely South Association for Regional Co-operation (SAARC) and BIMSTEC which seek to promote free trade area in the region. Besides Bhutan have bilateral trade agreements with India and Bangladesh. Initiatives are underway to establish bilateral trade agreements with Nepal and Thailand. India continues to be the major trading partner of Bhutan constituting 97 % of export and 90% of import, this is mainly due to the free trade agreement between the two nations and its geographical proximity (Table-1).

(Table -1) Top Export Market (in Million Nu.)

Countries	2000	2001	2002	2003
India	4,376.95	4,700.47	5,153.78	5,188.23
Bangladesh	164.72	222.38	222.97	120.83
Nepal	28.44	41.51	32.79	14.19

Source: Department of Revenue and Customs

5. The export oriented policy is being driven by the fact that the country has limited market to sustain growth and the need to balance trade. Over the years the trends in the export and imports have been on the rise. (Table -2)

(Table-2) (Million Nu.)

Year	Imports	Exports	Balance
2001	8,990.20	4,994.75	-3,995.45
2002	10,046.14	3,131.18	-6,914.96
2003	11,566.92	3,586.63	-7,980.29

Source: Department of Revenue and Customs.

6. The regional market will continue to be of significant importance to Bhutan in view of the underdeveloped domestic transport infrastructure and network. The landlockedness of the country and the high volume nature of our produce impose high transport posing a significant barrier to the competitiveness for Bhutanese product particularly in the international market. Bhutan's prospects of benefiting from other international markets other than the regional markets are limited to those goods of high value low volume which could overcome the diseconomies of transport costs.

Logistical Service Imperatives

7. The market access is meaningless if countries cannot gain commercially by benefiting from market entry, which is dependent on product competitiveness. Small economies like Bhutan cannot fully benefit from market access due to supply side constraints, diseconomies of scale, high transport costs, and lack of export diversification.
8. The Bhutanese market is small and capacity to sustain growth is limited. The outside world represents a large potential market for Bhutanese exports and so gradual integration into the global trading system is the key objective of the Government of Bhutan to promote economic growth. Bhutan has good prospects with horticultural produce, processed wood and selected other products. Further Bhutan has niche opportunities with certain high quality goods such as handmade paper and some other handicrafts

Current Trade Logistics Service

9. The trade logistics services encompass wide range of services in the supply chain which includes transport, warehouse, communication, management of customs administration etc. During the initial plan period which began in 1961, the main focus was on establishing basic infrastructure to reduce country's physical isolation and also in the area of social infrastructure development such hospital, school, etc. to create an enabling environment for all round development.

10. Bhutan is a landlocked country surrounded by India on three sides and China on the north. We have to rely on overland transit through neighboring countries to make use of sea ports. Most of the overseas trade from Bhutan is currently carried through Kolkotta port, India which is governed by transit agreement regarding the movement of Bhutanese exports and imports to and from third countries.
11. The country does not have any railway line and is served by one airport. The nearest railhead is about thirty km from the southern border which is meter gauge. Roads are the principal transport mode in Bhutan.
12. There are three north to south links connecting Bhutan to its border with India which joins with the Indian national Highway network. These three roads are connected within the country by a lateral route running east to west . Roads within the country are largely single lane and subject to landslides. The terrain and road conditions do not allow high speed and large transport vehicle. Heavy 20 feet container vehicle move by exception. Goods are normally transported in trucks with capacity of 8-10 tones.
13. The country has only one airport and the mountainous terrain presents hosts of problems which make it difficult to improve the airport to handle large cargo and passenger planes. Thus making the import and export restricted to high value low volume cargo. The lone air operator currently provides direct air services to Kolkatta, Dhaka, New Delhi, Kathmandu and Bangkok. Plans are in pipe lien to extend the service to Singapore and Mumbai.
14. Keep aside the integrated multimodal logistical system, Bhutan lacks even a private logistics service provider particularly warehouse except for those which is being operated by the Food Corporation of Bhutan. It handles agriculture products only.
15. Within the last two and half decades, telecommunication network has undergone dramatic improvement, Bhutan's first satellite international link was established in 1990. In 1999 the country started its internet services. Another breakthrough is the launching of cellular mobile services.
16. Following the formulation and implementation of Bhutan Postal Act in 1996. Bhutan Post was incorporated under the Companies Act. It provides express mail service, fax money order, courier services.
17. The share of the transport, storage and communication to the GDP is about Nu 3445.10 million in 2004.

Shares of GDP in current prices (in%)

Sector	2000	2001	2002	2003	2004
Transport, Storage & Communication	9.37	9.85	9.72	9.66	10.41

Source: National Statistical Bureau.

Shares of different transport activities

Category	% share
Land	63
Air	4
Travel agent	15
Storage	1
Communication	17

Past and Current Policies

18. Bhutan since the inception of five year plan in 1961, the major emphasis was placed in the development of basic infrastructure development. Various programmes were carried to strengthen the existing logistical service and carrying out expansionary activities. Rural farm roads are being accorded priority to exploit the rural marketable products.
19. In 1985 gradual privatization of public transport was initiated and now all transport activities are being handled by the private sector. The Road Safety and Transport Act 1999 empowers the Road Safety and Transport Authority of the Ministry of Communication to discharge the overall regulatory functions of freight and passenger road transportation.
20. FDI policy 2002 encourages foreign investment in sectors like transport services, roads and bridges, business infrastructure, information technology, financial services where the foreign investors can hold upto 70% of the equity. Collaboration in different forms like technical, marketing and franchise for use of trade names, patents and trademarks are permitted such a DHL.
21. The Government policy initiatives to establish dry port is envisaged to drastically cut down cost on import and export and also reduce custom tax administration. The import and export cargoes documentations and other logistical arrangement can be completed at the dry port The dry port facility will also provide cold storage facility such as reefer container which would enable highly perishable products to find market in international market at higher price which otherwise would land up in few neighboring countries without much bargaining power. The warehouse facility at the dry port will also provide consolidation and packaging services.

22. In order to further cut down on the custom administration in the international trade, the Department of Customs has put in place the automated customs system.
23. To avail the transport benefits of the railway system, Bhutan and India as agreed in principle to extend the railway lines into Bhutan in the southern part of the border at three main exit points.
24. Negotiations will be taken up with India and Bangladesh to allow trucks from Bhutan and Bangladesh to operate between the two countries, thus avoiding the current practice of trans-shipment of goods at border crossing. This would alleviate the problems related to unloading and loading and damages caused to goods particularly perishable cargo.
25. The Ministry of Communication initiated the process of liberalization of telecommunication and related services in Bhutan from 1998. The first step towards the liberalization was the enactment of the Bhutan Telecommunication Act by the National Assembly in 1999 that provide legal framework for the regulation of telecommunications. The Telecommunication Act defines the following; transformation of the state owned to fully state owned corporation who will operate purely on commercial basis. The Act enables the fully owned corporation to be privatized in due time depending upon market condition. . License are open to all prospective operators for all value added services and independent service providers.
26. Privatization of industries and service sectors started in early 1990s and continues to be the policy of the Royal Government. Privatization is carried out through the following modalities outright sale, partial minority ownership, management contacting, lease management, commercialization and corporatization. The following public enterprises have been corporatized and are now operating purely on commercial terms and do not receive any budgetary support from the Government: Kuensel Corporation, Bhutan Broadcasting Service Corporation, Bhutan Telecom Corporation, Bhutan Post.
27. A further step in the liberalization process has now been taken as clearing and forwarding activities have been privatized. Bhutan Customs have appointed a number of Indian agents to clear Bhutanese cargoes in Kolkotta, since Bhutanese agents are permitted to operate there. Inside Bhutan, private courier service provider/clearing agents are encouraged to take up courier service. Now the most of the customs clearance are being liberalized and are being taken up by the private clearing agents. The international courier services provider such as DHL and express mail are operating in Bhutan. These clearing agents provide services both for import and export. The increasing number of agents has brought about competition in the logistic service industry resulting into efficiency and cost effectiveness in the transaction of goods.

28. Traffic in transit destined for third countries is allowed to operate through 16 routes in India. The Agreement on Trade and Commerce between the two countries provides for point of entry and exist as well as storage facilities for the safe and speedy movement of goods. Ports and transit routes are also being identified and negotiated with Bangladesh which will provide a potential additional/alternate port to Bhutan.
29. Bhutan's membership to the SAFTA and BIMSTEC and their commitments to integrate transport systems and harmonize standards in the region would also provide ease in documentations and procedures under customs.
30. The works on the Thimphu-Phuntsholing double lane highway are under progress. This would address some of the logistical problems due to slow movement and carrying capacity of transporters as these two places are the main business centers of the country.

Impact of Policies on the industry and trade facilitation

31. Country like Bhutan has been seriously disadvantaged by its geographical location which is further compounded by underdeveloped logistical services. This affects the costs of logistics and as a result the percentage of total logistical costs in the total production costs is much higher than the neighboring countries. An efficient road system for a landlocked country assumes paramount importance as it plays a crucial role in supporting and stimulating domestic and international trade.
32. Most of the industries other than the agro based industries depend heavily on the imported raw material and other factor of productions inputs. The reliable transport and logistical services is an important factor that could contribute much to the reduction of cost of production through "just in time" inventory management and also cost effectively brining the products to the right market at the right time thereby increase the competitiveness of firms.
33. The rationalization in the customs procedures has also lead to the minimization of demurrage charges as compared to the past whereby importers land up paying substantial amount of demurrages due to delay in customs documentation further compounded by inefficient delivery of documents.
34. The liberalization in clearing and forwarding activities to the private players have injected sense of competition in the logistical service industry which has contributed to the efficiency of service at reduced cost.
35. With the establishment of the proposed dry port in Bhutan, it is envisaged that cumbersome customs procedure at Kolkota will be minimized as the goods destined for Bhutan will use through way bills till the dry port without having to go through the cumbersome customs procedures at Kolkotta..

36. The additional warehouse facility provided alongside the dry port will provide packaging and other ancillary services to the customers which would greatly contribute to the international trade.

Lessons Learnt

37. Recent studies have highlighted the importance of efficient logistical services for the international trade to flourish. In spite of the small size of the country, economies like those of the Asian Tigers such as Hong Kong and Singapore have prospered which mainly attributes to the superior logistical services which facilitated trade. Their logistical supremacy has converted these countries as the transshipment hub for the neighboring countries and they continue to build on these strength. Following them countries like Malaysia and Thailand are also competing in improving logistic industry to boost trade and attract investment. While the countries like Nepal, Lao, Mongolia have retarded the pace of development due to fledgling logistics industry.

Conclusion

38. As a landlocked country, Bhutan's international largely depends on efficient and reliable transport infrastructure and other logistical services. The success of Bhutan's exporting industry will depend on our ability to tie into the emerging international trade logistics service networks.
39. While the SAFTA would bring about removal of tariff barriers, Bhutan must take up with the member countries to make corresponding improvement on the inter regional transport and logistical supports to realize the desired benefit of free trade arrangements.
40. In the domestic front it is important for various stakeholders involved in the transport and logistics development in Bhutan to take up transport and logistical service on priority through proper inter agency coordination which would bring about integrated transport systems and harmonized standards in line with the regional and ideally global standard.
41. Government should continue to involve private sector in the logistical development wherever possible as these would facilitate liberalization of these services. In the areas where private sector have no capacity such as development of dry port, Government should consider BOT mechanism (built operate and transfer).