

MONTHLY REVIEW

A Monthly Newsletter by Rational Expectations Economics Society (REES) of Royal Thimphu College

REES bids farewell to its seniors

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BA Economics and EVS, 1st year

On the 12th of June 2015, we the Rational Expectations Economics Society (REES) held our farewell ceremony for the outgoing graduates in the auditorium with our guests from QED.



REES students

The welcome speech was delivered by Ms Kaka Choden of 2nd year BA ECO EVS where she whole heartedly welcomed our seniors with honor. The talk on **Basically Conceptual Of Behavioral Economics** was given by Professor Sanjeev Mehta. The REES student journal "YOUNG MIND" was launched by Mr. Jamyang Tashi of QED and the credit goes to Mr. Wangchuk and his team for the wonderful output. Our out-going President, Mr. Chencho Dorji officially handed over the post of president to Ms. Kaka Choden with pride.

The most awaited event for the day was the Award ceremony where SAESM team, student government, editors for Journal and Newsletter, Budding 2015 participants and winners were acknowledged with certificate and acknowledgment letter.

After that our out-going president addressed with golden words and shared his experiences. It is hard to say good bye to our seniors so in order to show our gratitude towards them, a surprise video clip was shown where it touched their heart. As their sign of thanking, the seniors showered the word of wisdoms and advices which we all agreed to follow so and also a farewell dance was performed.

Last but not the least, Danraj, our out-going secretary gave the vote of thanks where he on behalf of the out-going students thanked the REES for the wonderful experiences and a platform to show their ability.

The happiest yet saddest day came to an end with a cup of tea and group photo session.

“As you will find in multivariable calculus, there is often a number of solutions for any given problem.”

John Nash

1928-2015

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WTO and FDI: Assessing the Impact

Sanjeev Mehta

Professor

Heraclitus wisely said- “Nothing is permanent but change”. He was probably never more relevant than in the last two decades. This period witnesses accelerating rate of change that made future harder to foresee. The greater the uncertainties the greater are the resistance to change. The issue whether Bhutan should join WTO without further delay needs to be seen in this perspective. The ongoing debate helps us to understand different points of view and should not be seen as an attempt to confound the ignorant. Nelson Mandela has put it succinctly in his autobiography ‘Long walk to Freedom’- “the foundation of self governance was that all men were free to raise their opinions and equal in their values as citizens”. If the so called ‘ignorant’ understand different points of view their head would be clearer rather than remain in a state of confusion.

One of the many questions asked about WTO is whether and how the WTO would help our private sector and industries to grow. Theoretically, WTO would create incentives for greater FDI inflows, bridge the resource gaps, bring latest technology, managerial practices and improve labour standards and environmental regulations. It sounds like one size fits all which is too good to be true. What would be the additional benefits to Bhutan from its accession to WTO in terms of investment opportunities and private sector development? To understand the effect we need to answer two questions- one, whether greater FDI inflows would take place once Bhutan joins WTO and second, which is contingent to the affirmative answer of the first question, would it be supportive to the development of the domestic industries.

Let me review the first question. If the FDI inflows are constrained by highly restrictive FDI regime in the host country, joining WTO is definitely advantageous. Joining WTO and accepting TRIMs and possible multilateral framework for investment would only mean meeting one of the preconditions for greater FDI. If the host country offers greater comparative advantage and the FDI offer attractive returns to the potential investors (Multi-National Corporations), a country can expect high inflow of foreign investment. The volume of FDI inflows is determined by pulls factors. There are four major pull factors: - market conditions, local business conditions, government policies and cost of production. Size of Bhutanese market is very small and does not offer any opportunity to the potential foreign investors. There are extremely limited areas of comparative advantages and wherever they exist they cannot be realized because of the GNH orientation of the policy. The existing trade-off between the GNH and reaping of the natural comparative advantage that Bhutan enjoys does not suggest greater FDI inflows to Bhutan. Hydroelectricity, IT, IT enable services and other green industries are the catch areas, where there is a harmony between the two goals, but whether the existing potential can be reaped depends on an array of other factors. Given that India is a virtual giant in the area of IT what would be the additional that Bhutan will offer to attract FDI away from India is a crucial question. Shortage of skilled man power and infrastructural bottlenecks would be the repelling factor. The outcome is at the best would remain uncertain. Hydroelectricity will continue to remain crucial to Bhutan’s progress. This sector can attract large volume of FDI, especially from India.

FDI potential index is one device that gives us some understanding of the ability to attract FDI. The index is not calculated for Bhutan but all the South Asian Countries are very poorly ranked on this index. Bhutan’s case is also not different from them. On the other side, bulks of FDI inflows are market seeking type and actually only substitute trade. Trade composition of Bhutan is highly lopsided representing one country one product, a market situation which is hardly conducive for greater FDI inflows. The small size of the international trade also does not offer the potential benefits of returns to scale even if the opportunity exists for trade replacing investment.

The answer to the second question is easier. Even if the FDI inflows take place at a rate that can boost up investment significantly, the domestic industries would be the net loser by a great margin. Impact of FDI on development goes beyond trade and can be negative. It depends on strategies of MNCs and the host government policies. Entry of MNCs can have any of the three effects- one, termed as global miniature replica effect, invite similar investment from its global competitors and creating more competition at home (obviously implying annihilation of the domestic players). Second, termed as defensive amalgamation, where local players combine to take on the giant MNCs. This results into creation of a duopolistic market structure. Third and the most harmful effect, where MNCs tend to wipe out the domestic competitors and gain monopolistic control over the market. The final outcome depends on the role and strategy of the host government regarding externalities and spillover effect on the national economies. If we do not ensure that FDI creates greater linkages with the rest of the economy and allow rapid trickle down of benefits the inequalities might increase alarmingly. The fear is real.

TRIPs and therefore WTO does not provide balancing rights and responsibilities. This is a basic asymmetry in the principle of equal treatment. It only provides for the rights of the MNCs and duties of the host government but not the other way round. Unless the government is able to secure equal rights in the negotiation process the FDI inflows would be inimical to economic sovereignty and to the process of private sector development. Ideal situation would be to secure simultaneous obligations on the three players- the MNCs, the host government and the governments that are home to the MNCs. If we are confident of doing so through the negotiation process, we should not be hesitant in joining WTO without any delay. The decision has to be collective and inclusive. At personal level, I remain a skeptic.

Bhutan's development process in the light of Lewis model

Phub Gyem

BA Economics and EVS 3rd Year

The theory of economic growth is also known as the dual sector model as it explains the role of agriculture and industrial sector in economic growth of the country. It is proposed by Sir Arthur Lewis in 1954. The theory mainly explains about the transition of labour between two sectors, from the agriculture to the industrial sector.

In the Arthur Lewis model certain assumptions are presented such as disguised unemployment exists in agriculture sector, wages in the modern sector are assumed to be 30% higher than subsistence or agriculture sector wages, all the wages that they get from industrial sector are consumed and the profits are saved and reinvested and It is also assumed that there are no problems in acquiring the raw materials and other resources needed for the industrialisation. It is also assumed that the wages in industrial sector remain constant and the industrialist will earn surplus. The surplus will be then re-invested in the industrial sector leading to increase labour intake which are migrated from agriculture sector. In this way, the disguised unemployment will get the employment.

Development process in Bhutan and the Lewis model.

Lewis model explains mainly of two sectors that is industrial and agriculture sector in under-developed countries. For Bhutan, industries came much later after agriculture. Before almost all people of the country were fully dependent on the agriculture and agriculture was the main source of their income. In the late 1980s, around 95 percent of the work force was involved in the agricultural sector. (Mongabay, n.d). With introduction of five year plan in 1961, other sectors started growing and industrial sector also came later. Though the industrial sector in Bhutan in developing it had not reached the point that it can employ all people who migrate in search of jobs and also the people of Bhutan prefers only the white collared jobs. Auther Lewis explains that due to development of modern industries, it will employ all unemployed ones and the issues of unemployment will be solved but for Bhutan, industries can't take all the unemployed ones and solve the problem of unemployment though the population of our country is less. It can be due to less interest of people in blue-collared jobs but no solutions to such situation are mentioned in Lewis model. For Bhutan there are very less industries and also the workers are not Bhutanese. Industries in Bhutan like mining, cement factory, hydropower projects and even construction works are having more of Indian workers. So if Bhutan has applied the Lewis model in its development process then, there wouldn't be workers from other countries which show the model is not applicable to Bhutan.

In Lewis model there exists disguised unemployment in the agriculture sector which was same in Bhutan in olden days. The population working in agriculture is huge but the productivity was very low may be because of the lack of modern techniques of farming and improved quality of seeds. This focus on subsistence family farming results in the fact that almost 60% of the Bhutanese people do not contribute to Bhutan's national economy (Jost,n.d) and contribution of the 60% is not there resulting in disguised unemployment.

Now a days huge labour shortage problem is faced in agriculture due to migration of people to urban centres and also due to population size. So, disguised unemployment problem is not there, instead Bhutan is facing the issue of labour shortage in agriculture sector.

The model assumes the industrial wages are 30% higher than the subsistence wage but for Bhutan the people living in rural area doesn't really earn wage as they work for their own living in their own farms. The incomes that the villagers earn are not fixed as it depends on the yearly productivity so it is difficult to determine wages for ones working in agriculture sector.

All the wages are consumed and all profits is saved and invest-ed is also one assumption but not applicable to Bhutan. The profits that people earn are not fully saved and invested as consumption increases. As the profits increases, savings and investment becomes less due to conspicuous consumption. In Bhutan people can't save and invest fully because of dependency of family members on one particular person who is earning. In turn lots of expenditure has to be done which leads to decrease in savings.

Suggestions on implementation of Lewis model in Bhutan.

In Bhutan to apply the Lewis model, we should develop and upgrade our industrial sector. Government have to come up with plans and policies to improve the industrial sector and should firstly change its curriculum in schools. The curriculum should be in such a way that not only academics, skills building, vocational trainings should be included so that the students will be well equipped.

Awareness activities should be carried out which educates the teachers and parents. Parents always remind them and let them study to get a dignified job later. So, such beliefs should be changed and let the children do what they are interested in rather than parents forcing them. If such changes happen then the industrial sector will develop and employ the Bhutanese workers and not the outsiders. Then the Lewis model can be applied.

Though Bhutan might not have applied Lewis model, we can still apply but looking into the drawbacks of the model. Lewis model actually didn't take agriculture into account and importance was not given, but we should give equal importance to both industrial and agriculture as for a country to develop both should go together.

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FINANCIAL REPRESSION

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The term financial repression was first introduced in 1973 by McKinnon and Shaw as a way of describing emerging market financial systems prior to the widespread financial liberalization that began in the 1980s and it has been rediscovered by Reinhart and Sbrancia in their paper "The Liquidation of Government Debt" (n.a, 2013). However, financial repression was also the norm for advanced economies during the post World War II era. It is the most accepted wisdom among the financial community and the most common argument supporting interest rates. Financial repression is defined as regulation imposed by government to banks and other financial mediator to force them to hold more government bonds than they would absent such regulation. It has been extensively used by government as a tool to reduce the burden of the government debt (Reinhart & Sbrancia, 2011). Financial repression is a set of governmental policies that keep real interest rates low or negative and regulate or manipulate a captive audience into investing in government debt which results in cheap funding and will be a prime tool used by governments in highly indebted developed market economies to improve their balance sheets over the coming decades. As coined by Ronald McKinnon (1973), the term "financial repression" describes various policies that allow governments to "capture" and "under-pay" domestic savers. Such policies include forced lending to governments by pension funds and other domestic financial institutions, interest-rate caps, capital controls and many more. Governments have typically used a mixture of these to bring down debt levels, but inflation and financial repression typically only work for domestically held debt. Financial repression issues come under the broad umbrella of "macro prudential regulation," which refers to government efforts to ensure the health of an entire financial system.

Financial repression is most successful in liquidating debts when accompanied by a steady dose of inflation; it only works with debts denominated in domestic currency. Low nominal interest rates help reduce debt servicing costs, while a high incidence of negative real interest rates erodes the real value of government debt. One of the main goals of financial repression is to keep nominal interest rates lower than they would be in more competitive markets. This reduces the government's interest expenses for a given stock of debt and contributes to deficit reduction. However, when financial repression produces negative real interest rates (nominal rates below the inflation rate), it reduces the existing debts and becomes the equivalent of a tax-a transfer from creditors (savers) to borrowers, including the government (Reinhart and Sbrancia, 2011). But this financial repression tax is unlike income, consumption, or sales taxes. The rate is determined by financial regulations and inflation performance, which are opaque compared with more visible and often highly politicized fiscal measures.

The role of financial repression are to give payment services, same savers and investors, to give ideas or information, allocation critic efficiently, taking risk for price, pooling and trading and to increase advantage liquidity. The pillars of "Financial repression" are that the term became a way of describing emerging market financial systems prior to the widespread financial liberalization that began in the 1980s. Financial repression was also the norm for advanced economies. Financial repression helps to combat weak economies, good financial development and to reduce unemployment. Financial repression is an effective policy adopted by government, but the problem is weak interest. If that were the case, low real interest rates would normally reduce savings, move consumption from future years into the present, and generate stronger economic growth.

In the 1970's Economist Edward Shaw and Ronald McKinnon identified five common actions of financial repression historically commonly taken by government. There are control of interest rates, Granting credit to particular industries, Government ownership or high level of authority over banks and financial institutions, requiring ownership of government debt and Restrictions and controls on capital or assets moving abroad.

The term financial repression dates back to debt crises in emerging economies in the 1960s and 1970s – and it has been revived by some influential economists as governments hike taxes and cut spending in the wake of the most recent global financial crises. However, some argue the current developed market moves are more defensible and less distortionary than the early developing market experience. Financial repression may achieve in several ways, Pension puzzler, inflating away and Relieving repression (Thornton, n.d). The most common motive for financial repression is to improve a country's ability to finance government debt without resorting to painful fiscal adjustment. By artificially lowering the cost of debt financing below what would be demanded by free market forces, governments are able to reduce borrowing costs and slow down debt accumulation rates (Mather, 2011).

Cost and risk of financial repression is that it can inhibit growth over the medium to longer term because it tends to promote very inefficient capital allocation and to crowd out more productive investment. In addition, repression can potentially lead the economy toward significant (unintended) market distortions: asset booms/busts, uncontrollable bouts of inflation, and sudden stops in economic activity from loss of confidence, or capital flight (Hera, 2011).

Financial repression is the practical solution to our debt addiction and considers the alternatives. We are faced with a limited set of options. Ideally, we could reduce debt to GDP ratios by holding debt constant and increasing GDP. This requires low deficits and strong economic growth- hardly a description of the current experience in most developed economies. Moreover, with the debt overhang continuing to slow economic growth, this solution is unlikely to materialize on its own. We could try and dramatically reduce debt through austerity policies. The difficulty here is that GDP drops along with spending, so the economy as a whole shrinks and the debt-to-GDP ratio may not improve. Rich nations worldwide have a problem with debt. In the past, such problems have been dealt with by several tactics, including 'financial repression'.

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In light of the record or near-record levels of public and private debt, debt-reduction strategies are likely to remain at the forefront of policy discussions in most of the advanced economies for the foreseeable future (Reinhart & Sbrancia, 2011).

Financial repression also has some interesting political-economy properties. Unlike other taxes, the "repression" tax rate (or rates) is determined by financial regulations and inflation performance that are opaque to the highly politicized realm of fiscal measures. We suggest that the combination of high public and private debts in the advanced economies (with the attendant pressures towards creating captive audiences for government debt) and the perceived dangers of currency misalignments and overvaluation in emerging markets facing surges in capital inflows interact to produce a "home bias" in finance and a resurgence of financial repression. It is not called financial repression but unfolds in the context of "macro prudential regulation".

Real interest rates in both advanced and emerging economies would remain consistently lower than during the eras of free capital mobility before and after the financial repression era for the next 35 years or so. In effect, real interest rates were on average or negative. Binding interest-rate ceilings on deposits "induced" domestic savers to hold government bonds. What delayed the emergence of leakages in the search for higher yield was that the incidence of negative returns on government bonds and on deposits was (more or less) a universal phenomenon at this time. The frequency distributions of real rates for the period of financial repression (1945-80) and the years following financial liberalization, shown highlight the universality of lower real interest rates prior to the 1980s and the high incidence of negative real interest rates in the advanced economies (Reinhart & Sbrancia, 2011).

Modern Financial Repression (2008-2012), One thing advanced economies do not lack at present is an abundance of government debt, which is accompanied with the attendant common policy challenge of finding prospective buyers for such debt. The role of massive purchases of government debt by central banks around the world in keeping nominal and real interest rates low. Other approaches to create or expand demand for government debt may be more direct. The use of capital controls for emerging markets concerned about destabilising "hot money" inflows, potential overheating, rising inflationary pressures, and the related competitiveness issues have found far greater acceptance in the international community than at any time since the breakdown of the Bretton Woods system of fixed exchange rates. Many emerging markets have already embarked on various policies with that aim (Kirkegaard and Reinhart 2012).

Financial repression can be both sided: advantages and disadvantages. However most of the empirical evidences show that governments which adopt these policy of financial repression usually hamper the economic growth at the expense of short term gains. This strategy could contribute towards the government revenue but still affects growth of domestic and foreign businesses due to inaccessibility to funds.

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Unemployment Status in Bhutan: (from youth perspectives)

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The Royal Government is struggling today with several challenges in trying to address the unemployment scenario through ineffective strategies and programmed over the years. With its total population of 734,851 (2012 estimates), its geographical area of approximately 38,394 km² is grimly constrained by mountainous topography and commercial farming. Youth and unemployment are two issues of concern for the policy makers at present, in order to keep pace with rapid economic development and changing lifestyles of otherwise rural close-knit community. Youth related problems are emerging in the country not only with unemployment scenario but host of others activities such as drug abuse, crimes and rural to urban migration.

Therefore the government in the last few years have been striving to bring down the youth or unemployment rate with 2.5% from its 3.3% in 2010 (Annual Report of PM, July 2011). However, several policy initiatives were explored and thousands were already employed in various sectors and business houses. Even the opportunities to work outside the country have been pursued over the years.

Unemployment is defined by the oxford dictionary as "the fact of the number of the people not having a job or the number of people without job". In other words, it is a situation of not being able to find a gainful job or state of jobless in an economic sense. While Employment is something to earn money or it is the state of having a paid job. In Bhutan unemployed is when youth and alike are unable to work gainfully. The unemployment status is defined as 'the percent of total unemployed to the total labor force' (Labor force Survey Report, 2011).

With increasing educated people in the country, the number of job opportunities available or for that matter created in various sector of economy has been unable to match the needs and expectations of job seekers. Looking at the trend of employment scenario in Bhutan, more and more people especially the youth are finding hard to get into gainful work ,thereby creating unprecedented unemployment which was never thought of more a decade ago.

As a small, landlocked country it is grappling with the unemployment problem of less than 5 percent owing to various reasons or rather factors mainly the demand for jobs as said unable to match the supply side of the people completing education at various levels. One of the reason often cited is the 'mismatch of education to jobs' available in the country in the country. Our job market under various sectors cannot take in everybody. It has to match with the skills and expertise needed by the nature of job. Furthermore, many of our youngsters graduating from the schools and higher learning institutions are also least prepared to face the realities of job requirements.

Youth unemployment rate is higher between those age of 15-19 and 20-24 years at the moment because of increasing number of people completing education, both within and outside the kingdom (BLFS 2012). Most of job seekers harbour mindset to join civil service where it is already constrained by the low absorption capacity vis-a-vis jobs available in other service sectors including the informal sector.

Methodology

The information for this paper is based on findings from Ministry of labor and Human Resources (MoLHR). MoLHR get the information on employment status by conducting labor force survey on annual basis. It include all the aspects of labor market and the situation of job markets in Bhutan.

Problem Statement

With GNH infused developed approach, well oriented policies and programmed are put in place to address the existing unemployment problems in creating as much as employment opportunities in the country. The number of youth job seekers is in the manageable state today as viable environment as option to realize the meaningfulness of life and find some alternatives when the dearth of skilled labor in some keys sectors prevailed.

Some of the major causes of unemployment in general largely the youth are:

The majorities of the job seekers are unequipped with any skill and have poor qualification as they come straight out of school. They desire and want to work for the job which pays them higher wage. Mehta notes that Bhutanese labor has higher wage 'demand' in mind and in a market situation, private business only pay the effort the labor has put in(n.d.). Moreover, the employer's will absorb only the skilled workers who will produce more and ultimately make higher profit.

There is a low esteem held for blue color job by the job seekers themselves and the society as a whole. In Bhutan, parents have high expectation right from the birth of the child that they want their child to become 'dasho' literally meaning boss when s/he grows up. Rinchen (2008) asserts that the Bhutanese youth believe that manual labor jobs are meant for un-educated ones and are looked down. Even the persons send abroad for vocational trainings do not work in the field they are trained after returning home. Chhetri (2011) observes that ten people were sent to Thailand by Ministry of Labor and Human Resources (MoLHR) to be trained in laundry but they did not work after they returned home in hotels as laundry person where they were supposed to work.

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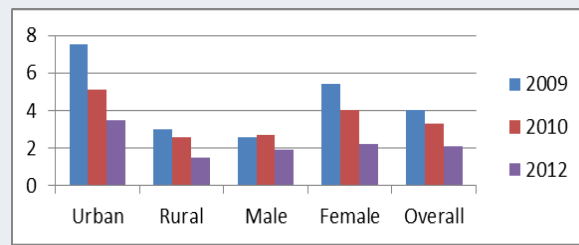
There is a mismatch created in the market between the employers and the employee. Out of 6,842 job seekers registered under MoLHR, only 509 got employed against total vacancies of 5,313. (MoLHR, 2011). The rest 4,804 vacancies which is a very significant number remained unfilled despite majority of the registered job seekers being unemployed. The employers demand for skilled and qualified labor while the employee aims for higher wages and do not want to do blue color job.

With the construction industry booming in the country, there has been high demand for construction workers. The youth are not willing to do such physical demanding work and therefore, they are occupied by cheap laborers from neighboring countries such as India and Bangladesh. (Saher, 2008). The labor force participation rate is very low in the age group of 15-24 years old which has the highest unemployment of 9.9 percent. (National Statistics Bureau [NSB], 2007). This implies that despite several vacancies being available, youth are not participating in the work as most of the job available is elementary jobs. As per the job information bulletin 'Human resource requirements by major occupation 2012-2013' elementary jobs such as craft and related work have 522 requirements while that of technicians and associate professionals have 578. The combined basic job requirement is 1,100 while that of highly professionals and educated such as legislators, senior officials and managers have need of only 91. (MoLHR, 2011).

Youth who enter the labor market do not have any idea as to what is labor market and the kind of labor is in high demand. Government realizing this has prepared a program where MoLHR in collaboration with Ministry of Education (MoE) will be introducing Labor Market Information (LME) in secondary schools. (Choden, 2011). According to labor minister, Wagdi cited in students to be educated on labor market, "Students, once they pass out of college, are shocked as they have not been trained on the labor market reality." This is intended to address the students who are left in dilemma as to what kind of job to do after leaving the school.

The graph explains us that there is increased in the unemployment till 2009 and had declined from 2010. This indicates there is not a major problem regarding unemployment because the trend started to decline. Decreased in unemployment is due to improvement of Bhutanese economy in terms of creating employment, self employment, development in small and cottage industry.

Unemployment can be compared between region (urban and rural), age (young and old), and gender (male and female). Hereby I am going to explain about the youth unemployment in Bhutan over past few years. The table below shows the youth unemployment by gender wise. As regards the number of unemployment case from 2010 to 2012, there were 11,000 in 2010; 10500 in 2011; and 6904 in 2012. The unemployed rate increased from 1.9% in 2001 to 3.1 in 2011 as far as the trend was concerned (LFS Report,2011)



On gender wise unemployed youth rate it was 2.2% for female and 1.9% for male in 2012, meaning there were more female unemployed youth.

It is increasing to mention here that despite several decades of socio-economic development in Bhutan there are sectors which have been facing dearth of human resources. On the other hand, there are some sectors which require mostly white collar jobs are barely taking in ever increasing youth job seekers. Nevertheless, the time has come for our able bodies and dynamic youth and others to look into the private sector for gainful employment rather everyone chasing "after too few jobs" in the government or public sectors. It is also equally important for our educated youth including the university graduates to talk up 'self employment' to be self sufficient, dignified and proud of being somebody. One must therefore be mindful to take up those jobs in the construction sectors by our fellow Bhutanese from the expatriate worker in thousands. The government like in other developing countries must also support various schemes and programmed in improving skills of job seekers for some years to reap benefit of vibrant economy. To sum up, there were more than 10,600 unemployed people in 2007. This trend of rising unemployment is expected to continue for some time in future. It is also estimated 147,244 job seekers likely to enter the labor market in the 11thplan (July2013-June 2018) out of which 50,000 would be employed in various sectors (Labor Ministry projections). On the negative side of youth unemployment, it is one of the causes of menace of frequent problem like drug abuses, gang fights, vandalism, rape, theft, proliferation of drug gangs and other youth related crimes if employments drive not addressed at the national level. So it is the state's priority for larger interest and security of Bhutan.

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REES bids farewell to its seniors



An Obituary to John Nash

The great American mathematician John Brewster Nash died on May 23, 2015. His name is associated with the Nash equilibrium – a position in a situation of competition or conflict in which both sides have selected a strategy, but where neither side can then independently change their strategy without ending up in a less desirable position. Such positions are common in everyday life, and in the interactions of business people, politicians and nations. He earned his early reputation, and his 1994 Nobel prize in economics, by proving mathematically that there is at least one Nash equilibrium lying in wait to trap us in every situation of competition or conflict where the parties are unwilling or unable to communicate.

Nash had arrived at Princeton University, New Jersey, in 1948 to study for a postgraduate degree in mathematics, bearing a laconic one-line recommendation from his previous professor, Richard Duffin: “This man is a genius.” He proved his genius within two years by publishing what is surely the shortest paper ever to win its author a Nobel prize. Called Equilibrium Points in N-Person Games, it was less than a page long and contained just 317 words. His life was depicted in a film ‘A Beautiful Mind’. He was diagnosed with paranoid schizophrenia which led to the breakup of his marriage – although he remarried his wife Alicia (who died with him in the taxi crash) in 2001 – the loss of his job, and nearly the loss of his Nobel prize when members of the selection committee were worried that he might never be able to pursue serious research again.

REES pays homage to this great mathematician.

Sanjeev Mehta