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Foreword

Continuity is a virtue by itself. We are proud that *Young Mind* continues its journey with the launch its second issue. Main objective of student's journal *Young Mind* is to create an archive of good quality academic work undertaken by students. Through this journal Rational Expectations Economics Society aim to motivate students to have an inquisitiveness of a researcher, logic of a scientist and an analytical mind of economist. We believe that opportunities for publication also foster a spirit of healthy competition both among the students and faculty to achieve higher standards in the course work. Publication of good academic work provides wider audience as well as expands opportunities for critical feedbacks from subject experts. We urge our readers to provide their frank opinion on the papers either directly to the authors or to the editorial team.

Young Mind promotes critical as well as independent thinking and remains ideologically neutral. Young mind bring opportunities for new ideas, create a discourse that provides alternative to conservative logic and seek innovative solution to challenges faced by our society and economy. It is indeed a difficult task but the *Young Mind* is firmly committed to transform itself into a journal of academic repute.



(Sanjeev Mehta)

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Second Generation Land Reform Proposals For Bhutan.

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Land reform is one of the important development strategies particularly for the agricultural-based economy to bring about overall economic development and equality in the society. Land reform not only deals with the physical redistribution of land but it is also closely associated with bringing about increase in agriculture productivity, better access to credit services, provision of infrastructures facilities, and supporting and creating market that benefits farmers gainfully to engage in such agricultural activities (Yetsho, 2010). According to Saif (2012), land reform is indispensable to bring social equity, political stability and economic progress. Given the importance of land reform in developing economy, this study will basically highlight the past and current situation of agrarian structure and distribution of land, proposed second generation of land reform and possible challenges in the implementation process of such land reform agenda in Bhutan.

The land distribution system prior to 1950s was highly unequal that land was largely owned by aristocrats (mainly Dung and Choeji), the state and monastic institutions (Lamas) and such elites are served by serfs (Yetsho, 2010). The first generation of land reform in Bhutan was instigated by His Majesty the Third Druk Gyalpo, Jigme Dorji Wangchuck in 1950s. Feudalistic system was abolished, the practice of serfdom was banned and redistribution of land to the landless people has taken place (Tobgay, 2012) and the land ceiling was set at 25 acres in 11th session of National Assembly in 1958 (Yetsho, 2010). The first generation

of land reform has mixed stories of both success and failure. Abolishment of feudal lords and ban on serfdom system brought significant impact in bringing about political stability and social equality. According to Yetsho (2010), redistribution of land to landless was not very successful because people have to come to Thimphu for the registration. Most serf and landless people, considering their opportunity cost, time constraints and transportation problem, were deprived of such opportunity. The land ceiling of 25 acres for the household with single child was a complete failure as many of the household during that time had more

than one child. So, confiscation of land and redistributing it to the landless farmer could not happen at a larger extent. Land redistributing is still happening through land kidu by His Majesty and resettlement.

Of the total land area in Bhutan, 72.5% is covered by forest and only 8% is under agriculture cultivation (Pathak, 2010). 69% of Bhutanese people depend on agriculture. Bhutanese farmers are generally small and marginal. Agriculture in Bhutan is generally primitive, subsistence and labour intensive. Small land holding size, steep slopes and rugged terrain limits the opportunities for farm mechanization. The average land holding size per households is estimated 2.10 acres (BLSS, 2012). About 34% of the households do not own land (BLSS), 14% of the households are marginal farmer (own less than 1 acre) and 56% households own between 1 and 5 acres of land (Dorji, n.d). Land fragmentation reduces the size of land holding in Bhutan which further leads to decreased productivity. Less than 20% of farmers (87,500 households) have access to credit and the coverage of small farmers is estimated less than 10% (Pathak, 2010). Private investment in Agriculture sector has declined to 1.4% in 2009 from 6% in 1986 (Mehta, 2012).

Land distribution in Bhutan is highly skewed. 92 percent of cultivated land (Wet land) is located in the southern and the western regions (FAO, 2015). Coincidentally, poverty is purely the rural phenomena and poverty rate is found relatively high in Eastern Regions. Poverty in Bhutan is closely linked with nature of the land and small land holding size, labour intensive in nature, and little or no access to credit and other services. Bhutan's Gini index (2014 est.) is estimated at 38.7% (World Bank, 2015) which implies that there is significant gap of inequality in Bhutanese society. The share of agriculture sector in GDP has declined from 55% in 1980 to 16% in 2014. Agriculture growth rate has declined to 2.2% in 2000s from 5.5% in 1980s (Mehta, 2012). This regressive trend has reduced production of major food grains which leads to rising imports of food grains which resulted in increased balance of payment problem. Research and development in agriculture is very limited in Bhutan which further hinders the growth of agriculture.

With the above knowledge and judgments, the second generation of land reform is proposed as follows

- I. Redistribution of land should happen through strengthening the size of agriculture land and, setting appropriate land ceiling and land floor. Some area under forest cover will be used for agriculture purpose but constitution mandate of 60% forest cover will be maintained. The cleared land will be redistributed to the landless, marginal and small farmer. Such privilege will be made available first to the people of the eastern region whose land holding size is relatively low. If any household landholding exceeds the land ceiling, their land will be confiscated by the government and redistributed to the small and marginal farmers.
- II. Micro-finance credit and appropriate irrigation system should be promoted in every rural area to reduce exploitation and to increase the agricultural productivity.
- III. Land consolidation and cooperative farming should be promoted to check the division and fragmentation of land.

- IV. Local Research and development needs to be carried out in larger scale.

The above proposed second generation land reform can bring about social equality, reduced rural poverty and can promote economic growth in our country but it is also subjected to number of challenges during implementation process. The conversion of forest area to agriculture requires political willingness and National Environment Commission's consent. If National Environment Commission does not consent to such implementations, fearing the negative consequences of deforestation, implementation of first agenda would be a complete failure. Uniform land ceiling is not appropriate for all regions and thus it requires intensive research and study. The removal of land ceiling is considered against the will of Article 9, Section 7 of the Constitution of Bhutan (Land Act, 2007).

Microfinance usually provides group lending and thus coordination, management and group cohesion is necessary to function effectively. If the cohesion of group does not last for extended period of time, it will lead

to micro-finance crisis. The most traumatic incident occurred in 2010 at Andhra Pradesh in India where more than 70 people committed suicide as they were incompetent to pay back the loan to the micro-finance lenders (Song, 2013). The risk of Micro finance failure is very high in developing economy. Irrigation system is associated with the challenges like irregular water flow, huge installment and maintenance cost.

Land fragmentation limits agricultural modernization and increase the risk of abandonment of some land, while land consolidation and cooperative farming groups separate parcels which encourage use of modern science and technology. Land consolidation should happen at the cost of social inheritance law and it also involves people's willingness to exchange or purchase the land. Having several different parcels has advantages like different parcels have different levels of fertility and it also avoids the risk of production failure on all the land (Papa & Lusho, 1995). Considering such advantages, some people won't be willing to undertake land consolidation. Cooperative farming largely depends on group cohesion and governmental support. Missing of any of this, would lead to failure in the implementation process.

Local research and development in agriculture on larger scale will be hindered by low human capital, inadequate funds and lack of institutional support. Thus, building of institutional and human capacity is must for the promotion of local research and development.

Bhutan is under the guiding principle of Gross National Happiness. To bring equality, reduce poverty rate and to achieve the overall level of happiness and economic development, equal and fair share of land for the citizen is indispensable. Thus, second generation of land reform has become necessary and mandatory.

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Bhutan's Growth: Creating Complementarity Between Lewis's Market Dualism

Lian Zeitz, Development Economics

Lewis's model, known as labour market dualism was first established in the paper *Economic Development with Unlimited Supplies of Labour*. In this seminal piece, labour market dualism is established as a division between two main sectors. On one hand, there is an agricultural sector that engages in both formal and non-formal means of capital development. On the other hand, there is the non-agricultural sector that can be labeled as 'formal' and 'capitalist' (Lewis, 1960). The interplay between these two sectors makes up the basis of Lewis's model of development and can be used to analyze Bhutan. However, the unique ways in which Bhutan is developing has created a division between these two sectors that is not efficient. This can be seen in Bhutan's agricultural and hydropower sectors. These two sectors provide lens to explore the applicability of Lewis's model in Bhutan. By exploring the failures and successes of Bhutanese development through these sectors, ways to create dual sector complementarity can be created.

In the paper *Economic Development with Unlimited Supplies of Labour* by Lewis, the assumption is made that a developing economy will have unlimited supply of labour. Although this assumption is not universal, it provides a framework to understand certain dynamics within countries that have large unemployment and unproductive sectors (Fields, 2004). When looking through this lens, marginal productivity creates a situation where the supply of labour is 'unlimited' as long as price exceeds demand and the majority of the workforces are on subsistence wages (Lewis, 1960). The usefulness of this theory falls within its applicability to how sector relationships play out in certain developing countries. These relationships can be understood through market segmentation (Fields, 2004). By outlining market segmentation in a nuanced way, Lewis provided a justification for looking at economic growth through a dualism between a country's agricultural sector and its capitalist sector.

The agricultural sector in Lewis's model is a broad term that encompasses many sects of a population that are subsistence based and not formally employed. This sector is characterized by a wide range of occupations in society, including but not limited to low wage service jobs, 'disguised' laborers, domestic jobs, and other marginally productive groups within society (Lewis, 1960). Since a large portion of a developing countries population fall within the agricultural sector, there is a large group of unproductive workers that can transition to other sectors. This bridge between the agricultural and capitalist sector explains a relationship where the capitalist sector absorbs the excess labour from a less productive sect of society.

The growth of the capitalist sector is due to a surplus in labour. This excess labour is found in the agricultural sector that has constant wages and marginal output. This allows for the capitalist sector to transfer labour and increase the development of capital. This occurs through an increase in capitalist labour that is coupled with advancements in technology (Lewis, 1960). These advancements create a space for greater savings to occur. Greater savings lead to greater investment. The higher investment that results from a productive

capitalist sector can create a more equitable distribution of national income and gradually bring the agricultural sector out of marginal productivity (Ranis, 2004). Now that a brief overview of Lewis's model has been established, an application of these insights can be used to evaluate the failures and successes of the Bhutanese economy.

The rapid development of Bhutan was initiated in 1961 when the Third King began launching five-year development plans (Ura, 2005). At this time, the Bhutanese economy was dominated by the agricultural sector. This came with the subsequent characteristics that Lewis discusses. Since there were minimal formal systems of governance and not a strong platform to develop an economy on, major organizational changes needed to take place. This occurred through the development of systems able to compliment the growth of a nation, such as roads and trade organizations. Nevertheless, certain realities on the ground, such as a relatively small labour force, cultural distinctiveness, and reliance on trade partners make Bhutanese development a particular case (Ura, 2005). Although Bhutanese development is unique, the dualistic framework provided by Lewis can be applicable with respect to certain aspects of Bhutan's growth process.

Therefore, by exploring the agricultural sector, resources reliance on hydropower, and lack of a diverse economy in Bhutanese development, suggestions can be provided on how to improve.

The agricultural sector in Bhutan is an area that has been neglected in the development process. This neglect is characterized by greater focus in the capitalist sector and a lack of emphasis on technologic advancements (Dukpa, 2010). This depiction does not fall in accordance with Lewis's advice because he advocates for a dynamic and collective growth of technological applications. In Lewis's model, when labour is shifting from the agricultural sector to the capital sector, advancements in technology on both sides will allow for a reorganization of production mechanisms and enable both sectors to move forward. In the case of Bhutan, the lack of emphasis on technological advancements in the agricultural sector can be seen as a hindrance to development. Lack of emphasis on the agricultural sector has transpired into a dependence on food imports. Subsequently, a large portion of the agricultural sector in Bhutan has not received the benefits of capitalist sector growth that Lewis speaks of. Even though technology was not emphasized in the

agricultural sector, the hydroelectric power sector of Bhutan has experienced massive advancements.

Hydroelectric power generation is currently Bhutan's main economic sector. This sector contributes 18 percent of total revenues and 20 percent of GDP (Commission, 2013). However, overemphasis on this sector has led to high upfront investment that has been acquired from outside donors. Going beyond donor dependence, this aspect of development comes at a time when Bhutan does not have the human capacity or the industrial production to self sustain hydropower. For example, because Bhutan does not have well developed industrial sectors to produce supplies for hydroelectric plants, all of the supplies have to be bought from the outside. What this means is that large donor investments end up leaving the Bhutanese economy, hindering the actual investment achieved by the nation. Although this aspect of the Bhutanese economy would fall into Lewis's capital sector, it does not benefit as much as it could from the capitalist investment that goes into it. One way to ensure that capital investment provides a decent rate of return is through human resource capability development.

Human resource capability is crucial to developing a diverse economy. In the case of Bhutan, there is not an unlimited supply of labour that would create large sector growth easily and there is a lack of human resource capability (Resource, 2010). Since labour is constrained and there is an insufficient job market in Bhutan, many people resort to informal sectors of capital accumulation. Thus, Lewis's proposition that economic growth from labour surplus would instigate intersection amongst employment and capital accumulation has not been as effective as it could be in Bhutan (Lewis, 1960). The lack of emphasis on the agricultural sector and the overemphasis on one capitalist sector has hindered the long-term growth process of Bhutan by lacking complimentary.

Complimentary between the agricultural sector and capitalist sector is critical to the economic development of Bhutan. Emphasizing technological advancements in the agricultural sector and increasing the human resource capabilities within the country can improve complementarity between these two sectors. Technological advancements in the agricultural sector will enhance the productivity of investments and enable the people within the sector to engage in formal

capital accumulation. These advancements will need to coincide with improvements in human resources capabilities so that excess labour from the agricultural sector can transfer into productive capitalist sector jobs (Ranis, 2004). These suggestions are ways to enhance the productivity of the nation by ensuring that economic investments produce higher rates of return.

It is imperative that Bhutan keeps capital within its borders. The lack of diverse industries creates a reliance on foreign imports. This hinders the production of commodities within Bhutan. Lewis stresses that a country should be producing its own commodities for consumption so that real wages can be increased. Greater protection to local interests should be at the forefront of development economics in Bhutan. Although free trade has aided the rapid development of the country, protectionist policies would promote greater competition between local production and imports. Though protectionist policies would be useful, they must be approached with caution and diligence because there is a fine balance between developing new industries and drawing in international capital.

The current inequity between Bhutanese production and foreign imports is hurting citizens by not inspiring a competitive advantage for commodity production. A competitive advantage for commodity production would promote complementarity between the agricultural and capitalist sectors by making local trade and production the primary engine of growth. Therefore, it is suggested that through improvements in agricultural technology, human resource capabilities, and new businesses industrialization in Bhutan will be more effective.

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The structures and the levels of Development of Bangladesh and New Zealand

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Bangladesh and New Zealand are randomly selected from north and south of the equator to study their political system, history, institutions, colonial past and their levels of development. Annual GDP Growth Rate, life expectancy at birth, under five mortality rate, population growth rate, gross saving, rural population, literacy rate, GDP Per Capita, revenue and export of goods and services are the 10 indicators employed to study their levels of development.

Bangladesh is located in South Asia and it covers an area of approximately 144,000 square kilometers. It is among the most densely populated countries with a population of 156,826,000 (2014 est.) and its people are predominantly Muslim. It is a Unitary Parliamentary Constitutional Republic presently ruled by President Abdul Hamid (the head of state) and Prime Minister Sheikh Hasina, the head of government (Husian, 2014). The capital of Bangladesh is Dhaka. Corruption, gender inequality, poverty and low literacy rate are still high which indicates that its political, social, educational and financial institutions are not well developed. The origin of Bangladesh dates back to 13th Century CE when Muslim first came to this area. Europeans exercised economic influence over South Asia since 15th century. British

imposed political rule over the region and controlled the area for nearly two hundred years from late 1750s. For almost 25 years after independence from Britain on June 1947, Bangladesh history was part of Pakistan. It emerged as an independent nation in 1971 after achieving independence from Pakistan in the Bangladesh Liberation War (n.a, 2015).

New Zealand in Oceania continent and encompasses two main islands, North and South Island. It has the total geographical area of 268,680 km² (Briney, n.d). New Zealand's capital city is Wellington. Maori arrived in New Zealand in the 10th century AD. The first European to see New Zealand was a Dutchman called Abel Tasman who arrived in 1642. The Treaty of Waitangi was signed between the British Crown and

various Maori chiefs in 1840 which brought New Zealand under the British Empire. New Zealand gained full independence from British in 1947 (Lambert, 2014). It was the first country to recognized women’s right in voting in 1893 (n.a, 2015). New Zealand is a constitutional monarchy with a parliamentary democracy, although its constitution is not codified. Queen Elizabeth II is the country's head of state and is represented by a Governor-General. It has the population of 4,438,393 (July 2015 est.)

has increased progressively over the years which was contributed large by the Services sector (75%), followed by industry (17) and remaining 8% by agricultural sector (n.a, 2015) .The annual GDP growth rate of Bangladesh is small and fluctuated over the years, which indicates its instability in GDP growth rate. Inadequate infrastructure, especially power and ports, weak governance, urbanization, closed economy, idleness of public banking existence of flaws education system are some of the factors which contributed to slow annual GDP growth of Bangladesh (n.a, 2013).

GDP growth rate tells how fast the economy is growing. New Zealand GDP growth rate

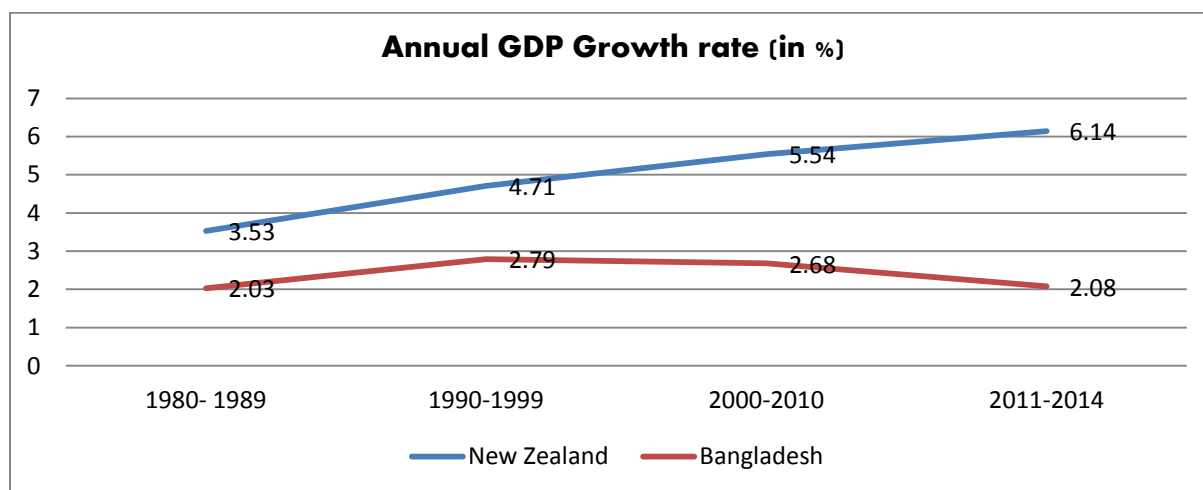


Figure 1: Annual GDP Growth Rate in %. Source: World Bank

Life expectancy at birth is usually high in developed country because of improved health, education services and access to sanitation facilities. The average life expectancy at birth of New Zealand was 74 years at birth in 1980s which was further strengthened to average of 81 years.

The life expectancy of Bangladesh also shows significant improvement over the decades but it is low as compare to Bangladesh.

Table 1: Life expectancy at Birth.

Year				
Country	1980- 1989	1990-1999	2000-2010	2011-2014
New Zealand	74.00	76.70	79.70	81.00
Bangladesh	57	62.5	67.2	76.5

Source: World Bank

The Under 5 mortality rate for both the country is declining but New Zealand’s Under 5 mortality rate is very negligence. Low female literacy rate, poverty and poor health services could be the reason for exceedingly high under 5 mortality rate in Bangladesh in 1980s. It has made a huge improvement is made in 2000s with the Millennium Development Goals and increase in immunization Campaign (Zuehlke, n.d).

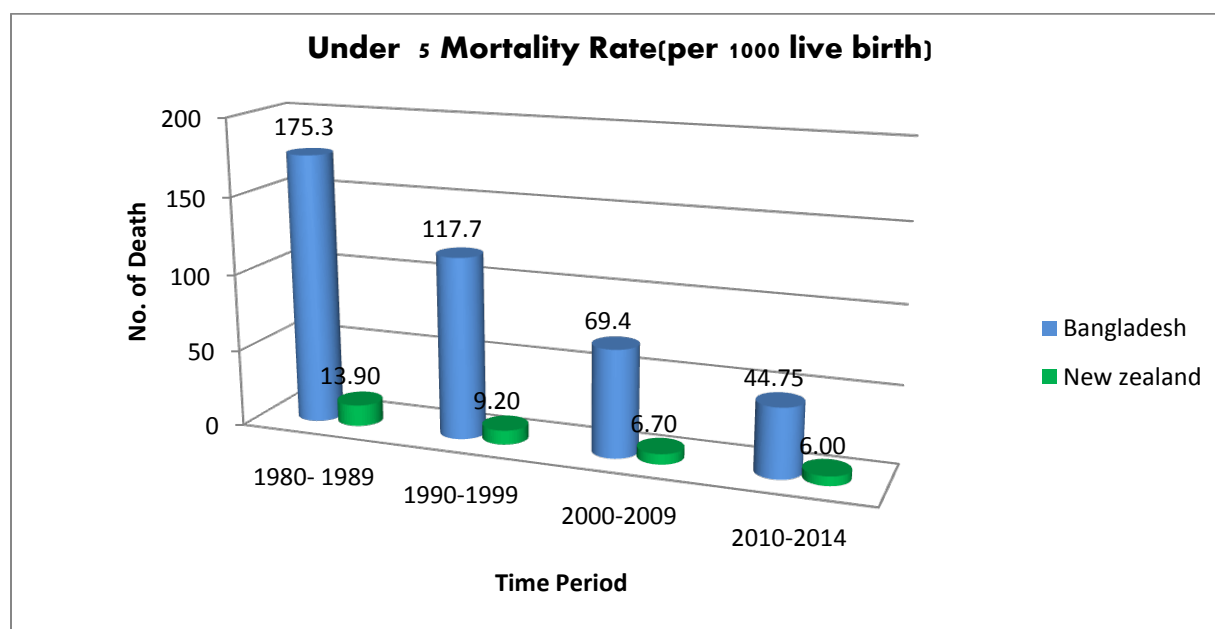


Figure 2: Under 5 Mortality Rate (Per 1000 Population). Source: World Bank

The annual population growth rate for Bangladesh has declined over the years mainly due to substantial decline in fertility rate for the last decades. New Zealand's population is growing at a faster rate particularly in 1990s and 2000s mainly because of net migration and natural increase in population as supported by Matt, 2014.

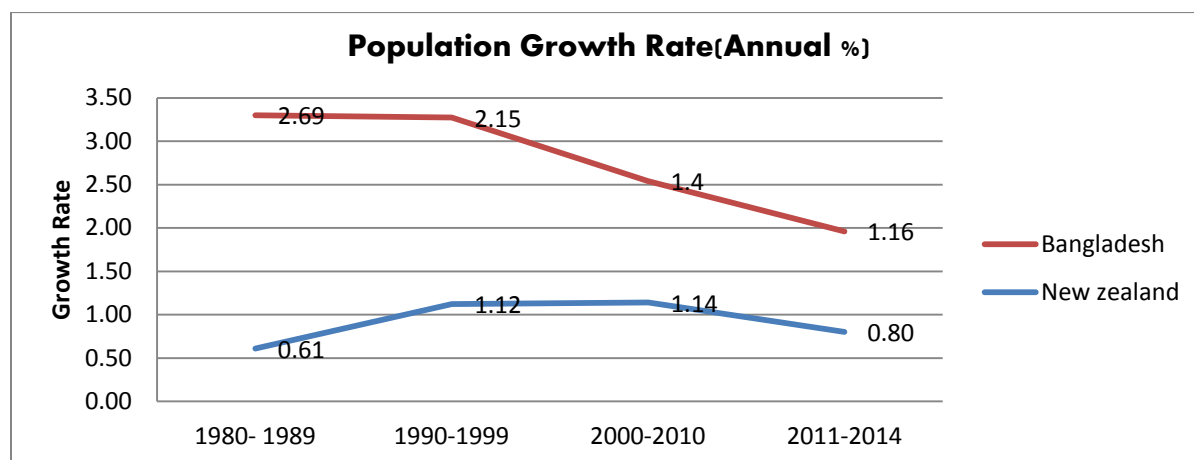


Figure 3: Population Growth Rate (Annual %). *Source: World Bank*

The revenue, excluding grants (% of GDP) of both the countries is on rising trends but New Zealand revenue is three times higher than that of Bangladesh which clearly indicates its level of development and state of self reliance.

Table 2: Revenue excluding grants (% of GDP).

Country	Year		
	2001	2005	2011
Bangladesh	8.6	8.9	10.5
New Zealand	33.1	36.1	36.2

Source: World Bank

The GDP Per Capita of New Zealand is very high since 1980s and it has increased significantly over the last decades. It could be because of high standard of living and low rate of poverty in the country. Bangladesh Per Capita was subsequently low in 1980s and it grows at an appropriately smaller pace which could be resulted from existence of high poverty rate of 31.5% (World Bank, 2015) and high rural population.

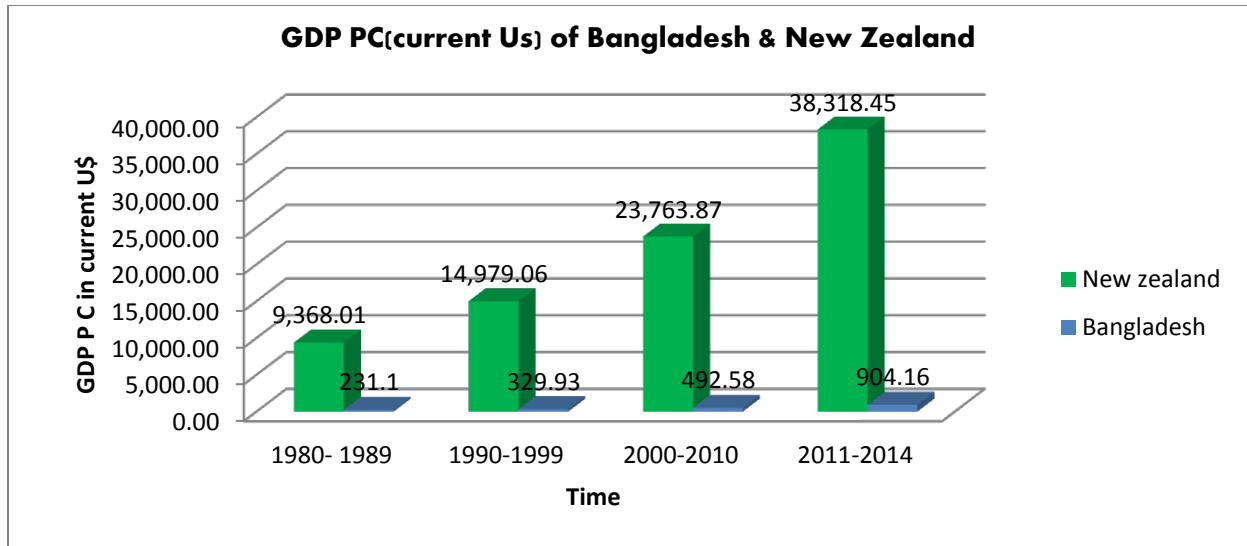


Figure 4: GDP Per Capita (in Current US\$). *Source: World Bank*

The significant decline in gross saving of New Zealand resulted from sharp decline in household and private saving. However, government has appointed an independent Savings Working Group (SWG) to provide advice on how New Zealand can improve its national saving (n.a, 2010). There is progressive increase in gross saving of Bangladesh over the decades.

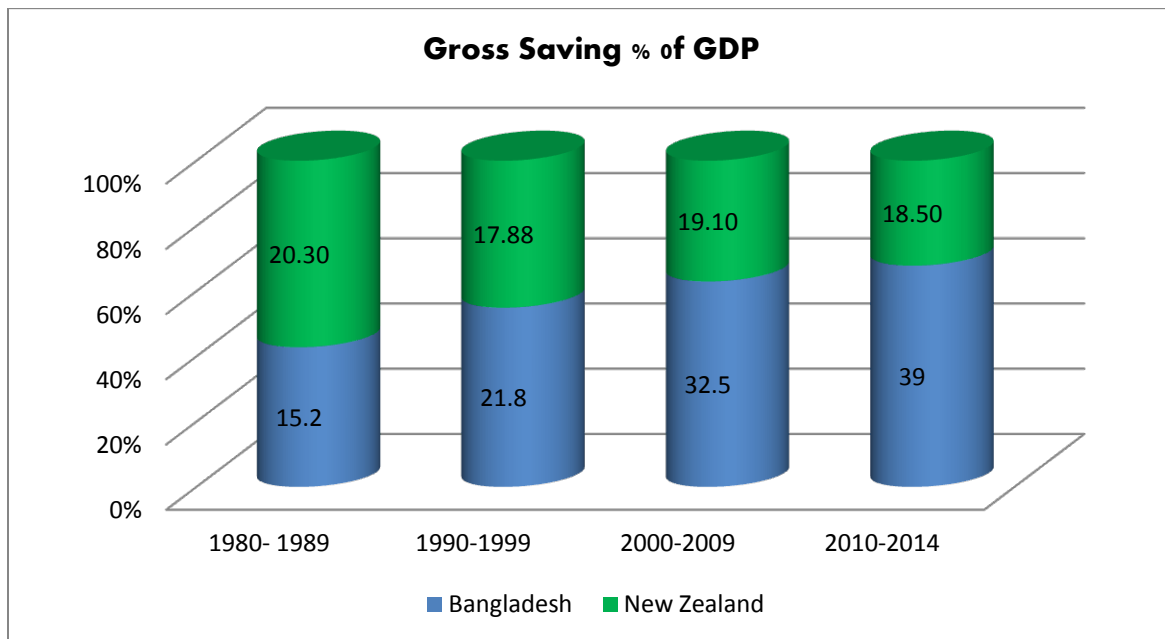


Figure 5: Gross Saving (% of GDP). *Source: World Bank*

The Adult literacy rate of New Zealand is 97% and Bangladesh is 57.7% in the year 2012. Poverty and social awareness is the major cause of illiteracy in Bangladesh. However, government and NGOs are investing significantly in education (n.a, 2013).

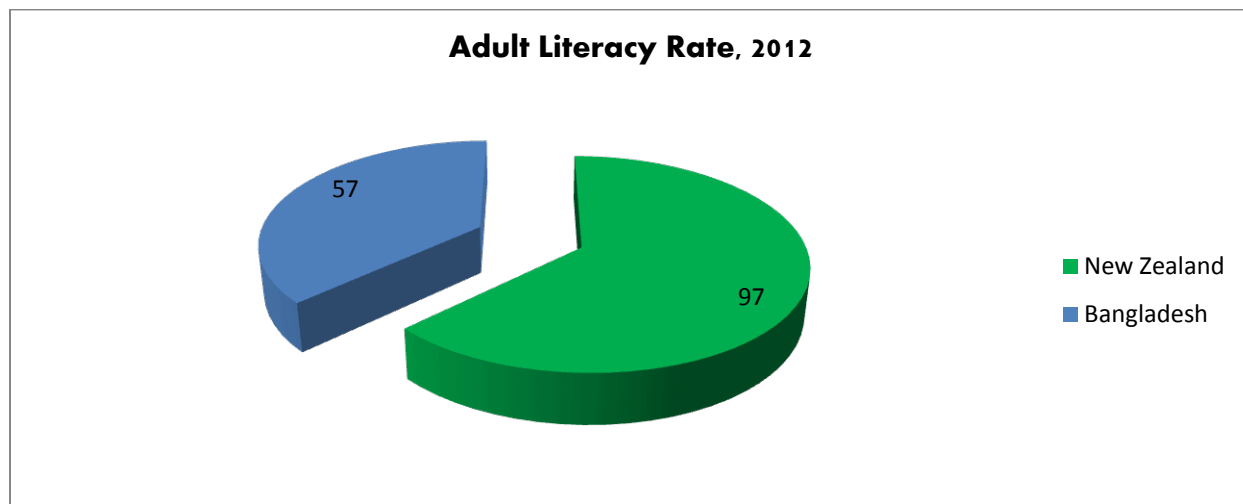


Figure 6: Adult literacy rate (% of people, 15 and above). *Source: World Bank*

Bangladesh export of goods and services over the decades is considerably low as compare to New Zealand but it is increasing trend. The textile and clothing sector is the largest manufacturing export-oriented industry in Bangladesh which contributes 78% of the country's export income (Malhotra, n.d). The exports of New Zealand have increased steadily over the years contributed largely by tourism sectors (8.9% of GDP in 2010), machinery, dairy products, vegetables, fruits and meat (n.a, 2010)

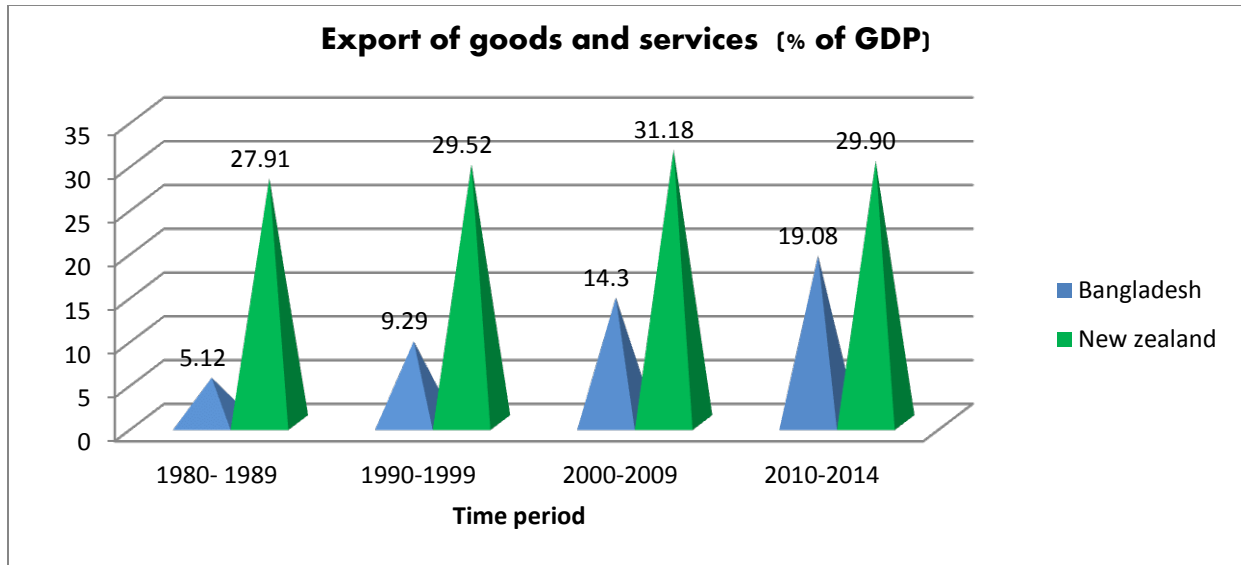


Figure 7: Export of goods and services (% of GDP). *Source: World Bank*

Rural Population is the one of the developing economy feature. The number of people residing in rural area in New Zealand is very less. It could be because New Zealand is industrialized, service based economy where only 7% (2005 est.) of the total labour force is employed in agriculture sector. Bangladesh’s rural population has increased notably over the decade because 47% (2013, est.) of the people are employed in agriculture sector (World Bank, 2015).

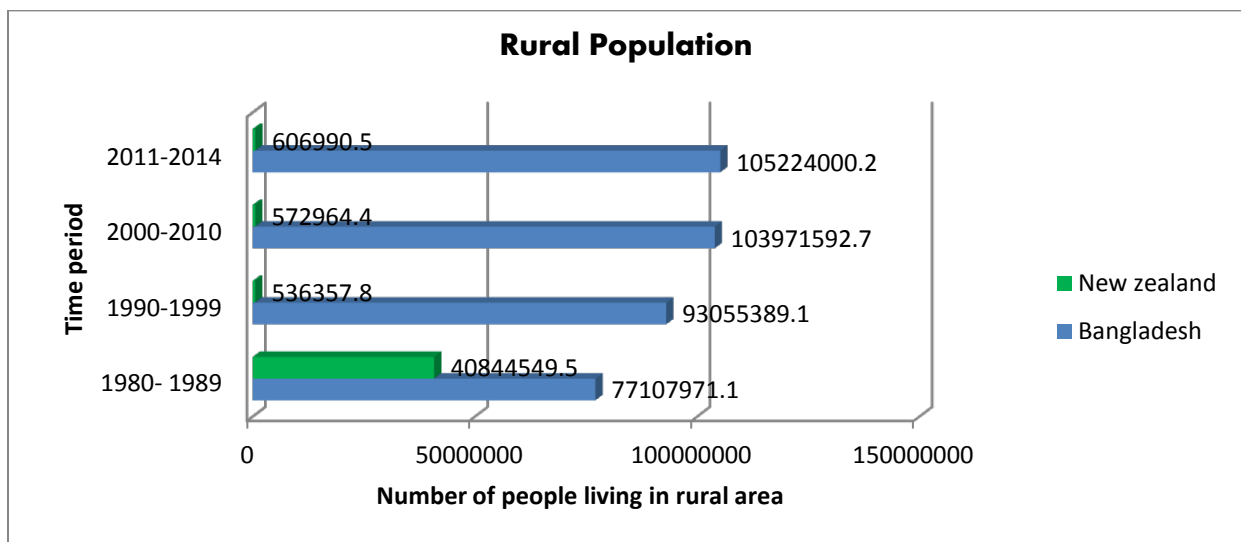


Figure 8: Rural Population. *Source: World Bank*

The above indicators explain that New Zealand is a developed economy while Bangladesh is still among the developing countries. All development indicators illustrate progressive trends for the Bangladesh. Hence, Bangladesh is considered as one of the “Next Eleven Emerging Economies”.

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Structural Adjustment Programs; A case study in India

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Structural Adjustment Programs (SAPs) consists of loans provided by the International Monetary Fund (IMF) and the World Bank to countries that experience economic crises. These loans come with conditionality clause that has to be fulfilled by the lender countries. SAPs came out from the Breton Woods agreement, IMF and the World Bank (Oberdabernig, 2007). The two institutions initially focused on solving macroeconomic policy and issues. In 1950's, United States provided loans to third countries i.e., the Least Developing Countries to liberalise its economy. After the abandonment of Breton Woods Agreement, many countries fell into severe debt trap and Balance of Payment problems. In the early 1980's, The IMF and World Bank created a loan package similar to US loan scheme for the countries that experienced economic crises. This loan package would help solve the crises but it came with conditions that have to be fulfilled by the country.

IMF provided loans that aim to liberalize the economy and focus on solving Balance of Payment problems and the World Bank loan package consists of specific project development that would improve infrastructure and improve social welfare.

As mentioned above the loan package or the SAPs come with conditions. IMF focuses on stabilization policies that would bring down balance of Payment problem as follows;

- IMF advises the country to devalue its currency. By doing so, the country would make its import expensive. This would promote the local industries as the goods and services obtained domestically will be cheaper. Export would rise because it will become lucrative. This would help curb current account deficit.
- SAPs consist of austerity measure. It means the public expenditure on social welfare will be cut down significantly so that the government expenditure will be reduced drastically.
- SAPs works on restructuring foreign debt. It finds ways on how to repay the loans.

- One of the reasons for balance of payment problem is the increasing government subsidies on agriculture products. The country cuts down the burden of subsidy on food which considerably raises the food prices. The main aim is to reduce food import and increase food production in the country.
- When subsidies are removed, the producers face difficulty in production because it becomes expensive. The cost of production increases. This would cut down the wages of the employees.

After stabilization measures are taken, SAPs focus on creating long term adjustment policies. To do so, following conditions are applied;

- It advises the country to liberalize its markets. The state intervention is removed and the market is deregulated. The planning is removed and market mechanism is adopted.
- State owned enterprises are not only inefficient but costly for the government. Many a times, the state keeps on subsidizing the sectors and

incurs huge losses to the government. To do away with the cost, the state owned enterprises are sold out to the private fully or partially.

- To provide financial assistance to the new entrepreneurs, new financial institutions are set up that would regulate effectively.
- When public sector is removed and privatization is enhanced, corruption is also removed.
- SAPs aims in bringing more foreign investors and it would ease the national law so that doing business becomes easier.
- SAPs focus on efficiently exploiting the natural resources booming trade.

SAPs face the following criticisms.

- Firstly, it threatens the sovereignty of the nation because all its policies are framed by the outside institutions. It does not do so in respect to the welfare of its citizens. The country loses its political power.
- A common policy of SAPs is privatization. In doing so, it loses the state motive of social welfare. A

large part of resources drains out to foreign investors or the national elites. Many social problems would arise as a result of privatization.

- SAPs aims to reduce government expenditure as much as it can. This would severely affect the people who are benefitted from the state. There will be rise in poverty and other social problems due to cut down of expenditure on health, education, infrastructures, social safety nets and agriculture sector.

A case study of India

SAPs were launched in India in July 1991. Prior to the launch, the country faced severe Balance of Payment problems. Imports became very expensive and the economy faced shortage of foreign exchange reserve. This was partly due to US-Iraq Gulf War. Oil prices skyrocketed and the import bill on India rose significantly. On the other side, exports fell as a result of UN trade embargo in Iraq and west Asian countries. Domestically, there was political instability which caused turmoil in different region (Ranawake, 1994).

When the Congress government came to power after much struggle in June 1991, the

first thing they did is borrowed from IMF. With the loan came the series of corrective measures. The government devalued its currency aiming that exports would rise. It also targeted to prevent import of non-essential goods.

The reforms that the government undertook are as follows;

1. Fiscal correction

After borrowing from IMF, it abolished several government subsidies. This was done to reduce the government expenditure. It then kept non plan expenditures in check and focused only on planned expenditures. The expenditure on defense was cut down drastically. This had actually brought down macroeconomic situations under control.

2. Trade Policy reforms

SAPs aimed to stimulate the export. To do so, the government pursued pro-active policy that is it liberalized trade. After devaluing the currency, exports become expensive. To stimulate the export, the government minimized its intervention and deregulated its policies. It abolished the licensing policies and export was made easier. It also established series of trade relation booming the export.

3. Industrial policy reforms

Industries are privatized and liberalized. It deregulated its policy and made setting up industries easier. There was increase in private participation and the country also saw an increased inflow of foreign investments.

4. Public sector reforms

Public sector dominated the market prior to reform. These sectors are not only inefficient but also costly for the country. Many a times, the government subsidizes these sectors which raised the government expenditure. Later the public sectors are privatized or are sold out to private individuals. The government also did not invest in public sector.

The results from the SAPs were impressive. For the first time, exports in India grew hugely. The GDP growth rate was impressive too. There were increasing inflows of foreign investments. The country also saw a rapid improvement in foreign exchange reserve.

However, the Structural adjustment Program has negative impacts too. After the program was adopted, there was increasing income disparity. The cottage industries were severely affected. They were not able to

compete with the big industries. The larger share of market was taken over by the large scale industries. Rich became richer and the poor became poorer. Farmers were affected too. This has caused rapid rise in poverty.

The cut down in the government expenditure has negatively impacted the poorer sections of the country. There was drastic decline in social welfare programs. Private health and education sprung up causing increasing inequality and poverty.

Structural Adjustment Program is designed specifically to correct the economic crises. It aims to liberalize the economy and in doing so, it undertakes serious of reforms. The good side of SAPs is economic growth, increasing trade, rising foreign investments and rapid industrialization. However, SAPs is criticized for rising inequality, poverty and other social problems. It is also criticized for reducing expenditure on social welfare.

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Demystifying the Free Fall of Indian Rupee

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In the present globalized economies, the economic stability of a country is mainly dependent on global trade, especially, with regard to the developing countries. The exchange rate plays a significant role in determining a country's ability to perform in the field of external trade. But, it is quite alarming in recent times that the value of Rupee (INR) against the US Dollar (USD) is slipping down more rapidly than ever before.

Exchange rate is defined as the price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another is known as exchange rate. The exchange rate of Indian rupee is going down drastically when compared to the US dollar and this situation is alarming and necessary to take certain actions for it.

The exchange rate of Indian rupee (INR) and the US dollar (USD) for the past three years is given below:

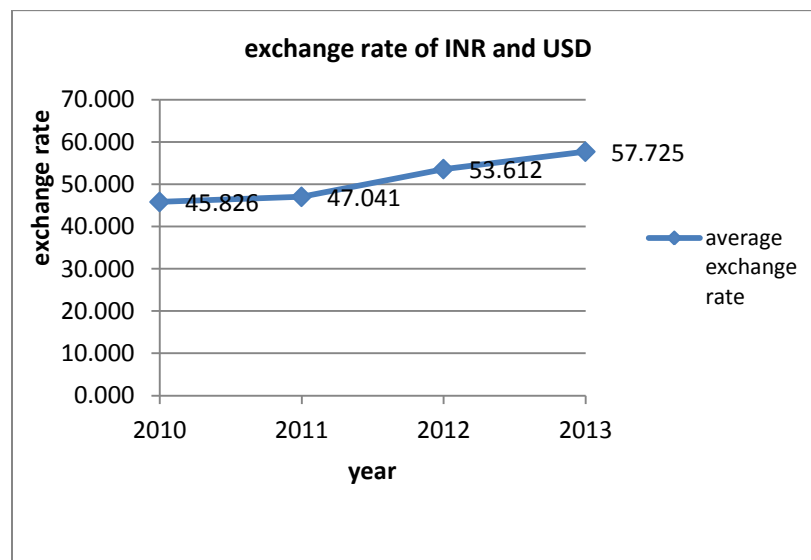


Figure 9: Average Exchange Rate of INR against USD

Source: International Monetary Fund

The above table and the diagram show the exchange rate between the Indian rupee and US Dollar where we can clearly see that the exchange rate is going on increasing. The amount of Indian rupee that we need to exchange with the US dollar is going high and the value of Indian rupee is depreciating. In the above diagram, the average exchange rate between INR and USD is at 45.826 which mean 45.826 Rs. in India is worth 1 dollar in USA but, it went

on rising and in 2012 it reached to 53.612. In 2013 it reached to about more than 57 which is high compared to the past years.

Whole of the table and the diagram shows that the value of Indian rupee is depreciating or the value of Dollar is appreciating. In simple terms, Rupee depreciation means that the rupee has become less valuable with respect to US dollar and other countries can buy more from Indian markets by spending the same amount of dollars

The exchange rate of 2013 through months is given below:

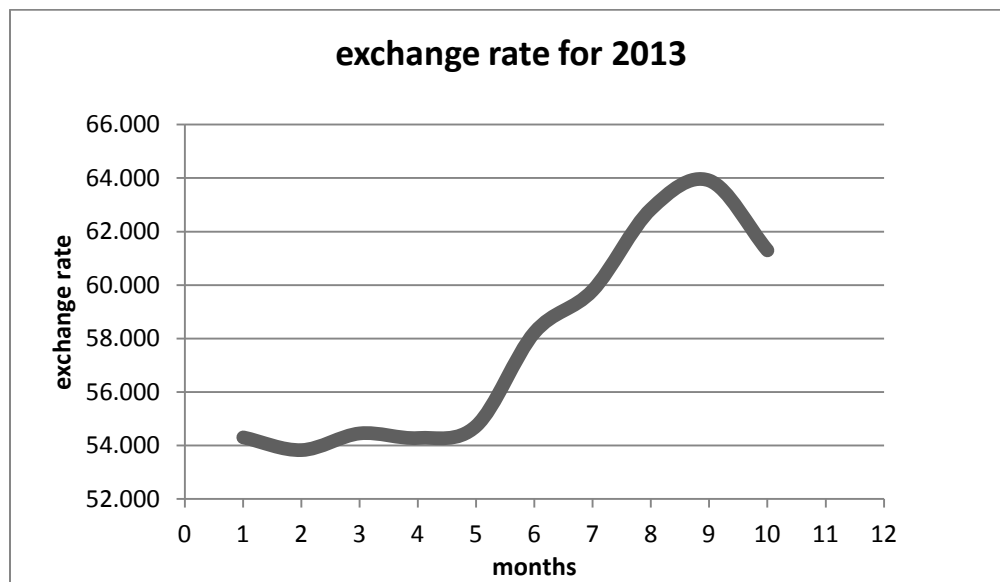


Figure 10: showing the exchange rate of 2013.

Source: International monetary fund.

We can clearly see in the diagram above that the exchange rate of INR and USD is going on rising in 2013 till October where it came down by small percentage. From June the

exchange rate had drastic change or increase. This kind of changes will have greater impact on the economy of the country. The first major impact can be seen

on the rising import bill. India imports close to 70% of its net fuel requirements and the companies importing oil have to shell out more rupees for the same dollar invoices. This has severely impacted the bottom line of these companies as well as the subsidy bill of the Indian government.

Additionally, the falling rupee has added further to the inflation, as imports have become costlier and thus increasing the prices of key commodities such as oil, imported coal, minerals, and metals. However the falling rupee has substantially appreciated the revenues for the exporters, who receive more rupees for their dollar receipts. These industries include the IT Services industry, textiles and other export oriented industries. Increasing imbalance in trade i.e. increasing imports over exports is bound to have severe impact on country's fiscal deficit, which is pegged to increase by

.8 percentages to 5.4% of GDP from the originally estimated value of 4.6% of GDP.

According to Joshi, RBI has been extremely cautious in its intervention during the entire rupee depreciation crises. RBI has however reacted with timely interventions by selling dollars intermittently to tame sharp fall in the currency. The outflow of dollar reserves from RBI coffers has been extremely cautious, mostly due to the dwindling foreign exchange reserves. The foreign exchange reserves of India in December 2011 stood at 270 billion USD. Recently RBI has intervened with key policy initiatives such as intervening in the forward contracts policy. Also, RBI intermittently put trading limits for the banks in the foreign exchange market in order to tame the speculative forces.

Demystifying the Free Fall

The depreciation of Indian rupee has become one of the most serious and alarming issue in the economy of the India. There are many factors responsible for the sharp depreciation of INR and some of the factors are:

1. The rule of demand and supply:

The rule of demand and supply is that, if the demand for dollar in India is more than the supply for the dollar, then the value of dollar

increases and it appreciates but the value of rupee depreciates. As the country imports more goods from outside, demand for the dollar is created by the importers to pay for imports thus the supply of dollar will be less and the demand more. So the dollar appreciates and rupee depreciates.

2. Oil prices:

It is one of the most important factors that force the INR to depreciate. As India being a large country loaded with population and faster rate of development, the demand for fuel is going on increasing where by the import of oil rises. The problem is in the international market the prices of oil are in dollars creating the rupee to depreciate. As per the Banyan financial advisor, oil price rise from \$40 in 2002 to over \$100 a barrel currently.(2012) So the price of oil is rising due to higher demand and imports.

High oil prices creeps into the prices of almost every commodity in the economy and oil plays a primary role in India's economy as it supports the basic structure of all Industries by fueling up the energy requirements. A higher oil price would result in higher cost of production and higher transportation cost which leads to higher price in everything related to it.

3. Increase of current account deficit:

The current account of the country mainly deals with in and out flow of foreign currency which is mainly the exports and imports.

If the export of the country is more than the imports there will be trade surplus but if imports is more than the export then, the trade deficit will occur and the current account deficit will come into existence.

As per Manabadi.(2013, September 14),India's current account deficit(CAD) is far above the sustainable level of 2.5% of GDP which indicates that the amount in USD that India owe to Foreign market for imports is much higher than what they get on Exports marking an obvious increase in demand for USD. This increase in demand for USD by the importing firms has triggered the fall of value of INR.

4. High inflation:

Inflation is mainly the rise in price of the commodities and it is mainly caused by increasing demand due to the increase in the purchasing power of the people, shortage in supply of commodities in the market and etc. Inflation is mainly created by high price for food products and especially the rise in

the price of the fuel. The rate of inflation is expected to rise if the Indian government didn't take appropriate action to solve this problem. The economic growth of the country is becoming slow and as per Srinivas, the annual economic growth in 2009-2010 and 2010-2011 is nearly 9%, but now the country is likely to grow at 6.5% in 2011-12. Which means the economic growth is becoming slow and it will affect in devaluation of rupee.

5. Foreign debts:

Mostly the Domestic industries capitalize their business from Funds borrowed from abroad and is becoming a source for the rising demand for USD. This imparts huge pressure on the FOREX reserves leading to shortage of foreign currency to meet the domestic demand.

6. Fiscal Deficit :

The excess of our expenditures over the total income is called Fiscal Deficit and to bridge the fiscal deficit, more loans have to be taken. As the loan taken increases, the risk will be more in front of the lenders and India is also going through the same situation. India is currently spending more than it earns in certain places such as taxes

resulting in a rising fiscal deficit and the major spending is done into subsidies. This will make the foreign investors uncomfortable to invest and they will take out their money out of India which will lead to the depreciation of INR.

7. Less capital inflow:

Though India is much developed compared to Bhutan, and earns a lot from different departments, it is not enough to make up for the trade deficit.

In 2011-12, India received foreign direct investment (FDI) of more than \$30bn, in addition to a net inflow of \$18bn from foreign institutional investors in stocks and bonds.

But uncertainty about India's commitment to economic reforms and activities, taxes, and policies within the government has forced the foreigners to delay their investment decisions, or take money out of Indian stock markets. So this will lead to more outgoing of USD out of the country leading to increase in the demand for USD. When the capital inflow is less, foreign exchange reserves (FOREX) in the country will be less and limited which will affect the government in taking direct interventions

and Reserve Bank of India(RBI) is facing such problems today.

The depreciation of rupee against the USD is affecting and has lots of disadvantages by this depreciation. Due to depreciation, imports will become expensive leading the price of commodities which is inflation and it will affect the living standard of the people as the purchasing power of the people will reduce and this will have greater affect on the low class or the poor people. The country will be unable to pay the external debts and the loans will become unrecoverable and the industrial production and GDP of the country will greatly be affected. So this problem has to be solved

Impact on the Bhutanese Economy

As the Indian rupee is depreciating compared to USD, it's creating economic crisis in India and directly or indirectly, it will have impact on the Bhutanese economy due to close economic ties between Bhutan and India. There will be advantage as well as disadvantage but disadvantage will be more. The advantage is that the tourism sector will receive a boost. As the value of rupee is depreciating, tourist will find more

before it worsens and India facing creditability problem.

8. Speculation:

The fall in rupee can be largely attributed to the speculations prevailing in the markets. Due to a sharp increase in the dollar rates, importers suddenly started gasping for dollars in order to hedge their position, which led to an increased demand for dollars. On the other hand exporters kept on holding their dollar reserves, speculating that the rupee will fall further in future. This interplay between the two forces further fuelled the demand for dollars while sequestering its supply from the market, which leads to the depreciation on rupee.

profitable to come and visit because they will be able to buy goods at lesser price than before. So as the number of tourist coming into the country increases, the income earned will be more. The tourism industry is the second highest contributor to the GDP of the country, so it is a chance for Bhutan to increase its income. And also if the government is receiving grants from outside world, it will also fetch a better exchange. If

Bhutan receives grants from other third countries, the income will be higher as when the money is converted, the amount will be more. Thirdly, if the central bank central bank decides to sell dollars in the Indian market for rupee, then the income for the country will be more. So, these are some of the possibilities that depreciation can be helpful. As per Gyeltshen(2013), Bhutan's central bank is however not keen on selling dollars for rupee at this time, even if it would fetch them higher returns because of the increased exchange rate.

Depreciation of Indian rupee has greater affect or disadvantage to the Bhutanese economy and some of these are:

1. Lead to current account deficit.

Bhutan being in the process of development, it depends highly on other countries especially India. Bhutan imports almost 80 percent of its requirements including food and non- food items from India. Daily requirements food items starting from rice, vegetables till the non-food items such as machinery, vehicles and even the workers and labors are imported from India. This leads to the more imports and as the rupee depreciates, price of goods will increase and Bhutan being dependent on India, import is

necessary and the price of goods will naturally increase in Bhutan. According to Daw Tenzin (cited in kuensel), when India imports more and exports less, the demand for foreign currency increases leading to devaluation of the home currency. When this happens, import bills further increases and hence the inflation gets transferred in the economy. For example, an Indian car manufacturer imports most of its spares from abroad and, when the dollar rate increases, the car manufacturers have to pay extra. So, this situation will have a direct impact on the Bhutanese economy and the import of vehicle will increase affecting Bhutan also. Overall this will lead to increased current account deficit, as import bills will increase due to higher price and Indian producers will increase prices of their products to pass on the losses incurred while importing spares from third countries. Bhutan also depends on third countries and mainly imports machinery and construction materials where by our country will have to pay much higher than before which will lead to increase in import and due to increase in price, the cost for import will also increase.

2. Fuel price:

In Bhutan, the impact will be on fuel prices. India imports almost 80 percent of its oil

requirements from third countries and the payment for the fuel is all done in dollars and as the value of US dollar is increasing, India will have to pay more. After that Bhutan imports all its requirements of fuel from India, and as the payment is done in US dollars in India the price of fuel will be more and will have greater affect to Bhutan as price will increase.

India revised fuel prices by Rs 2.52 a litre on June 14 because of the reason of depreciating rupee and this impact was also felt in Bhutan as fuel prices were revised by Nu 2.13 on Sunday, June 15. (Gyeltsen, 2013). As the fuel price increases many related problems will arise like the transportation rate will increase. When the transportation rates are increased, the poor and low people will be affected rather than the rich as most users of public transportation are poor ones. So in long run and slowly will affect the people as Bhutan is in the process of developing and will slow down the development activities.

3. Impact on India's assistance to Bhutan.

According to governor of Central Bank Daw Tenzin(cited in kuensel), the depreciating value of Indian rupee wouldn't have impact

to Bhutan in terms of assistance since it is politically agreed upon. But one economist states than we can expect small impacts anytime, just like the recent case when India said that it would look into the affairs before releasing the Rs 5B to stimulate the Bhutanese economy.

India's stock catalog has seen rapid decline as a result of the economic situation and with investors pulling out their money to invest elsewhere, share prices has decreased, affect major Indian companies. When major companies are not being able to get sufficient capital for production they will not be able to supply more and export more, which will reduce the GDP of

the country. When the country itself cannot earn more, assistance to Bhutan will be inconvenient and is not possible.

4. Inflation:

Inflation is defined as the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. We could also say as too much money chasing too few commodities. Inflation is mainly caused due three broad factors that is monetary, fiscal policy and exogenous shocks. Inflation in

Bhutan is not because of the monetary policy instead it's mainly due to imported inflation and exogenous shocks. Inflation should be a concern for Bhutan because high inflation rates can increase the rate of poverty in the country as high inflation means higher poverty levels due to reduced

purchasing capacity of the poor and in the long run it lowers growth rates. So the problem of inflation can make the country terrible as many of the problems will be arised like stated above.

The inflation in Bhutan is given below:

Table 3: Inflation in Bhutan

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Inflation Rate	2.48	2.6	4.43	5.3	4.99	5.2	8.31	4.41	7.02	8.86	10.9

By looking at the above table we could see that the inflation is going on rising and due to the depreciation of rupee, we could again expect that the inflation will rise in future which can bring greater effect to the people and the country. Inflation will affect all aspect of economic activities in the country.

The exogenous shocks like the rise in oil price as stated above is having affected on Bhutanese economy. The rise in price of oil in India will create greater affect to Bhutan and also it is due to the dependency on other country's economy. The economy problem in India will have direct impact on Bhutan and inflation of food as well as non food items are all imported from outside so inflation in Bhutan is imported inflation and when the inflation in India rises, the affect

will be double on Bhutan and will be severely felt.

Rise in exchange rate of Indian rupee and US Dollar is affecting the Indian economy in several ways and it also affects the Bhutanese economy. So major activities should be done to stop or change this crisis whereby the economy will be in stable state. The depreciating rupee is caused due to several factors such as increasing inflation, high oil price, current account deficit and many more and it is affecting Bhutan in many ways such as affect of inflation and increase in fuel price. So depreciating rupee should be stopped further.

At times controlling the Rupee depreciation is not within the hands of the Reserve Bank

of India and the government does need to intervene and take careful steps to come up with policy reforms to control the currency movements. Hopefully the Rupee would back trace its steps and come down to more comfortable range of 40s rather than the current dangerous levels of 50s.

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An Antithesis of Economic Stimulus Plan

Dorji Penjor

Background

In the early 2012 the Royal Government of Bhutan (RGoB) recognized the health of the Bhutanese economy which was facing a grave threat due to Rupee crisis (Lamzang, 2012). The severity of an ailing Bhutanese economy was felt very strong that the Central Bank of Bhutan (Royal Monetary Authority, [RMA]) had to freeze loans and impose ban on imports of most of the luxury goods. The measures taken by the RMA was not welcomed by the private sector as it affected them the most. Since then, the RGoB have been working towards correcting the economic situation and the Economic Stimulus Plan (ESP) was viewed as a best measure.

Introduction

To correct and heal an ailing Bhutanese economy the ESP program was most favored against all other options. For this ESP program, the RGoB required about Nu.5 billion and this quest was fulfilled by the Government of India (GoI) in a form of grant. ESP is focused towards re-boosting an ailing economy primarily by fostering the accessibility of credit facilities especially to the services and manufacturing sectors which have huge potentials for employment creation and revenue generation. The decision of RGoB to provide the loan beside these two sectors is not binding. The ESP is based on three main principles which are to foster import substitution, encourage export promotion and enhance employment generation (Lamzang, 2013). Besides, ESP also considers Cottage, Small and Medium

Industries (CSMI) and non-formal rural economic activities. The importance placed and inclusion of CSMI and non-formal rural activities make the ESP unique and especial in itself which erstwhile was provided less importance. Placing importance on CSMI and not on trade services further make this ESP more realistic and unique.

The 5 billion ESP fund will be allocated in the following manner; 1.9 billion as a revolving fund specifically for CSMI and 2.1 billion is put up for loans through FIs. The remaining 1 billion is allocated for providing subsidy for special support scheme (Lamzang, 2013).

Justifications

Every plan and program has two sides which are beneficial and non-beneficial. Therefore, it is important that ESP should be evaluated on whether ESP program will be successful or not. Further, will it help cure an ailing health of Bhutanese economy?

The following are the five justifications supporting that the ESP will be successful and help heal an ailing health of Bhutanese economy;

- i. ESP focuses on CSMI and place huge importance on these industries. CSMI can create more employment opportunity if they are provided with access to credit facilities. Since it is small in size, it can be easily established in most part of the country. This will provide employment opportunity benefiting the economy of the country at large. The trade sector is not given importance under the ESP plan which has the potential of draining the rupee reserve out of the nation. The exclusion trade sector in itself makes this ESP special.
- ii. The ESP focuses towards promoting the non-formal rural economic activities which will in a way

provide some degree of legality protecting their rights. With this legal status the non-formal rural activities will be subjected to less exploitation by the local brokers. Besides, the ESP also focuses towards providing collateral free loan where placing collateral in availing loan was the biggest challenge face by the poor and backward rural people. With collateral free loan supported by legal institutions will act as an incentive to produce more and reinvest in the economy helping to recover the health of Bhutanese economy.

- iii. The ESP also focuses toward improving the service sector such as health, education and tourism. An improvement in education would be in the form of loan for college and training institutions which help in producing skilled and productive human resources. Improvement in health would mean uplifting the health status which helps to increase productivity with better health. In the tourism sector, the ESP will provide loan for upgrading hotels and new tourism products that will attract

more numbers of tourist and round the years. Improved tourism infrastructures means increase in the foreign exchange reserve and therefore help recover from the crisis.

- iv. The ESP emphasis towards improving the construction sector by improving the service delivery mechanism and maintain good quality. Construction sector is one of the most important sectors in Bhutan. Besides, revenue generation to the government, the sector also creates more employment opportunity which can solve the unemployment issue if harnessed properly.
- v. Above all, the ESP comes in supplementing the cash liquidity shortage for providing loans by the financial institutions. With availability of loan, the requirements for huge investment in the businesses are met. Increase in investment will lead to increase in production, and ultimately increase in revenue and GDP at large.

The ESP that thrives to correct the economic situation based on the three principle will really benefit and improve the economic condition. However, there is always an equal

chance that it may fail and make the situation worst. Following are the reasons why it will not be successful;

- i. The ESP provides financial support to the strategic sectors through FIs who are bound by profit motive. Such pattern favours FIs which will lead to creation of wealth concentration in the hands of a few rich people making economic situation worst through exploitation of minor society.
- ii. Since ESP focuses mostly towards CSMI, it in a way ignores large scale industries which contribute significantly towards GDP. Ignoring these industries would mean reduction in the GDP with low production and low rate of tax revenue return.
- iii. Fostering import substitution is theoretically easy but in reality considering the cost comparative and competitive advantage that Indian goods have, it is very difficult to attain the goal. Such idea may perhaps worsen the economic situation with increased import and high Balance of Payment problems.
- iv. Though rural non-formal activities are considered under the ESP, the

rural population is largely illiterate and is associated with moral hazard such as non-repayment of principal itself beside repayment of the required minimum interest rate. Besides, the cultural and traditional practice in the rural Bhutan hinders in developing entrepreneurial ideas where rural agricultural is primarily on subsistence.

- v. Though 1 billion funds dedicated towards providing subsidies in special support scheme comes with a wise intention, it is associated with draining the Rupee out of the country and ultimately back into the vicious cycle of Rupee crisis. Subsidies on education, pilgrimage and other similar services, demands outflow of Rupee which will make the situation worst, undermining the whole purpose of the ESP.

Conclusion

When Bhutanese economy was in downturn, the RGoB, learned that constructing the ESP program towards gearing the economy was the only option. The 5 billion Rupees required for injection into the economy came as a grant by the Government of India

(GoI), which eased the reality of paying interest on the fund received.

The 5 billion budgets is allocated through a well channeled strategies where CSMI and empowering rural economic activities are considered important. The inclusion of CSMI in the ESP plan makes this plan special in itself.

Considering these fact, the chance of ESP to be a successful will depend on many factors such as prudent policies in place to track the usage of fund. Maintain good account of the fund and under a good vigilances since it is subjected to a risk in misuse of funds towards political and personal gain threatening even the sovereignty of the nation.

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A Policy beyond Formalities: Fueling Private Sector Investment in Bhutanese Economy

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Introduction

In Bhutan, investment has been playing a vital role in building up the private sectors through making profitable investments. In general, investment is the process of adding to the already existing stock of capital. It is important so as to replace the depreciated value by maximizing profits through minimizing costs. However, private sector investments in Bhutan is still in limited number though the country has stepped through 50 years of development. As a result private sector investment has been an overwhelmed issue ever since and Pokhrel (2014) has mentioned the importance of doing Business in Bhutan and portrays the situations the private sectors are facing for investment.

For an excellent and vigorous economy, 10 indicators are used by the Ease of Doing Business Index (EDBI) to measure how easy

it is to do business from a regulatory and bureaucracy perspective. According to the Doing Business Report (2015) Bhutan ranks highest on getting credit (71th) while at the other end, it ranks lowest on resolving insolvency (189th). Ease of Doing Business for Bhutan is important where people who are interested to take up the business and people who have already taken interest must find it easy to do business in particular economy. Besides facing many challenges, Bhutan is continuing to work towards achieving a rank of hundred by going through various solutions.

Objective

This study intends to examine the five indicators used by EDBI ranking to measure how easy it is to do business from a regulatory and bureaucracy perspective and to be aware of the ground realities of private sectors in terms of investment in Bhutan.

Methodology

The methodology of this study involves both qualitative and quantitative aspects where use of appropriate graphical extensions (Bar Charts) coherent with 'bottom to top' analysis using the recorded data from doing business reports and the World Bank data base.

Results and Discussions

5 indicators used by EDBI ranking to measure how it is to do business from a regulatory and bureaucracy perspective are:

- *Starting a business*

For the immediate benefits of companies and business owners and employees, formal registration of companies is must to start a business. It is because it allows companies to have easy access to services and institutions from courts to banks including new markets. It covers or measures the ease of starting a business in the economy by getting access to all the procedures required by an entrepreneur to start up and officially operate any business.

Diagram 1 (Annexures) depicts the ranking of Bhutan and comparator economies with regional average (South Asia rank). Whereby, Internationally, Bhutan stands at

92 in the ranking of 189 economies on the ease of starting a business. It provides information for assessing how easy it is for an entrepreneur in Bhutan to start a business. Main problem that the company usually face while starting a business is due to 8 bureaucratic legal formalities which has to be followed and fulfilled. Such procedures not only consume time (maximum 17 days) but also cost 4.4% of income per capita and require paid-in minimum capital of 0.0% of income per capita to the producers which discourage the entrepreneurs to start up the business. Whereby, the investors are discouraged to do the investment directly affecting the decisions on investment.

- *Dealing with constructions permits*

In order to protect the public, regulation of construction is important. To stay away from excessive constraints on a sector which plays an important role in every economy, it needs to be efficient. It measures and records the procedures, time and cost for a business in construction industry to gain all the required approvals to construct. Diagram 2 (Annexures) depicts the ranking of Bhutan and comparator economies with regional average ranking (South Asia rank). Whereby, internationally Bhutan stands at 131 in the ranking out of 189 economies on

the ease of dealing with construction permits. It provides information for assessing how easy it is for an entrepreneur in Bhutan to legally build a warehouse.

According to data collected by doing business, dealing with construction permits involve 21 procedures taking 150 days with cost 1.3% of the warehouse value which indirectly tells us that it is a lengthy procedures involving huge cost. Due to such issue, many business men are discouraged to do business.

- *Getting Electricity*

For a business, having access to consistent and affordable electricity is significant. To achieve a permanent electricity connection and supply for a standardized warehouse it records all the procedures for a local business. Diagram 3 (Annexure) explains the rankings for comparator economies and the regional average ranking (South Asia rank) providing an entrepreneur in Bhutan to hook up a warehouse to electricity. It portrays, Bhutan standing at 72 in the ranking of 189 economies on the ease of getting electricity.

It is reported that a set of specific procedures must be completed by an entrepreneur to possess a warehouse connected to electricity which involves acquiring 5 procedures

taking 74 days costing 606.5% of income per capita. It requires completion and verification from electricity regulatory agencies and independent professionals for those procedures. And also due to lack of architects, civil engineers and construction lawyers in a country, it is costlier to hire. As a result, such formalities and cost discourages the investors in Bhutan to invest and do their business.

- *Registering Property*

The most essential thing in the business is to ensure formal property rights because informal property rights leads to limiting access to finance and slight possibility of being accepted as collateral for loans. Transferring the property title to owner and recording the full sequence of procedures which is crucial for a business to possess property from another business is what this indicator does. Diagram 4 (Annexures) depicts the rankings for comparator economies and regional average ranking providing information for assessing how easy it is for an entrepreneur in Bhutan to transfer property. Internationally, Bhutan stands at 86 in the ranking of 189 economies on the ease of registering property.

Since these indicators are also based on a set of specific procedures where both the buyer

and seller must complete to relocate the property to the buyer's name, it brings barrier to the private sector preventing them from making profitable investment.

- *Getting Credit*

Getting credit is also the factor that prevents private sector from doing business in Bhutan. Ease of getting credit in Bhutan is very high as compared to other countries because interest rate on borrowings is charged high (12-14%) for Bhutanese entrepreneurs as compared to India. An investor will not borrow at higher interest rate if return of investment is low. While borrowing, requirement of mortgage place the entrepreneurs at risk. As a result, entrepreneurs avoid borrowing money from the banks leading to delay in starting of business. Bhutan ranked 71 out of 189 economies in the ease of getting credit.

Conclusion

The reasons that prevent private sectors from making profitable investment are due to long bureaucratic legal formalities consuming more time and involving huge financial capital requirements. Also due to high interest rate charged on borrowing, it prevents entrepreneurs and investors to make investment in private sectors whereby

preventing them from making profitable investments.

Problem of investment faced in Bhutan is mainly due to lengthy policies and formalities involved. This issues can be resolved if government can reorganize and reframe the policies which are not adequate. The government of Bhutan could reduce the number of formalities and the procedures by allowing investors to obtain their license through a single Ministry instead of undergoing through various Ministries. Making procedures simpler and faster by setting up technologies like online facilities and making credit facility effective and also by reducing capital requirements (cost) for the procedures can also be the solutions. Increasing the scope, coverage and accessibility of credit information and building up the legal rights of lenders and borrowers under collateral and bankruptcy laws can also be the solution to those problems.

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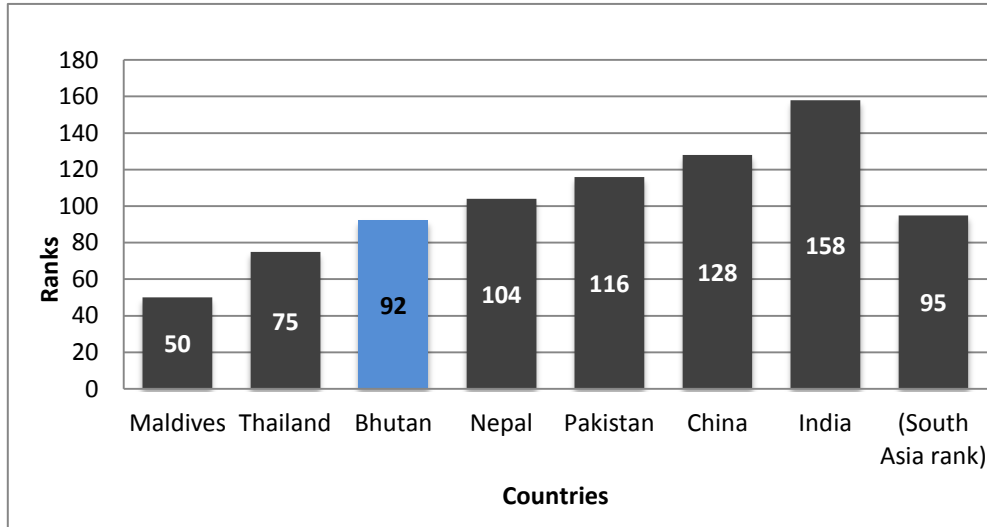
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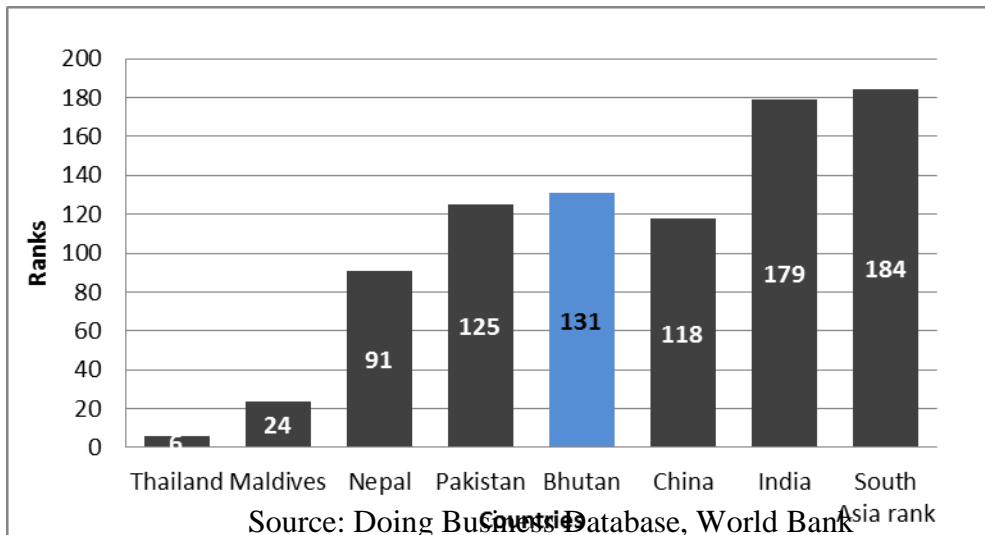
Annexures

Diagram 1: How Bhutan and comparator economies rank on the ease of starting a business.



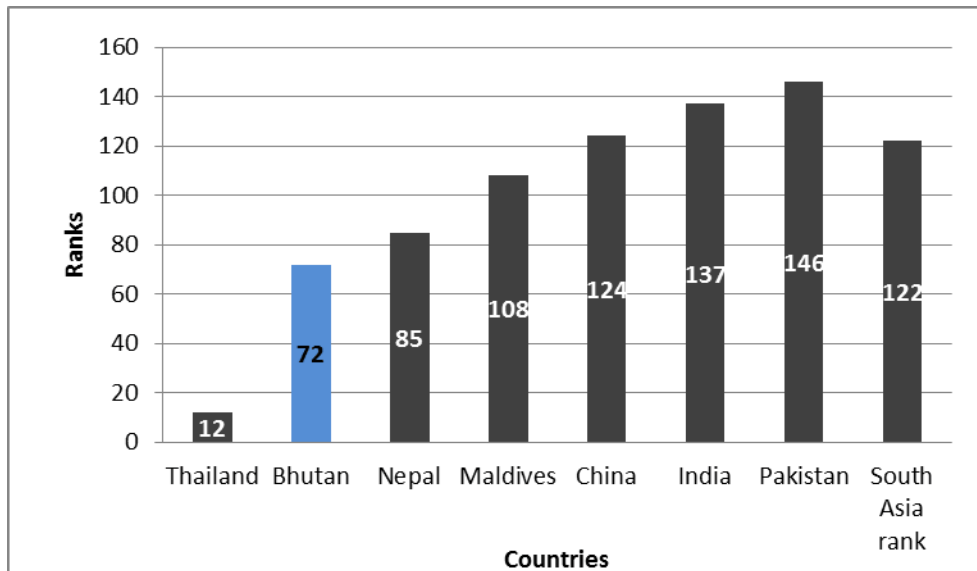
Source: Doing Business Database, World Bank

Diagram 2: How Bhutan and comparator economies rank on the ease of dealing with construction permits.



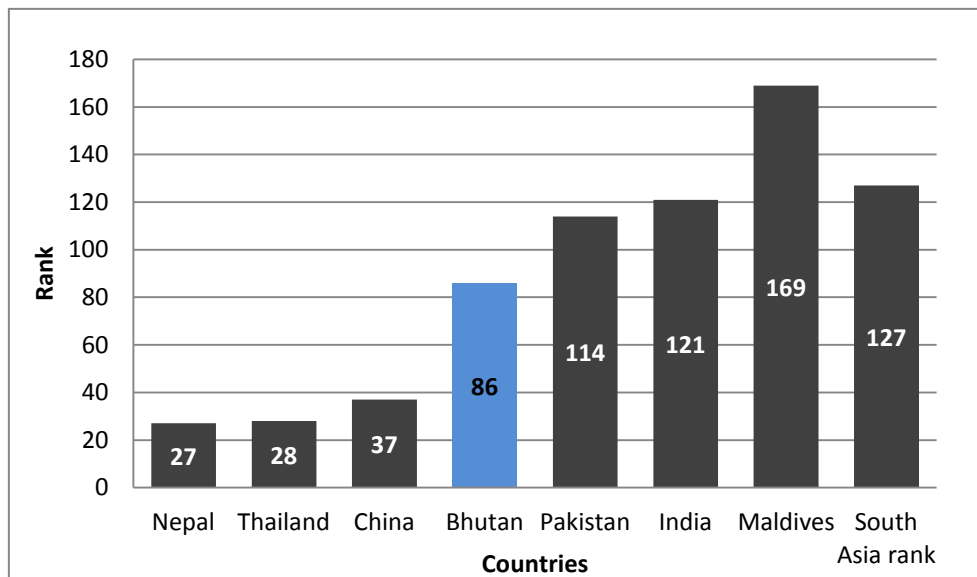
Source: Doing Business Database, World Bank

Diagram 3: How Bhutan and comparator economies rank on the ease of getting electricity.



Source: Doing Business Database, World Bank

Diagram 4: How Bhutan and comparator economies rank on the ease of registering property.



Source: Doing Business Database, World Bank

Gross National Product.

Sonam Peday, BA. Eco/Evs.

Many economists believed that there is a strong correlation between GNP and welfare of the people whereas in reality, it consists of a lot of errors especially when it comes to measuring the wellbeing and welfare of the people. GNP only takes in consideration the monetary value of final goods and services produced in the country and neglects various services rendered by people in the community and society which is unpaid or which is not measured in terms of money. For example, work done by a housewife. The services she renders such as cooking, cleaning, washing and basically being a housemaid is an important component which adds to welfare of the family members. This is completely neglected while calculating GNP. The 1995 report in Australia showed that GNP excluded two thirds of women and a quarter of men whose services are not taken into consideration (Green Left weekly, issue 243).

Environment is a vital contributor to the welfare of the human kind. The surrounding we live in and work has significant impact on mental and physical wellbeing. Recently Prime Minister of Bhutan, Tshering Tobgay has given a talk on Bhutan being carbon neutral and how we are carbon sink for so many neighboring countries. This implies how good we are at sustaining our resources and protection of our environment. This adds to the welfare of the people. GNP may take into account the cost of cleaning up pollution but not the cost of polluting the environment (Morris, A. n.d). GNP excludes the externalities and thus fails to be a good indicator of social welfare.

GNP is only concerned with material affluence and excludes non-momentary parameters such as freedom, gender quality,

human rights and health which add to the overall wellbeing of the society (Morris, A). GNP lacks the ability to accurately measure this parameter and merge it with the value of final goods and services to indicate the welfare of the people.

GNP ignores distribution of income. Distribution of income is a process of distributing the generated income and wealth among the population of the country. The unequal distribution of income would imply that a portion of the population is getting more benefited from the income and the rest of the populations are still living in poverty. Therefore, the GNP as a measure of social welfare is nothing but a failure.

GNP ignores sustainability which is a vital aspect in order to strengthen the social

welfare in the future. GNP omits externalities and treats depletion of natural resources as current income. It exclude the fact that sustainable economy and a country not only promises a better future but immensely adds upon the welfare of the people.

On one hand, GNP proves to be a good index of economic growth and social welfare. It is easily understandable and since it is measured uniformly everywhere, it assists in comparison of the quality of life between different countries. On the other hand, it devalues the concept of welfare in a broader perspective such as freedom, environment, unpaid activities, gender

quality, etc. which significantly effects the welfare of a person from grass root level.

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Progress and Prospect of Bhutan- The development of Bhutan in light of Sir Arthur Lewis model: An Assessment

David Gunther Fuchs, 2014

This Paper describes Sir Arthur Lewis Model in the context of Bhutan's development. The paper starts with the description of the Lewis Model, followed by a brief introduction about Bhutan and ends with Bhutanese development in the aspect of Sir Arthur Lewis economic growth model.

Sir Arthur Lewis Model of economic growth

The model of Sir Arthur Lewis is divided into two sectors – the agriculture and the capitalist sector.

Agriculture Sector

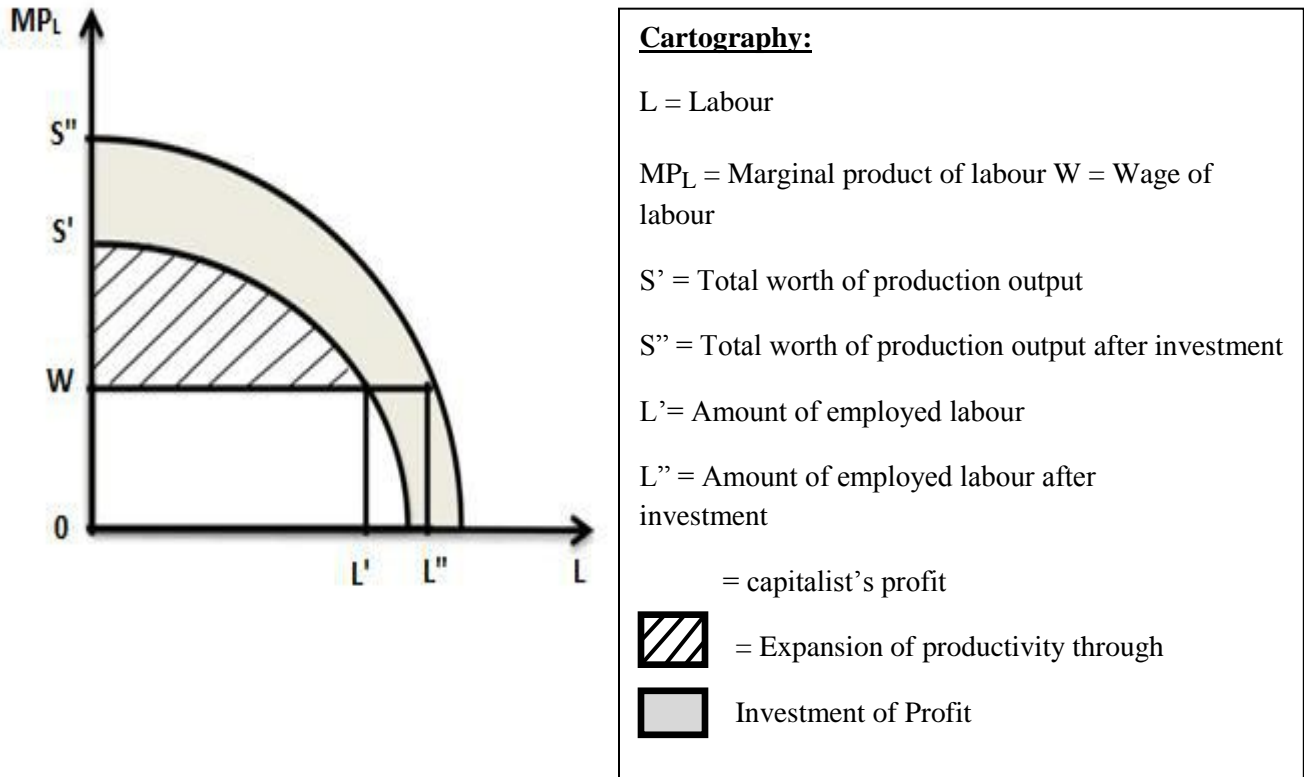
On the one hand it is the agriculture, a non-capitalist or subsistence sector. This sector can be also labelled as indigenous traditional sector or the “self-employed sector”. The two acting forces are divided into landlords and workers. The wages are

bargained and can be considered as relatively low. The production is very labour intensive but it can be characterised as low productivity. In the top of that there is a plethora of labour.

Industrial sector

The capitalist sector is defined by higher wages, higher marginal productivity and a demand for more workers. Moreover the manufacturing sector is capital intensive. Profit, resulting from the production, is reinvested in the capital stock by the capitalists, which allow them to expand and employ more people.

Graph 1: Employment in industrial sector before and after investment



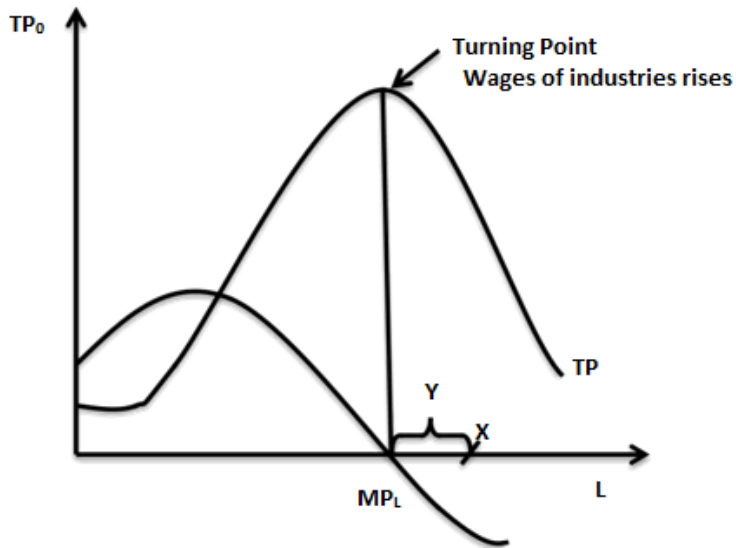
The landlords, the saving class of the subsistence sector, are considered as potential commercial and industrial entrepreneurs. Furthermore the industrial sector is able to mobilize hidden rural resources, such as labour, by providing higher wages than in agriculture sector.

Interaction between the two sectors

Due to the higher salaries and the demand for labour, a shift of working force will occur. The

industrial sector expands and will draw labour from the agricultural sector. The wages of the people remain the same, although the salary in the capitalist sector is higher, until all surplus working force is shifted to the industrial sector. This point named Arthur Lewis “Turning Point”. The disguised unemployment and the turning point are illustrated in graph 1 underneath. Is the surplus of workforce exhausted, the marginal product of labour will be zero or positive.

Graph 2: Relation of Marginal Product of labor and amount of labour within the agriculture sector



Cartography

TP0 = Total Production of Agriculture

L = Labour

TP = Output of Agriculture

MPL = marginal Product of Labour

X = Amount of labour working in the sector

Y = disguised Unemployment

With the increasing workforce, it allows the established companies to expand and the possibility to create new industries. If there is no more disguised unemployment within the agricultural sector, the general wage of all sectors will rise.

Lewis focused on organizational dualism and rejected the Neo Malthusian doctrine, which favoured birth control to keep the population growth under control. Food shortages can be overcome by imports. Sir Arthur Lewis rejected the idea of an all-powerful state which was responsible to create the conditions for the industrial sector to develop. Instead he favoured the private sector.

The model was based on four assumptions

- Existence of disguised unemployment or surplus workforce in agriculture

- All the wages are consumed and all the profit is saved and invested
- The only factor which hindered the capitalist sector was the shortage of labour. Otherwise there were no constraints on acquiring raw materials.
- Industrial wages are 30% higher than subsistence wages, due to the fact of the increasing living costs in urban areas

Sir Arthurs Lewis Model is especially relevant, when heavy population pressure on scarce cultivable land (Ranis 2004, P. 14)

Bhutan

Overview

“The Kingdom of Bhutan is a small, mountainous, landlocked country in South Asia, located in the eastern

Himalayas, bordered by India and China. Bhutan is home to a population of about 740,000 spread over approximately 47,000 square kilometers[...] with about 70% of its land under forest cover.

Much of the population lives in the central highlands, and almost two-thirds are classified as rural inhabitants. [...] Per capita gross national income (GNI), one of the highest in South Asia, has consistently risen from \$730 in 2000 to \$2,070 in 2011.” (World Bank 2014a, online)

Suitability

The surplus of workforce and the possibility of disguised unemployment is given due to the fact that the unemployment rate varies between two and three percent (Trading Economics 2014, online; World Bank 2014b, online). In aspect of the employment distribution, Bhutan is a predominantly agriculture centred economy with around two third working within the primary sector (Metha 2012, online; Asian Development Bank 2014, online).

23.2 per cent of the people live under the income poverty line, over 71 per cent of the poor work in agriculture, 31 per cent of the poor are rural population is poor and only 1.7 per cent of the poor are urban population (UNPD 2010, online). In addition to this the constraints on acquiring raw materials is low because Bhutan is rich on natural resource, which fostered the development of mining industries. The availability of energy is also given, based on the fact that the major income of the Bhutan Government is achieved by exporting electricity. Furthermore according to Ranis the Arthur Lewis is especially relevant to Bhutan, because “[...]the skewed population distribution, the limited arable land, and the topography continue to give rise to localized population pressure on the environment” (Gross National Happiness Commission 2010, online).

Industrialization

Sir Arthur Lewis rejected the all-powerful state, which was Bhutan in bygone days, but the state achieved the turn to a functioning democracy system with enough freedom for private sector to allow it to flourish. This led to astonishing economic development. The Bhutanese Economy was growing on average over seven percent during the past decade. “Bhutan’s per capita Gross National Income of US\$2020 in 2009 is the second highest in South Asia” (World Bank 2010, online). In addition to this Bhutan is the least corrupt country in the region. “Bhutan, in comparison to the South Asia region [...], has an

outstanding advantage in terms of good governance, political stability, low levels of corruption and crime, theft and disorder, access to electricity, and customs and trade regulations. [...]The median Bhutanese firm reported an increase of 36 percent in sales and 25 percent in employment between 2006 and 2008. ” (World Bank 2010, online). More than half the new enterprises are based in the manufacturing sector (World Bank 2010, online). The economy and in particular the private sector and within this, the manufacturing sector is booming. “The structure of our economy has been transforming swiftly with primary subsistence agriculture economy being gradually overtaken by secondary sector, manufacturing and service sectors” (Gross National Happiness Commission 2010, online).

Therefore Bhutan underwent a structural transformation “in such a way that the contribution to national income by the manufacturing sector eventually surpasses the contribution by the agricultural sector” (Todaro 2012, p. 115) 25 years ago Lauchlan Murno, from the McGill University, recommended Bhutan to focus on natural resource based technologies and less on capital and labour intensive technologies (Munro 1989, p. 15).

Against Murnos recommendations and in favour Lewis Model, Bhutan set partly a focus on the labour and capital-intensive manufacturing sector, which was the right decision, when you see the economic achievements today.

Still some areas are in great need of improvement. In Lewis viewpoint the industrial sector should

just be constrained by lacking labours. In fact this sector is facing various problems such as limited access to finance, shortage of skilled / educated labor, and complexity of regulatory compliance. These factors hinder the development and expansion of the industrial sector. In addition to this, the single factor for industrial expansion according to Lewis, the labours, are limited. Another complementary investment which has to be undertaken is the development of infrastructure. “More than 50 percent of the population lives half a day’s walk from the nearest motor road” (World Bank 2010, online). Therefore not the full amount of profit can be reinvested. Besides a part of the capitalist’s profit is used for conspicuous consumption, which reduced the possible expansion of the industrial sector as well.

In the Doing Business Report by the World Bank Bhutan is ranked on 141 out of 189. This poor performance has to be improved in the next few years. The most improvement in the last year was within the sector “Getting credit”. Bhutan’s position moved 17 ranks up and is now on rank 107, which is better but still worse than most of the countries (World Bank Group 2014, online). Getting credit is one of the most crucial things in Sir Arthur Lewis Model. Without financial resources the capitalist is not able to invest and expand its industries. Therefore the requirements and procedure for getting credits should be more simplified and fastened.

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Economic status for urban and rural area

Dhendup, 4th Semester, 2016

Economic status means economic and sociological summation of person's work based on an individual's experience or families economic and their social position comprised by income, occupation and education which makes an economic growth in a society. The economic status for urban area and rural area are totally different due to industrialization, consumption patterns and living standard.

The people living in rural area during the 19th century did not have enough facilities to educate compared to the people living in urban area. In order to have productive labor and high skill person to supervise and manage the activity, education is very important but those people in rural area lack these facilities which lead to poor management. They cannot do other work except agriculture activities even in these 21st century and the places like Laya and Lunana have only one school which is not effective to make a productive labor due to shortage of time. It also means that they only have four months to study and rest of the months are free

which leads to poor economic status but in urban areas, people have access to education facilities where they are always engaged in studies from a very young age. So ultimately they get exposure and become productive labor which leads to high economic status.

Having poor education facilities and shortage of time for studies in rural area, this leads to unproductivity of labor in society. They do not get any employment opportunities to engage their life so they become farmers. Whereas the urban people face many employment opportunities due to industrialization and expansion of trade, people get alternative source for earning income which means economic growth takes place and have high economic status. However the agriculture is the only source of earning for rural people as most of them are farmer. This is due to lack of economic activities and trading facilities which makes low economic status for rural area.

Those people who are living in rural areas have different source of income and agriculture is

considered as the main source of income to survive their life however, with the luck cordyceps have become very expensive. It became the main contribution of income to those people who are living in high altitudes such as Merak, Laya, Lunana and some of the people located in high altitude. They do not have other source of income unlike people settled in urban area such as doing big business and engaging in different sectors making them unique in their own way and leads to less contribution to Gross Domestic Product by people living in rural area. GDP mainly measures

the productivity of labour and those people living in rural area are not much productive. The only thing that they can contribute to GDP is through their consumption of necessary things in a small way. References

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