

Committee for Development Policy 20th Plenary

Summary and conclusions

This **ex ante impact assessment for Bhutan** (see information in the sidebar), prepared at the request of the CDP for consideration at the 2018 triennial review, assesses the probable impact of the loss, upon graduation from the LDC category, of support measures relating to international trade; development cooperation; and general support measures.

In general, the assessment finds that, given the country's trade structure and the nature of its main cooperation partnerships, major impacts are not expected as a result of graduation. The main conclusions are summarized follows:

Trade

Market access – goods. Bhutan's graduation is expected to have no impact on market access for current exports to the main destinations such as Bangladesh, India and Nepal, because its major exports enter these main markets under bilateral and regional trade agreements rather than preferential treatment for LDCs.

Graduation is unlikely to have a big impact on the possible diversification of current exports into new markets. Most existing major exports would face the same tariff rates in the EU, Japan, Thailand and United States.

Diversification into potential export sectors and the export of those products to Bangladesh, India and Nepal would not be affected by graduation. For the EU, Japan and Thailand, it may be challenging, with a possible loss of trade preference. A significant tariff increase is expected for dairy products, vegetables and fruits in the EU, Japan and Thailand after Bhutan graduates.

WHAT ARE EX ANTE IMPACT ASSESSMENTS IN THE CONTEXT OF GRADUATION FROM THE LDC CATEGORY?

To graduate from LDC status, a country needs to be found eligible for graduation, based on criteria determined by the UN General Assembly, in two successive triennial reviews conducted by the Committee for Development Policy (CDP).

After a country is found eligible for the first time, the CDP requests that the United Nations Department of Economic and Social Affairs (UNDESA) prepare an ex ante assessment of the expected impacts for the country of no longer having access to international support measures for least developed countries (LDCs).

This assessment is used, along with a "vulnerability profile" prepared by the United Nations Conference on Trade and Development (UNCTAD), the views of the concerned Government and other relevant information, as an input for the CDP's decision on whether to recommend the country for graduation once it is found eligible for a second time.

Table 1. Tariffs under LDC specific market access schemes and default schemes

Product	HS	
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WTO accession. Bhutan established its first working party for WTO accession discussions in 1999 and Bhutan was granted an observer status in the same year. Bhutan made a substantial progress in preparing the accession package. However, the Government deferred accession, and, as of November 2017, accession has not been completed. As an acceding country, Bhutan would need to negotiate specific transition periods to comply with WTO principles.

Aid for Trade. The main Aid for Trade

misleading to attempt to reliably establish and quantify the significance of these factors for individual countries and their consequences for

Box 1. Graduation eligibility and the process towards graduation

A country becomes **eligible** for graduation from the LDC category when it meets any **two of three criteria**

2. Support measures related to trade

2.1. Bhutan export: an overview

Bhutan's economy is characterized by a substantial trade deficit and capital account surplus (table A.1). Imports steadily increased in recent years, offset in part by increasing hydro power export and grants, resulting in the current account deficit reaching almost 30 per cent of GDP in 2014/15. From 2012/13 to 2014/15, export rose from \$546 million to \$578 million, and electricity export accounted for about 30 percent of the total export. Services export show a small deficit, with tourism and IT services accounting for a significant part of the receipts, and electricity related service payment accounting for most of the debits.

Existing major export sectors

Figure 1 presents the major export commodities of Bhutan, identified by the total export values over 2013-2015. At the six digit level of the Harmonized Commodity Description and Coding Systems, electricity energy (HS 271600) is the top export, followed by ferro silicon (HS 720221). Looking at two digit product code, mineral products (HS 25 and 27) account for a majority of the total export, followed by metals (HS 72) and chemical products (HS 28). Detailed data is presented in table A.2.

Figure 1. Top 10 commodity exports, 2013-2015 average

India is the top destination for almost all the main exports of Bhutan. Bangladesh is a major destination for cardamom (HS 090831), and imports some cement products (HS 251810, 252010) from Bhutan. A few European countries import ferro silicon products (HS 720221). Detailed data are presented in table A.2. In the present report, top destinations for a particular product are identified by the share of the product export that all together add up over 95 per cent.

In the case of Bhutan, trade data in the UNCTAD Comtrade database are available only up to 2012. Mirror data are not reliable, with considerable discrepancies with the original data. Therefore, the national data on trade statistics by Ministry of Finance are the main sources for the present report.⁵ We focus on the top nine exports. Electricity is excluded because the export of electricity to countries other than India does not appear to be feasible at this point due to geography and infrastructure.

Potential export sectors

Additional to the major export commodities, there are rising export sectors with potential to become major sectors to contribute to the total export in the future. Graduation and loss of access to ISMs that may support the growth of such sectors could be an additional possible cost of graduation. To identify these products, we use the development strategy papers by the Government of Bhutan, and export sector studies conducted by international organizations. The present report intends to cover substantial, but not all, potential export products, to provide an initial assessment of possible export products. Further in depth studies that include more products would be beneficial to the country.⁶

Bhutan validated its first Diagnostic trade integration study (DTIS) and the National Export Strategy in 2012, conducted with Enhanced Integrated Framework (EIF). DTIS identified a number of potential priority products, including agricultural products (such as potatoes, apples, mandarins, cardamom, and cordyceps), ferro silicon and iron materials, as well as services.⁷ The Government of Bhutan has implemented five year development plans since 1960s. The current Economic Development Plan identifies medicinal health food, animal feed, forest based products, dairy, apiculture and horticulture as additional priority products.⁸ These sectors, as well as other service sectors, are included in the fiscal incentives to support the national development plan.⁹

UN DESA has commissioned a number of Growth Identification and Facilitation Framework (GIFF) studies on productive capacity in LDCs, to identify potential sectors to contribute to achieving sustainable development.

export products for

countries such as Thailand, and duty free imports to these countries have been increasing in recent years.¹⁵

Bhutan also receives market access concessions to LDCs through the regional trade agreement, the South Asian Association for Regional Cooperation (SAARC) Agreement on a South Asian Free Trade Area (SAFTA), which entered into force in 1995.¹⁶

an LDC. The second figure is the best possible tariff for Bhutan as a non LDC. Red figures present possibly large tariff margin losses (five percentage best

exporting dairy, honey, vegetables and fruits to Japan and Thailand, if it loses trade preference after graduation.

To summarize,

Research focusing on the constraints in service export of LDCs suggests that the impact of the service waiver, by itself, is not likely to be large. For professional services in Mode 1, for example, most of the constraints in LDCs, including Bhutan, are supply side problems – physical infrastructure such as transportation, IT connectivity, and soft infrastructure such as institutions, law, etc.²⁶ Obstacles relating to restrictions in supply side are unlikely to be remedied through a demand side policy – the application of preferences via the service waiver.²⁷

It is also not clear how the service sem.8(r)]T34D.0002Tc(Bhutan,)Tj/TT11Tf3.1850T495055to03ca0TD:0023T

treatments (SDTs) fall into five categories: (i) increased market access; (ii) safeguarding of the interests of LDCs; (iii) increased flexibility for LDCs in rules and disciplines governing trade measures; (iv) extension of longer transitional periods to LDCs; and (v) provision of technical assistance. SDTs cover various areas, such as agriculture, investment, intellectual property rights, trade facilitation, rules

Figure 2. Bilateral ODA

		Ministry of Finance ³⁷
Japan		

The UN system as a whole is the third largest multilateral partner for Bhutan. IFAD, UNDP, UNICEF, UNFPA and WHO are the major contributors. Some UN agencies give priority to LDCs in providing funding and capacity building support, as a part of their corporate strategies. For example, UNDP and UNICEF have an arrangement for its programme budget allocation to LDCs.

financing sources.

Table 3. Bhutan's contribution to UN entities budgets



4.2 Travel supports and scholarships

The United Nations offers travel support for up to five representatives of each Member State designated as a LDC to attend the regular sessions of the General Assembly.⁴⁷ For graduated countries, the travel support can be extended, with some conditions, to a maximum of three years after graduation.⁴⁸ Bhutan received this support for five representatives every year for 2012-2017, with the total amount of \$166,500.⁴⁹

Other UN entities also support travel of LDC representatives participating in international conferences.⁵⁰ But other than UN GA, no other organization has indicated that they have a smooth transition arrangement for countries graduating from the LDC category. If Bhutan becomes a non-LDC, travel supports for Bhutan are likely to discontinue.

Researchers from LDCs are eligible for scholarship and research grants provided by international organizations and private institutions.⁵¹ For instance, UNITAR provided a course fee waiver for Bhutanese applicants in 2014 and 2017.⁵² These grants and supports do not have smooth transition arrangements. However, most of the research grants and scholarships allow applications from non-LDCs, and thus Bhutanese researchers are likely to remain eligible for some of the research grants.

5. Conclusions

On the basis of available information, the graduation of Bhutan from the LDC category is likely to have a limited impact. The expected impacts of possible graduation of Bhutan are summarized in table 4.

⁴⁷ United Nations (1991), Rules governing payment of travel expenses and subsistence allowances in respect of members of organs or subsidiary organs of the United Nations (ST/SGB/107/Rev.6). Available from <http://documents.un.org/doc/undoc/gen/91/01/19910101/01/01010101.pdf?OpenElement>

Table 4. Summary of impact of Bhutan's graduation from LDC category

Category	Transmission channel	Possible change	Possible result
Trade	Export of major products to main destinations	No or minor changes in Bangladesh, India, and Nepal.	Tariff rates remains the same due to the duty free access to India, the bilateral agreement with Bangladesh, and SAFTA.
	Diversification of major products to new markets	No or minor change in EU, Japan, Thailand and United States.	Tariff rates remains the same due to the coverage of GSP LDC and low MFN rates.
	Diversification to other products	No tariff increase in Bangladesh, India and Nepal. Significant increase in tariff rates in EU, Japan and Thailand for dairy, vegetable and fruits.	Difficulties in diversifying into dairy, vegetable, and fruit to export to EU, Japan and Thailand due to higher tariffs.
	Export of service	Service Waiver no longer applied.	Unclear
	Trade related capacity building	Losing eligibility for EIF, and not counted in Aft for LDCs.	5 years of transition for EIF
	WTO obligations	TFA, TRIPS and others	Unclear. Will be determined in the accession process.
Development Cooperation	Bilateral flows	Reduced ODA associated with LDC status	No indication of abrupt changes following graduation. Possible changes in the terms for the loans of Japan.
	Multilateral flows	Reduced budget associated with LDC status	Most entities indicate that no change is expected. Lose access to LDCF. Retain access GEF. Retain access to GCF (but not in the priority group). Lose access to UNCDF after a transition period.
	Private flows	FDI attracted by trade preference can decrease after a loss of preference. FDI can increase, as credit rating improves and risk is reduced.	Unclear. FDI increased in graduated countries.
General support	Contribution to UN system budgets	Contribution ceiling for LDCs is removed, but current rate is 0.001%, the floor.	Peace keeping budget up by \$6,800. WIPO budget up by \$1,452.
	Travel support	No longer eligible for support.	UN GA 3 years of smooth transition. Self financed travel, or no representation.

	Scholarship and research	Not eligible for grants for applications from LDCs	Not significant. Most allow non LDC applications
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Bhutan's graduation is unlikely to have any

Annex I: Response by the Government of Bhutan

COMMENTS ON DRAFT EX-ANTE IMPACT ASSESSMENT PREPARED BY UNDESA ON BHUTAN'S LDC GRADUATION

A. OFFICIAL DEVELOPMENT ASSISTANCE

1. Bilateral Assistance

- Include Denmark as one of the major bilateral donors from 2006 to 2015
- Page 19 - Australia's support to Bhutan is only limited to Human Resource Development and not for economic development and regional connectivity.

2. Multilateral Assistance

- Major impact of graduation would be on the loss of climate related funding windows. For example, Bhutan has accessed funds amounting to US \$ 29 million for NAPA I, II and III as an LDC which will not be eligible upon graduation.
- Reflect the loss of EU's Global Climate Change Alliance Fund

B. TRADE

1. General Comments

- The study was found informative and provides good understanding of potential implications of graduation on existing major exports as well as potential exports. This is viewed important for Bhutan in light of growing concerns with the sustained trade deficit, which is exerting immense pressure on the hard currency reserves and posing enormous risk to the overall macroeconomic stability.
- It was observed that the exhaustive list of nine major export commodities and fifteen potential export commodities have been identified based on earlier studies and export strategy papers. While the studies cited serve as a good basis for product identification, it was noted that the list does not include number of products, such as red rice, mushroom (matsutake), processed food products, fruit juices, mineral water, hazelnut, lemon grass products, organic soap and related products, etc., whose export value may not be substantial at the moment but it would have huge export potential.

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12. Ferro silicon – 0% (HS720221)
13. Iron ingots – 0% (HS720610)
14. Semi-Finished iron or steel products) – 0% (720712)
15. Bars and Rods – 0% (721430)
16. Copper wire – 3% (HS 740819)

Source:

Annex II: DESA's reply to the Government of Bhutan

A. OFFICIAL DEVELOPMENT ASSISTANCE

1. Bilateral Assistance

- Denmark has been an important partner until 2012, and then the ODA decreased to zero by 2015. Denmark was not included in the analysis because the impact of graduation is not expected to be significant.
- The response by the Government of Australia has been included, not the current status of their development assistance.

2. Multilateral Assistance

- Bhutan will lose access only to LDCF upon graduation. It retains access to other climate related funding windows, such as the GEF and the GCF.
- EU confirmed that ongoing activities of GCCA in Bhutan will continue as foreseen. Graduation from the LDC category would not impact Bhutan's future eligibility for funding from the GCCA+ initiative. The updated information has been added.

B. TRADE

3. General Comments

- Added mineral water (220110) in table 1. The potential export products in the present report are to highlight some possible impacts, selected based on the existing national development strategies and other studies. Added a disclaimer that the current study intends to cover substantial, but not all, potential export products. Other potential products are good subjects to be analyzed in a follow up in-depth study by the Government.
- Added Japan and United States as potential destinations in table 1. Hong Kong and Singapore are mentioned only in the footnote.
- Non-tariff barriers are beyond the scope of the current report, as they are not associated with LDC-specific benefits or constraints. The technical supports for LDCs on addressing non-tariff barriers, such as the assistance by STDF, are included in the financial flows analysed in the current report. The implication of graduation on non-tariff barriers will be excellent topic for a follow up study.

4. Specific Comments

- The information contained in table 1 can be used by Bhutan in its engagement with trading partners regarding the preferential market access after graduation, and thus the presentation of the result by destination would be more helpful rather than that by tariff regimes. Bangladesh would impose bilateral tariffs, SAFTA-LDC and SAFTA tariffs after graduation, and thus it is difficult to see the changes before/after graduation when only SAFTA tariffs are presented after graduation. Other destinations are of the same cases. Table 1 can be rearranged by tariff regimes, or any other break down, depending on the objective of the study.
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Table A.2. Bhutan major export commodities and main destinations and potential export commodities, 2013 2015 average, current thousand US Dollar, excluding electricity

Product	HS code	Value (thousand USD)	Share (%)	Destinations (share %)
<i>Dairy</i>	04	67.5	0.02	India (93), Singapore (6)
<i>Apiculture</i>	0409	4.7	0	Singapore (92)
<i>Horticulture</i>	07	8,917.2	2.39	India (98)
<i>Potatoes</i>	070190	7,736.9	2.07	India (99)
<i>Apples</i>	0808	1,850.7	0.5	Bangladesh (50), India (50)
<i>Mandarins</i>	080510	8,346.2	2.23	Bangladesh (95), India (5)
Cardamom	090831	12,931.4	3.46	Bangladesh (57), India (43)
<i>Medicinal plants</i>	12	4,553.0	1.22	Hong Kong (68), Singapore (14), Thailand (10)
<i>Cordyceps</i>	121190	4,536.2	1.21	Hong Kong (68), Singapore (14), Thailand (10), Malaysia (4)
<i>Mineral water</i>	220110	111.3	0.03	India (97)
<i>Animal feed</i>	23	892.6	0.24	Bangladesh (53), India (47)
Dolomite	251810	21,838.8	5.84	India (88), Bangladesh (11)
Gypsum	252010	10,262.4	2.75	India (84), Nepal (11), Bangladesh (5)
Cement	252329	32,813.8	8.78	India (100)
Calcium carbide	284910		4.39	India (100)
Silicon carbide	284920	12,297.7	3.29	India (99)
<i>Plastic film/sheet</i>	392099	7,503.6	2.01	India (100)
<i>Particle board</i>	4410	2,606.1		India (100)
<i>Building stone</i>	680221	2,559.2	0.68	India (100)
Ferro silicon	720221	126,357.5	33.82	India (88), Germany (4), Italy (4)
<i>Iron ingots</i>	720610	1,894.3	0.51	India (100)
<i>s i i r</i>				e e l 1 7 1 . 4 8 4 3 4 . 2 2 2 4 0 5 5 f

Table A.3. Catalogue of priority exports in Bhutan

Product or service

Source: DTIS/NES: Government of Bhutan and Enhanced Integrated Framework (2012), Diagnostic Trade Integration Study (DTIS) and National Export Strategy; DESA GIFF: UN DESA, Building productive capacity for LDC graduation in Bhutan (2017); EDP: Government of Bhutan, Economic Development Plan 2016; FIA: Rules on the Fiscal Incentives Act of Bhutan 2017; ITC: International Trade Center (2017), Bhutan: Export potential assessment. Poultry (0207) is included in EDP and FIA but excluded from the list because it is to replace import, not to promote export (comments from ESCAP). Mineral water is included as suggested by the comments from the Government and UNDP.

Table A.4. Trade preferences for Bhutan

Importer	Trade regimes before graduation	Coverage	Effective dates of latest renewal	Trade regimes after graduation	Smooth transition
Bangladesh	SAFTA LDC PTRB	SAFTA LDC (All except 1,259 tariff lines) PTRB (18 [redacted])	SAFTA LDC (1/1/2006) PBT (2017)	SAFTA (all except 1,254 [redacted])	[redacted]

Council regulation no 978/2012, Article 18, paragraph 1. <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32012R0978>
[https://www.un.org/ldcportal/preferential market access european union everything but](https://www.un.org/ldcportal/preferential_market_access_european_union_everything_but)

Table A.5. Bhutan: composition and

Table A.6. Bhutan: bilateral ODA by sector, 2006-2015 (commitments in current prices, million US Dollar)

Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bilateral ODA Commitments by Purpose (CRS)	20.64	80.53	74.02	72.67	28.2	78.97	40.08	51.86	39.58	43.14
Social infrastructure and services	10.45	14.22		15.16	12.11	18.9	11.18	18.05	12.43	9.11
Education	6.06			2.77		4.84	2.88	2.81	1.44	
Water supply and sanitation	0.12		0.08	0.11	1.23	0.38	1.2	1.73		
Economic infrastructure and services	6.44	35.21		33.1	9.12	42.34	6.96	3.12		20.52

List of abbreviations

CDP	Committee for Development Policy
CTBTO	Comprehensive Nuclear Test Ban Treaty
DAC	Development Assistance Committee
DESA	Department of Economic and Social Affairs
DFQF	Duty free, quota free
EIF	Enhanced Integrated Framework
EU	European Union
EVI	Economic vulnerability index
ECOSOC	Economic and Social Council
FAO	Food and Agriculture Organization
GATT	Global Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccines and Immunization
GEF	Global Environment Facility
GNI	Gross national income
GSP	Generalised System of Preferences
HAI	Human assets index
HS	Harmonized Commodity Description and Coding System (Harmonized System)
IAEA	International Atomic Energy Agency
ICC	International Criminal Court
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
ISBA	International Seabed Authority
ISM	International support measures
ITLOS	International Tribunal for the Law of the Sea
ITU	International Telecommunication Union
LDC	Least developed country
MFN	Most favoured nation
OECD	Organization for Economic Co operation and Development
ODA	Official development assistance
OHRRLLS	Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
OPCW	Organization for the Prohibition of Chemical weapons
SIDS	Small Island Developing States
UNCTAD	United Nations Conference on Trade and Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change