

Services snapshot

Bhutan



KEY SERVICES DATA¹, 2013

Services² share of industry value added 2012: **70%**
(down 4% points since 2011)

Services share of employment: **36%**

Trade³ in services contribution to GDP: **17%**
(up 5% points since 2009)

Services share of total exports: **18%**
(double the figure in 2012)

Services trade deficit: **US\$ 49 million**
(down 46% since 2009)

Services exports: **US\$ 123 million**
(up 26% since 2012)

Services exports annual growth: **26%**
(up 21% points since 2009)

Services imports: **US\$ 171 million**
(down 9% since 2012)

Services export composition: **travel (69%), transportation (27%), other (4% of which 3% insurance and 1% communications)**

Services import composition: **travel (37%), transportation (19%), other (44% of which 30% construction, 10% business, 2% insurance, 2% communications)**

SERVICES AT A GLANCE

GDP growth in Bhutan dived from 12% p.a. in 2010 to 2% p.a. in 2013. However, Bhutan made progress across many social indicators: the poverty headcount ratio dropped from 23% in 2007 to 12% in 2012 and unemployment fell from 4% in 2009 to 2% in 2012.⁴ In 2013, the share of the services sector in total employment was 36%, 7% points more than its share back in 2009.⁵

In value-added terms, the services sector contributed 70% of GDP (see figure 1). Services contributed more than three times as much as agricultural sector's contribution to GDP growth in 2012.⁶

Services exports from Bhutan more than doubled from US\$ 53 million in 2009 to US\$ 123 million in 2013 (see figure 2). Services exports growth increase by more than 3% points from 2012 to 2013 (see figure 3) mainly due to growth in travel services, in particular international inbound tourism (see figure 4).

The net deficit on services trade account improved from US\$ 90 million in 2012 to US\$ 49 million in 2013 mainly due to this rise in exports but also a decline in imports. The share of services in Bhutan's total exports doubled from 9% in 2009 to 18% in 2013.

Bhutan signed the South Asian Association for Regional Cooperation (SAARC) Agreement on Trade in Services (SATIS) at the sixteenth SAARC Summit held in Thimphu in April 2010.^{7,8} This agreement aims to liberalize trade in services among member countries of SAARC. The schedule of commitments is not yet finalized.

Figure 2. Services trade

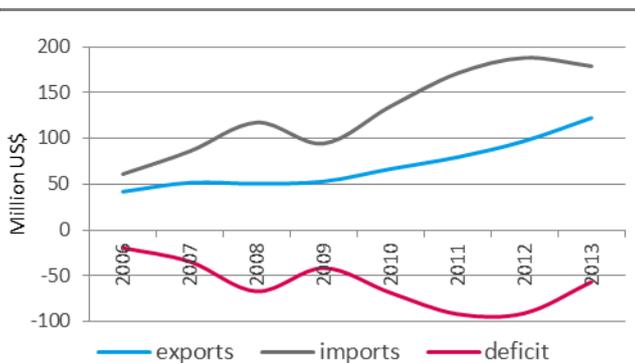


Figure 3. Services exports growth rate

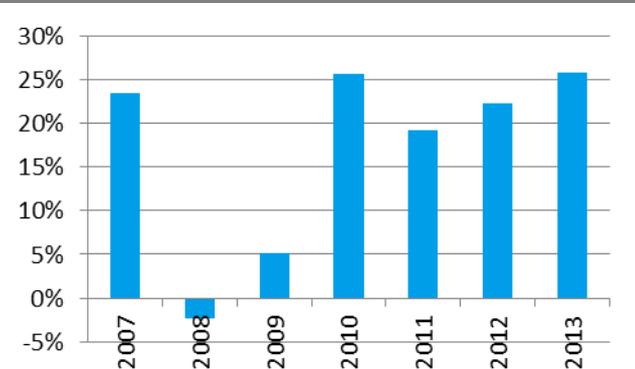


Figure 4. Composition of services exports

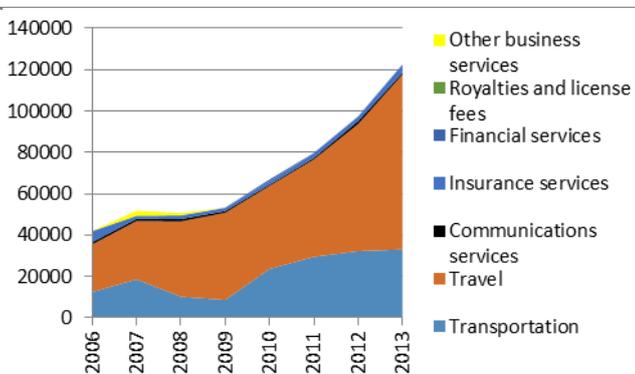
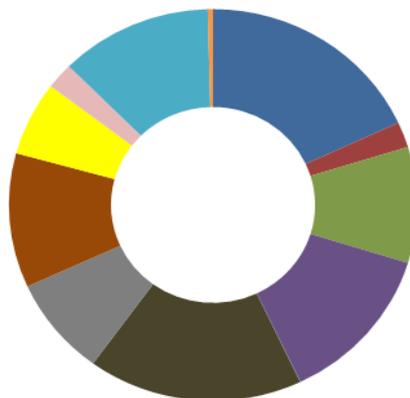
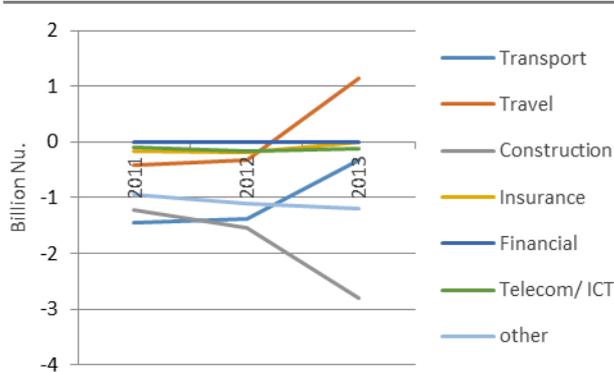


Figure 1. Value added in 2012 by industry



- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Energy supply
- Water supply and environmental services
- Construction
- Wholesale, retail and repair
- Transport and storage
- Financial and insurance services
- Real estate
- Government, human health and social services
- Other

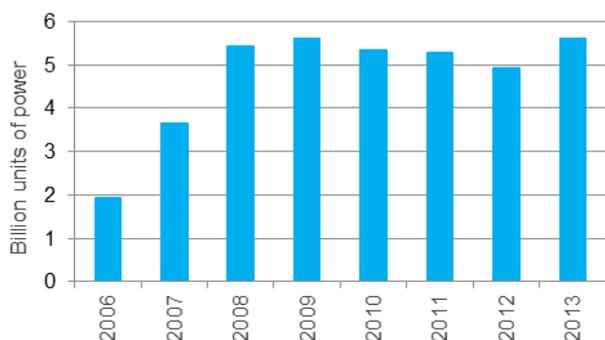
Figure 5. Balance of payment: services



ENERGY

Bhutan has a net trade surplus in electricity^{6,9} (see figure 6); imports are negligible. Hydropower accounted for 48% of Bhutan's total exports in 2012. Though most of its hydropower potential remains untapped, Bhutan generates 6 to 7 billion Kwh of power p.a., most of which is exported to its largest trading partner, India. Construction services imports increased by 66% from 2012 to 2013 largely due to the development and maintenance of hydropower projects.⁶

Figure 6. Exports of electricity



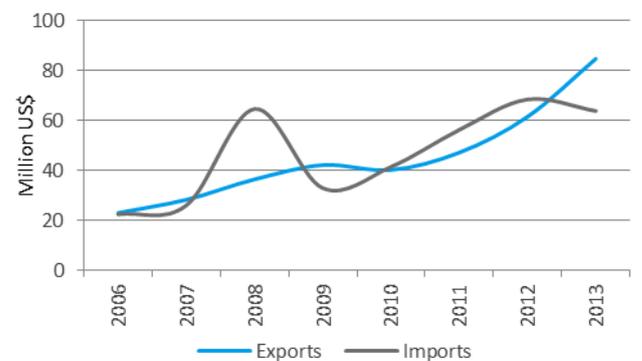
SERVICES SUBSECTORS

Travel services

Bhutan was a net exporter of travel services in 2013 (see figure 7). Travel services occupy the largest share of services exports, accounting for about 69% of services exports in 2013. Exports in travel services rose rapidly by 38% p.a. in 2013, contributing to overall improvement in the balance-of-payments deficit (see figure 2).

In 2010, the Royal institute of Tourism and Hospitality was established to help build the hospitality sector's capacity.¹⁰ Tourist arrivals reached a new peak at 116,209 in 2013, most tourists visiting Bhutan for leisure.¹¹ Growth was driven by an increase of regional

Figure 7. Travel services trade

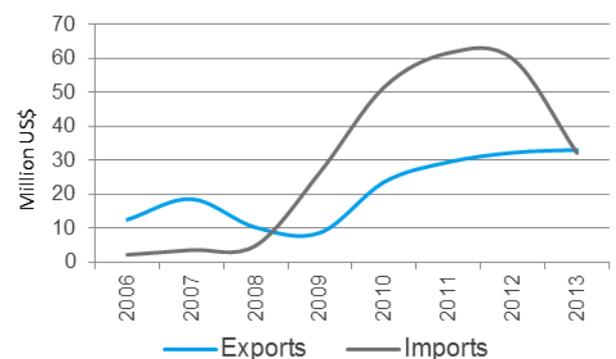


tourists, accounting for 55% of total tourist arrivals. The international market, accounting for 45% of tourist arrivals is dominated by tourists from Asia and Pacific. Gross earnings generated from international tourism stood at US\$ 63.5 million in 2013, a 33% increase since 2011.¹²

Transport services

Bhutan's trade in transport services is dominated by air transport. Bhutan was a net exporter of transport services from 2006 to 2008 but a net importer from 2009 until 2012 (see figure 8). **Bhutan again became a net exporter of transport services in 2013** as imports fell by 46% over the previous year, helping to reduce the overall services deficit (see figure 5). Its trade pattern closely follows that of trade in goods. In 2013, transport services accounted for 27% of services exports.

Figure 8. Transport services trade

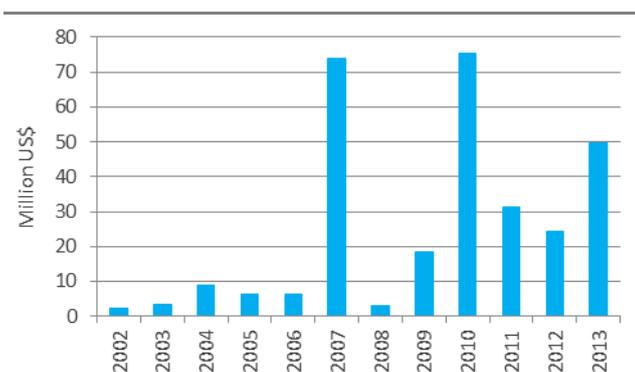


The number of roads built has increased steadily, but the share of paved road has continuously declined from 56% in 2005 to 34% in 2011. Road development remains a challenge due to Bhutan's mountainous terrain. In 2014, Bhutan received a moderate rating of 2.29 out of 5 on the World Bank logistics performance index which reflects quality of trade and transport related infrastructure.⁴

FOREIGN DIRECT INVESTMENT (FDI)

Net FDI inflows in early 2000s were relatively low and focused mainly on the hospitality sector. Net inflows soared in 2007 at US\$ 72 million due to rising investment in hydroelectricity. In 2010, Bhutan revised its FDI policy introduced in 2002, to further liberalize foreign investment in a more diversified range of industries.¹³ 18 new FDI projects were approved within 4 years under the revised policy compared with 19 projects in 9 years under the original policy.¹⁴ FDI inflows more than doubled in 2013, bringing total net FDI inflows to US\$ 50 million (see figure 9).⁴

Figure 9. FDI net inflows



FOOTNOTES / SOURCES

1. Key data derived from: ITC Trade Map, UN data, ILOSTAT, World Bank Data.
2. The services percentage of industry value added includes construction and utilities.
3. All trade data is for commercial services. Data for all figures derived from Trade Map (ITC, UNCTAD, WTO joint dataset), UN data, World Bank Data, Statistical Yearbook of Bhutan 2013, Royal Monetary Authority of Bhutan- Annual Report 2012/2013 and Bhutan Tourism Monitor: Annual Report 2013.
4. World Bank – World Development Indicators.
5. ILOSTAT Database - Labour Force Survey Report. Services share of employment does not include electricity, gas and water supply.
6. Royal Monetary Authority of Bhutan: Annual Report 2012-2013. Retrieved from: <http://www.rma.org.bt/RMA%20Publication/Annual%20Report/annual%20report%202012-2013.pdf>
7. SAARC Agreement on Trade in Services. Retrieved from: http://saarc-sec.org/areaofcooperation/detail.php?activity_id=46
8. SAARC Agreement on Trade in Services. Official document available online at: [http://saarc-sec.org/uploads/document/SAARC%20Agreement%20on%20Trade%20in%20Services%20\(signed\)_20121011091030.pdf](http://saarc-sec.org/uploads/document/SAARC%20Agreement%20on%20Trade%20in%20Services%20(signed)_20121011091030.pdf)
9. Bhutan stopped reporting its electrical energy exports (subchapter HS 2716) since 2010. This trade, which used to amount for more than 200 million USD each year since 2007, corresponds to the exported value of electrical energy. The export of electricity transport service is also included in Bhutan's services exports under "Transportation". Whether cross-border supply of electricity should be classified as a good or a service trade has been subject to different opinions. While transmission, distribution and retail of electricity bear strong features of services trade, the generation of electricity are often seen in the character of a product. The World Custom Organisation (WCO) Harmonised Commodity Description and Coding System (HS) classifies electrical energy as a product, but the United Nation's Central Product Classification (CPC) has "Electricity, gas and water distribution" under Division 69 as "Distributive trade services" and the United Nation's Extended Balance of Payments Services Classification (EBOPS) classifies "Pipeline transport and electricity transmission" as a service.
10. Royal Institute of Tourism and Hospitality. More information available at: <http://www.rith.edu.bt/>
11. National Statistics Bureau, Royal Government of Bhutan - Statistical Yearbook of Bhutan, 2013. Retrieved from: <http://www.abto.org.bt/wp-content/uploads/2014/06/BTM-2013.pdf>
12. Tourism Council of Bhutan: Bhutan Tourism Monitor Annual Report, 2013. Retrieved from: <http://www.abto.org.bt/wp-content/uploads/2014/06/BTM-2013.pdf>
13. UNCTAD: An investment guide to Bhutan: Opportunities and Conditions, 2013. Retrieved from: <http://www.theguides.org/guides/bhutan.pdf>
14. Asian Development Bank: Bhutan: Country Partnership Strategy 2014 –2018. Retrieved from: <http://www.adb.org/sites/>



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For additional information

Contact person: Jane Drake-Brockman, Trade in Services Senior Officer
E-mail: drake-brockman@intracen.org
Telephone: +41-22 730 0446

Street address: ITC, 54-56 Rue de Montbrillant, 1202 Geneva, Switzerland
Postal address: ITC, Palais des Nations, 1211 Geneva 10, Switzerland
Internet: www.intracen.org