HOW BHUTAN GRADUATED FROM THE 'LEAST DEVELOPED COUNTRY' STATUS

Bhutan, the mountainous, landlocked country that is consistently ranked one of the happiest in the world, will on December 13th of this year, become the seventh nation to graduate from the United Nations' (UN) list of Least Developed Countries (LDC). While this promotion is a cause for celebration it also raises some concerns, notably how Bhutan will compensate for the loss of certain trade privileges associated with being an LDC.

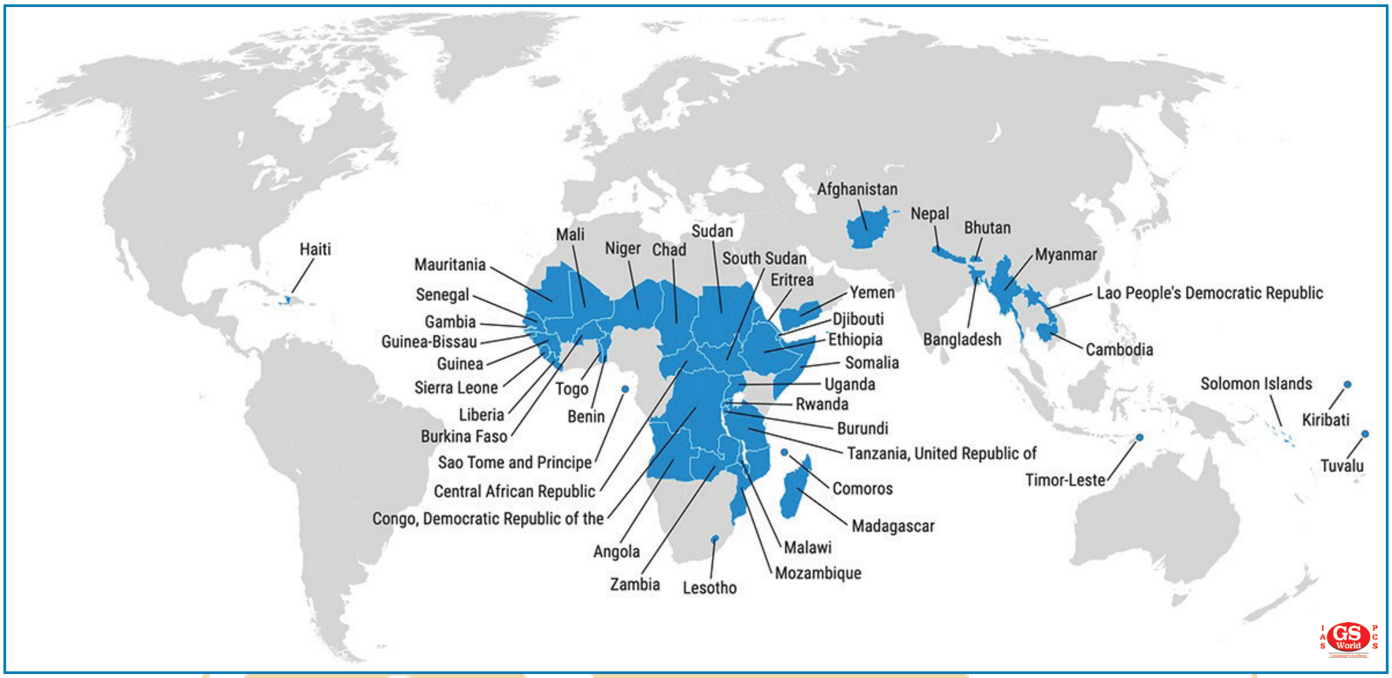
What is a Least Developed Country (LDC)?

The LDCs are developing countries listed by the UN that exhibit the lowest indicators of socioeconomic development. The concept first originated in the late 1960s and was codified under UN resolution 2768 passed in November 1971. According to the UN, an LDC is defined as "a country that exhibits the lowest indicators of socioeconomic development, with low levels of income, human capital and economic diversification, high levels of economic vulnerability, and a population that is disproportionately reliant on agriculture, natural resources, and primary commodities."

The UN identifies three criteria for a country to be classified as an LDC:-

1. First it must have a gross national income (GNI) per capita below the threshold of USD 1,230 over a three-year average.
2. Second it must perform poorly on a composite human assets index based on indicators including nutrition, health and education.
3. Lastly the country must demonstrate economic vulnerability such as being prone to natural disasters and possessing structural economic constraints.

Countries must meet a selection from all three criteria simultaneously and are reviewed on a three-year basis by the UN. Currently, the UN lists 46 countries that qualify as LDCs. Of those, 33 are from Africa, nine from Asia, three from the Pacific and one from the Caribbean.



How does a country get off the LDC list?

At the UN 2021 triennial review of LDC countries, the organisation recommended that Bangladesh, Laos, and Nepal be removed from the list. To graduate from the LDC list, a country must meet certain criteria in the three areas stated before namely, income, human assets, and economic vulnerability. A nation must have a GNI per capita of at least USD 1,242 for two consecutive triennial reviews in order to meet the income requirement. The nation must also show that this level of income can be sustained over the long term.

By using measures like education, health, and nutrition, a nation must show that it has improved its human capital in order to achieve the human assets requirement. This entails expanding literacy rates, lowering malnutrition rates, and enhancing access to healthcare and education.

A nation also must show that it has improved its ability to withstand external economic shocks like natural catastrophes or shifts in commodity prices in order to pass the economic vulnerability test. Diversifying the economy, investing in infrastructure, and raising the standard of institutions and governance are all ways to do this.

To achieve these goals, a country might need to implement a combination of policies, including promoting economic growth through investment in infrastructure, improving governance and reducing corruption, diversifying the economy, addressing environmental challenges, and investing in human development. For example, Botswana achieved graduation in 1994 primarily due to its strong economic performance driven by its diamond mining industry and investments in education and infrastructure. Similarly, Carbo Verde graduated in 2007 following investments in tourism, fisheries, and services, as well as positioning its strategic location as a hub for sea and air transportation to help attract foreign investment.

How did Bhutan get off the LDC list?

Bhutan was included in the first group of LDCs in 1971. However, over the last few decades, it has made remarkable progress on a variety of socio-economic metrics. Bhutan first fulfilled the requirements for graduation in 2015, and then again in 2018. Bhutan was therefore scheduled to graduate in 2021. However, the UN viewed Bhutan's request to match the effective graduation date with the conclusion of the nation's 12th national development plan in 2023 as a legitimate request and thus postponed the delisting.

Bhutan has taken a number of measures to reach this point and the results have been significant. Bhutan's economy increased more than eight times in the last 20 years, from just under USD 300 million in 2000 to USD 2.53 billion in 2017, with an average annual growth rate of more than 7 per cent. Additionally, the percentage of people living in poverty, as determined by the amount of money they make each day, decreased from 17.8 per cent in 2003 to 1.5 per cent in 2017. In the same vein, the percentage of people living below the national poverty line decreased from 23.2 percent in 2007 to 8.2 percent in 2017.

Bhutan has mostly accomplished this by increasing exports of hydropower to India, which now accounts for 20 percent of its economy. The nation also established Brand Bhutan in an effort to diversify exports while acknowledging the modest size of its local market. The idea was to target high-end markets with specialised exports of high-value, low-volume Bhutanese goods. Their goods come from sectors of the economy including textiles, tourism, handicrafts, culture, and natural resources.

How did Bhutan get off the LDC list?

Bhutan was included in the first group of LDCs in 1971. However, over the last few decades, it has made remarkable progress on a variety of socio-economic metrics. Bhutan first fulfilled the requirements for graduation in 2015, and then again in 2018. Bhutan was therefore scheduled to graduate in 2021. However, the UN viewed Bhutan's request to match the effective graduation date with the conclusion of the nation's 12th national development plan in 2023 as a legitimate request and thus postponed the delisting.

Bhutan has taken a number of measures to reach this point and the results have been significant. Bhutan's economy increased more than eight times in the last 20 years, from just under USD 300 million in 2000 to USD 2.53 billion in 2017, with an average annual growth rate of more than 7 per cent. Additionally, the percentage of people living in poverty, as determined by the amount of money they make each day, decreased from 17.8 per cent in 2003 to 1.5 per cent in 2017. In the same vein, the percentage of people living below the national poverty line decreased from 23.2 percent in 2007 to 8.2 percent in 2017.

Bhutan has mostly accomplished this by increasing exports of hydropower to India, which now accounts for 20 percent of its economy. The nation also established Brand Bhutan in an effort to diversify exports while acknowledging the modest size of its local market. The idea was to target high-end markets with specialised exports of high-value, low-volume Bhutanese goods. Their goods come from sectors of the economy including textiles, tourism, handicrafts, culture, and natural resources.

Advantages of Being an LDC

Being an LDC confers certain economic benefits to the listed country. As such, advancing out of the list is often only the first step in overall development. Graduation from LDC status is not the end of the road, but the beginning of a new journey. It is a time when a country needs to redouble its efforts to build its productive capacities, diversify its economy, and create new opportunities for employment and income generation.

To begin with, due to their reliance on exports of raw materials, LDCs are suffering badly from the most recent decline in raw material prices. Moreover, LDCs continue to be significantly more vulnerable to catastrophic natural and economic disasters, including threats from climate change and are significantly less prepared to handle such difficulties. Small island developing States, which make up 10 of the LDCs, are amongst the most affected by this.

Importantly, LDCs also enjoy duty-free and quota-free (DFQF) access to the markets of developed countries. This means that LDCs are not restricted by trade restrictions or tariffs when exporting their goods to wealthier nations. For LDCs, this is a significant advantage because it enables them to expand their exports and get access to new markets, which can boost their economic development.

Challenges after leaving LDC

However, a nation can lose access to the DFQF as it transitions from being an LDC to a middle-income developing nation. As a result, a nation that leaves the category of LDC may encounter new trade obstacles that it had not previously encountered, making it more challenging for it to expand its exports and get access to new markets.

LDCs are also eligible for loans with special terms for development, which include loans with a lower interest rate and a longer repayment time than those given to other nations. The term "Official Development Assistance" (ODA) or "aid" is frequently used to describe this form of support. This money is intended to aid LDCs in their initiatives to meet their fundamental requirements, promote sustainable economic growth and development, and fight poverty.

However, in the case of some LDCs, these special privileges do not contribute significantly to their economy. For instance, 56 percent of Nepal's total exports are sent to India, and the majority of this commerce is conducted in accordance with a bilateral free trade agreement, meaning that India is not entitled to the LDC privileges. Additionally, petroleum oils make up about 60 per cent of Angola's exports to China, and they too are not subject to any LDC privileges.

Conclusion

Graduation from LDC status is a major achievement, but it can be a double-edged sword. On the one hand, it signals that a country has made significant progress in its economic and social development. On the other hand, it can also create new challenges and risks, as the country may lose access to some of the trade-related benefits and support that it had as an LDC.

Expected Question

Que. With reference to Least Developed Countries (LDCs), consider the following statements-

1. No country from the European continent is included in the list of LDCs.
2. Haiti is the only Caribbean country included in the list of LDCs.
3. Most countries in the list of LDCs are from the African continent.
4. Presently a total of 46 countries including Bhutan are listed in the list of LDCs.

Which of the statements given above is/are correct?

(a) 1 and 2

(b) 2 and 4

(c) 1, 3 and 4

(d) 1, 2, 3 and 4

Answer : D

Mains Expected Question & Format

Que.: What is Least Developed Countries (LDCs)? What are the criteria adopted to list a country in this list? What are the benefits of countries being included in this list and what are the challenges faced by countries by going out of it? Discuss.

Answer Format :

- Write about LDC list.
- What are the criteria used to be included in this list?
- How do countries benefit from being listed in this and what are the challenges faced by going out?
- Give your conclusion giving the example of Bhutan.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.