**08NEWDELHI1832**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Reference ID** | **Created** | **Released** | **Classification** | **Origin** |
| 08NEWDELHI1832 | 2008-07-02 12:10 | 2011-08-30 01:44 | UNCLASSIFIED//FOR OFFICIAL USE ONLY | Embassy New Delhi |

VZCZCXRO8097 RR RUEHBI RUEHCI DE RUEHNE #1832/01 1841210 ZNR UUUUU ZZH R 021210Z JUL 08 FM AMEMBASSY NEW DELHI TO RUEHC/SECSTATE WASHDC 2483 INFO RUEHLM/AMEMBASSY COLOMBO 0934 RUEHKA/AMEMBASSY DHAKA 1294 RUEHIL/AMEMBASSY ISLAMABAD 5047 RUEHKT/AMEMBASSY KATHMANDU 1756 RUEHCG/AMCONSUL CHENNAI 3169 RUEHBI/AMCONSUL MUMBAI 2252 RUEHCI/AMCONSUL KOLKATA 2439 RUCPDOC/USDOC WASHDC RHEBAAA/USDOE WASHDC RUEHGV/USMISSION GENEVA 7801

 UNCLAS SECTION 01 OF 04 NEW DELHI 001832 SENSITIVE SIPDIS USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR DEPT PASS TO USTR MROHDE E.O. 12958: N/A TAGS: ECON ECPS EINV ENRG ETRD BT IN SUBJECT: BHUTAN STRATEGIZES ON ENERGY, PRIVATE-SECTOR GROWTH, AND UNEMPLOYMENT [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par1) 1. (U) Summary: Econoff met with a number of contacts in Thimphu on June 24 and 25 to discuss telecommunications, energy, tourism, unemployment, and broader issues of economic planning. Public-sector meetings focused on the problem of rising unemployment and the overall challenge of improving Gross National Happiness. A senior economic official outlined aggressive long-term plans for hydropower exports, while a trade official described a cautious approach to World Trade Organization (WTO) accession. A meeting with Bhutan's new, private-sector mobile-services provider offered an early example of the underdeveloped private sector trying to compete with a public monopoly. End summary. QUANTIFYING GROSS NATIONAL HAPPINESS --- [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par2) 2. (SBU) Bhutan's Planning Commission got a revised mandate and a new name in January. Now the Gross National Happiness Commission (GNHC), the body has been charged with building the nation's development plan around the concept of GNH and creating metrics to determine progress. GNHC Secretary Karma Tshiteem told Econoff that the GOB enlisted the Centre for Bhutan Studies (CBS) to conduct a survey on nine factors presumed to contribute to the people's happiness-- psychological well-being, good governance, education, health, community vitality, time use and balance, culture, ecological diversity and resilience, and living standard. The CBS plans to release an analysis of survey results very soon, and Tshiteem said the GNHC will use the results to devise quantitative indicators to measure the success of GOB policy over five- to ten-year periods. Gross Domestic Product (GDP), therefore, will be subsumed as just one element of GNH in measuring Bhutan's developmental success. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par3) 3. (SBU) Despite the formal shift away from GDP, Tshiteem said that private-sector-led economic growth will remain a top priority, as initial survey data showed that the Bhutanese consider financial security the most important contributor to a happy life. In particular, Tshiteem mentioned that Bhutan must work to reduce its 23-percent poverty rate and address rising unemployment, which UN Development Program Resident Coordinator Nicholas Rosellini said had reached 10 to 11 percent, with increasing proportions of young people. Tshiteem said that at least for the next 10 years, Bhutan's conventional development indicators cannot be sustained without continued support from India and other development partners. "HIGH-END" SOLUTIONS TO "SO-CALLED UNEMPLOYMENT" --- [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par4) 4. (SBU) Bhutan's young population means the workforce will continue to grow rapidly, with Ministry of Labor and Human Resources (MLHR) Director General Pema Wangda estimating that the 50,000 who have entered in the last five years will be followed by 93,000 in the next five, an enormous challenge for a nation whose total population is estimated at 660,000. Access to education has greatly improved in Bhutan, so most of Bhutan's unemployed have at least a secondary education, and many are college graduates. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par5) 5. Many educated Bhutanese from rural areas do not want to run family farms and are migrating to urban areas. Wangda said the capitol Thimphu's population is growing at 11 percent per year, and the crime rate in the cities, while still negligible by most country's standards, is rising rapidly. In the past, almost all educated Bhutanese went into government jobs, but the GOB is now hiring at attrition rates and cannot come close to absorbing new entrants, according to Rosellini. Bhutan's largest growth industry, hydroelectric power, does not generate many long-term employment opportunities. Bhutan's other major growth industry, construction, does generate jobs, but so few Bhutanese are interested in low-salaried, blue-collar jobs that almost all construction work is done by foreigners. Wangda said there are currently 37,000 Indians holding work permits, and he acknowledged that illegals from India, Bangladesh, and Nepal brought the total number of foreign workers in Bhutan to around 100,000, with a vast majority in building or road construction. He said the number of legal workers alone could increase to 200,000 in the next five years. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par6) 6. (SBU) Wangda emphasized the magnitude of the problem from a GNH perspective by saying the GOB feels that for every one person NEW DELHI 00001832 002 OF 004 unemployed, 20 relatives and friends are unhappy. To help combat unemployment, the MLRH is operating seven vocational schools and plans to add five more in the next five years. The MLRH is also planning to develop extensive apprenticeship programs. Wangda said the GOB has closed 24 occupations to foreigners, most in the area of clerical support, to maximize job opportunities for Bhutanese. The MLRH reviews renewal applications for one-year work permits carefully and rejects any for jobs it finds can be filled by Bhutanese. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par7) 7. (SBU) Tshiteem identified four sectors the GNHC wants to promote to spur economic growth and fight unemployment--tourism, information-technology (IT) services, health care, and education--always with an eye toward the "high-end" market segment. Specific plans for health care and education are in early stages, but the GOB has clearer roadmaps for IT and especially tourism. In IT, the GOB is focusing on developing the necessary infrastructure, laying optical fiber alongside electrical cables as the Bhutan Power Corporation (BPC) expands its power-transmission network. As for tourism, the GNHC hopes to increase the annual number of visitors from 20,000 to 100,000 by encouraging year-round visits and a focus beyond the usual western-region destinations. To support the latter objective, the GOB plans to build an international airport in Geluphu, in the south-central region. Tshiteem also said that the minimum tariff for tourists will rise from USD 200 to USD 250 per day during the peak spring and fall festival seasons from 2009 but remain at USD 200 the rest of the year, which could steer visitors toward off-peak schedules. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par8) 8. (SBU) Mr. Thuji D. Nadik, Officiating Director General of the Tourism Council of Bhutan (TCB), said that everyone in the GOB is "looking toward tourism as a panacea for so-called unemployment," opining that the refusal of young Bhutanese to take the jobs available is "the product of a welfare mentality" and observing that almost all jobs in tourism are of the low-paying sort that Bhutan's unemployed are already rejecting. Nadik also disputed the value of numerical targets for visitors and said the goals should be to increase the lengths of stays and get tourists to spend more money. He did agree that the economy would benefit from seasonal and regional expansion of tourism but said the TCB has not found other GOB agencies cooperative in pursuing those aims. He noted that Bhutan has world-class national parks on the Indian border that would appeal to trekkers in the winter months if they were not closed to tourists due to "perceived security issues" stemming from unrest in the Indian state of Assam. In the summer rainy season, Nadik said, the flora and fauna in many places would draw trekkers if the TCB could get the land and licenses to construct rain shelters. He said the GOB has not built tourism infrastructure in eastern Bhutan because no one has been interested in traveling there, but in reality the reason no one is interested in traveling there is that it is virtually impossible without the infrastructure. HYDROELECTRIC GENERATION DRIVING GDP GROWTH --- [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par9) 9. (SBU) Mr. Karma Tsering, Officiating Director General of the Department of Economic Affairs (DEA), which is responsible for all energy issues other than fossil fuels and wood-burning, said that Bhutan has 30,000 megawatts (MW) of hydroelectric potential. Engineers have deemed 24,000 MW to be feasible for development, of which Bhutan has so far captured only five percent. The GOB has set the goal of 10,000 MW in developed capacity by 2020, according to Tsering, and with Bhutan's domestic consumption currently at around 200 MW, hydroelectricity figures to remain Bhutan's largest export by far for the foreseeable future. All exported energy goes to India, and the two countries have a deal in place for the export of 5,000 MW by 2010. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par10) 10. (SBU) Tsering said the primary hurdle to hydroelectric development is financing. The GOB has received most of its hydroelectric-project financing from the Indian public and private sectors, with a small amount coming from Austria and some coming from the Asian Development Bank. He said that Bhutan welcomes financing from other countries but speculated that U.S. companies and the U.S. Export-Import Bank would find opportunities in Bhutan unattractive compared with what they can find in India and NEW DELHI 00001832 003 OF 004 elsewhere. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par11) 11. (SBU) Rosellini, meanwhile, expressed a handful of other concerns about hydropower. The absolute dependence of the sector on India could lead to price instability, he said, if India develops significant capacity in nuclear or other alternative energy sources. He also noted that some predict all of the Himalayan glaciers will have disappeared by 2035, leaving rainfall as the sole feeder of Bhutan's rivers. Rosselini doubted whether current rainfall levels would sustain Bhutan's hydroelectric projects and said that with global rain patterns changing, the situation could become worse yet. MOBILE-TELECOM COMPETITORS OPTIMISTIC --- [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par12) 12. (SBU) Bhutan's mobile-phone sector is a prominent instance of private-sector investment in a field previously monopolized by the public sector. In April 2007, Bhutan's first private mobile-services provider, TashiCell, entered the market to compete with parastatal Bhutan Telecom's B-Mobile unit. Mr. Tashi Tshering, TashiCell's Executive Director, said the company feels the long-term business potential is strong but that the early going has been rough. He said TashiCell enrolled 18,000 subscribers very soon after its launch but has climbed slowly since then to a current total of approximately 27,500. TashiCell is seeking to differentiate itself, he explained, by offering more calling plans than B-Mobile, including friends-and-family plans and closed-user groups. On the other hand, Tshering conceded that TashiCell will be hard-pressed to match B-Mobile's nationwide coverage, as TashiCell will have to reach beyond the north-south mountain ranges splitting Bhutan without the help of the digital microwave radio network provided to Bhutan Telecom by the Japanese government. However, by negotiating access to the optical fiber laid by the BPC, Tshering said TashiCell hopes to reach most district headquarters by 2009. He estimated that the total potential market for mobile subscribers is 250,000, with 150,000 in western Bhutan, and he noted that the fact that mobile phones are forbidden in schools greatly limits the market. He concluded, therefore, that the market could bear only two competitors and noted that TashiCell's license came with a guarantee that no additional licenses would be granted until at least 2013. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par13) 13. (SBU) Bhutan Telecom's Managing Director, Mr. Thinley Dorji, agreed that the market could not support more than two competitors, although he estimated total potential subscribers at 350,000 to 400,000. He said that B-Mobile has not lost a significant number of customers to TashiCell and currently has about 190,000 subscribers. He expects the recent launch of 3G, GPRS, and EDGE technologies to help B-Mobile reach even more of Bhutan's remote areas and facilitate the use of the Internet in isolated schools. [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par14) 14. (SBU) Bhutan Telecom is also one of Bhutan's three or four Internet providers, according to Dorji. He said Bhutan has only 8,000 or so Internet subscribers, though the number of users is higher, with Internet cafes gaining in popularity. Until recently, Dorji explained, all of Bhutan's Internet access came via satellite, which is very expensive, but in February 2008, Bhutan Telecom completed an optical-fiber connection from Thimphu to Phuentsoling on the Indian border and from there, with the help of Reliance Industries, to Mumbai to connect with a submarine cable linking to the London Internet Exchange. He speculated that the cost of Internet service would have to be halved to 500 ngultrum per month (USD 11.76) in order to stimulate the growth of a viable IT-services sector. BHUTAN NOT IN A RUSH ON WTO --- [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par15) 15. (SBU) DEA Director of Trade Mr. Sonam P. Wangdi, having just returned from discussions in Geneva regarding Bhutan's proposed accession to the WTO, said most of the lingering issues are with the U.S. The U.S., he said, is pushing for market access in a number of areas that Bhutan considers too sensitive to open--e.g., retail, which employs 4.5 percent of Bhutan's workforce, mostly in mom-and-pop shops. Wangdi said Bhutan is in no rush to join the WTO and said that accession definitely will not be completed in 2008. NEW DELHI 00001832 004 OF 004 He claimed that Bhutan would gain somewhat from improved market access for its exports but said that Bhutan was pursuing accession primarily because negotiating with the WTO will be more cost-effective than negotiating bilateral and regional agreements. He said that proximity and the ngultrum's peg to the India rupee would likely prevent a dramatic shift in Bhutanese trade away from India, which he said currently accounts for 84 percent of Bhutan's exports and 73 percent of total trade. He mentioned that because Bhutan imports about twice as much as it exports, the strong rupee has a positive overall effect on terms of trade. COMMENT --- [¶](http://www.bhutan-research.org/us-diplomatic-cables-on-bhutan/08newdelhi1832#par16) 16. (SBU) Bhutan faces major challenges in developing its economy and tackling unemployment. Most of the civil servants with whom Econoff met showed a determination to help work out a considered, long-term plan for improving GNH. For now, it appears Bhutan will stick with its economic strategy of attracting high-margin business, but this could change if it fails to stem burgeoning unemployment. Another potential pitfall on the road to GNH is increased corruption among public officials, which some interlocutors have suggested is rising as "the Bhutanese are eager learners when it comes to such things" and have adopted the methods of "gurus" in neighboring countries. If corruption does become a major problem, the Bhutanese will likely discover like their neighbors that it will come at a high cost to economic development. DAVISON