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CHALLENGES OF ECONOMIC LIBERALIZATION AND ENVIRONMENT IN SMALL STATES OF SOUTH ASIA : BHUTAN AND THE MALDIVES

Introduction

Since economic liberalization and environmental issues are two major challenges to most of the developing countries, it is pertinent to ask : how are the small and disadvantaged countries in the developing world coping up in these respects? Two contrasting yet disadvantaged small countries in South Asia are, land locked Bhutan and the island state of Maldives. The two SAARC member countries have a number of similarities. Both are small in territorial size and population. Both are isolated, one locked by the land, and the other, bounded by sea. Bhutan is situated in the Himalayan region and is surrounded by the two big neighbours, India in the south, and China, in the north. On the other hand, Maldives, smallest in size among the SAARC countries, is located in the Indian Ocean, its nearest neighbour being India, in the north. Secondly, both countries are facing a number of environmental problems. For Bhutan, the major environmental problem is deforestation, and for sustainable development, its major challenge is conservation of nature. But the area where mountainous Bhutan's environmental problem brings it close to the same footing as that of flat and near-sea level island of

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Maldives is the problem of global warming. The Maldives with its low flat topography faces the perennial possibility of submergence due to the sea-level rise caused by the global warming and consequential melting of ice in the polar region. The very low elevation of Maldives from the mean sea-level is the major cause which created fear among the Maldivians about the future of their lands. In addition, lack of enough land to accommodate the people and to build necessary infrastructure is another problem in the islands. What, however, has not been quite known to the outside world is that the rise in global temperature is also causing melting of the Himalayan snow and consequent submergence of lakes, creeks and other areas in Bhutan. Flooding is a recurrent phenomenon and the Bhutanese fear that its frequency and intensity will rise in future. How real are the environmental challenges for Bhutan and the Maldives deserve academic attention.

The two countries have commonalities in other areas as well. Both countries have small economic base. But both the countries have in recent years achieved measurable success in the field of economic development. Nowadays, peoples of both the countries enjoy relatively high per capita income (Bhutan US\$ 470; Maldives US\$ 900, 1994)¹, high saving and investment rates. An examination of the economic policies pursued by Bhutan and the Maldives in this context will be pertinent. Although Bhutan is keen to preserve their traditional beliefs and life-styles, an incipient process of liberalization is observed. Moreover, Bhutan continued to experience macroeconomic growth and stability throughout the years, thanks primarily to benefits derived from the development of hydroelectric power. In Bhutan, GDP has grown 5-7% annually since the early 1990s, and is expected to expand ever faster as new investment in hydro-electric power is soon to yield output.²

¹ *The World of Information Asia & Pacific Review 1997*, Sixteenth Edition, The Economic and Business Report, Waldeen Publishing Ltd, Essex, UK, p. 20, 117.

² *Far Eastern Economic Review, Asia Yearbook 1997*, Hong Kong, p. 90.

In Maldives also, the economy has rapidly expanded and grown 8-10% annually over the past 15 years. GDP has increased six-fold since President Gayoom assumed office in 1978. Tourism has been a key national industry and it provides more than 18% of GDP and 25% of government revenue of the Maldives.³

However, rapid growth had also generated problems in Male, the capital island which is overcrowded. More than a quarter of the country's population lives on an area of less than two square kilometers. This has also put severe burden on infrastructure and resources of the island.⁴

The objective of the paper is to make an assessment of the challenges of economic liberalization and environment faced by the two small countries in South Asia. The first section of the article provides an overview of the economies and economic policies of Bhutan and the Maldives. The second section summarizes the liberalization programmes and the consequences of these in Bhutan and in the Maldives' economy. The third section provides a comparative picture of the environmental challenges that the two countries are facing.

I. Economic Profile of Bhutan and the Maldives

In terms of economic liberalization, Bhutan and the Maldives are taking measures more or less similar to other developing countries. It may be mentioned here that the concept of liberalization was introduced in this region as a package of structural adjustment policies by the multinational donors and development agencies like the World Bank and IMF, to privatize the state owned manufacturing sector. These liberalization policies mainly focused on macro-economic aspects rather than specific economic issues. The multi-

³ *Ibid.*, p. 171.

⁴ *Ibid.*, p. 172.

national companies (MNCs) had also played important role to induce and accelerate the economic liberalization programme in this region to pick-up the regional economy in line with the globalization programme. While reviewing the economies and economic policies in Bhutan and the Maldives, this has to be kept in mind.

Bhutan has started modernizing her economy and breaking its isolation from the rest of the World under the leadership of the third king of the Wangchuck dynasty, Jigme Dorji Wangchuck (1952-72). These outward-looking policies have been carried forward even further by the present, fourth king, Jigme Singya Wangchuck. Under his reign, Bhutan has become more active internationally, and has benefited from extensive development programmes from the UN and bilateral aid provided by Japan and a number of Western countries. Although Bhutan maintains diplomatic relations with 21 countries, India remains its important and closest foreign ally. India continues to provide extensive development aid and military support to Bhutan, and guide its foreign policy in accordance with the 1949 treaty. India also plays an important role in the defence of Bhutan by providing the kingdom with military hardware, advisers and trainers. Bilateral cooperation between India and Bhutan covers all possible fields. During the Seventh Plan which began in mid-1992 and ended in mid-1997, India contributed \$250 million to Bhutan compared with \$326 million grant and loan from nine Western countries and Japan.⁵

The economy of Bhutan, which is one of the world's least developed countries, is based mainly on agriculture and forestry, which provide the main livelihood for 90% of the population and account for half of the GDP.⁶ Agriculture consists largely of subsistence farming and animal husbandry. Rugged mountains

⁵. Far Eastern Economic Review, *Asia Yearbook 1997*, p. 90.

⁶. *The World Factbook 1995*, Central Intelligence Agency, Washington, DC, USA, p. 50.

dominate the terrain and make the building of roads and other infrastructure difficult and expensive. The economy is closely aligned with India through strong trade and monetary links. The country's industrial sector is small and technologically backward. Most development projects such as road construction, rely on Indian migrant labour. Bhutan's hydropower potential and its attraction for tourists are key resources; however, the government limits the number of tourists to 4,000 per year to minimise foreign influence.⁷ Much of the impetus for growth has come from relatively bigger public-sector companies. Nevertheless, in recent years, Bhutan has shifted toward decentralized development planning and greater private initiative. The government privatized several large public sector firms, is revamping its trade regime and liberalizing administrative procedures for industrial licensing. As a result the government's industrial contribution to GDP decreased from 13% in 1988 to about 11% in 1993.⁸

In one sense, the structure of the Maldivian economy is similar to that of Bhutan in that both are based on primary sectors with extraction and agro-processing activities respectively playing prominent role. However, the major difference is that the Maldives has an open economy with tourism being the dominant sector while Bhutan has almost a close economy with controlled tourism. Maldives was a British protectorate since 1887 but Britain never installed a governor or representative. Rather, in practice, the British Government largely left the Maldives to itself. The island was ruled by the autocrat Sultans until their power were restricted under the country's first written constitution in 1932. The Maldives became an independent state on July 26, 1965.

⁷. *The World of Information Asia & Pacific Review 1997, op. cit.*

⁸. *Asia Yearbook 1997, op. cit.*

The Maldivian economy has expanded briskly under President Maumoon Abdul Gayoom, growing 8%-10% annually over the past 15 years. GDP has increased six-fold since Gayoom assumed office in 1978, to a projected \$191 million for 1996. It imports much of its food, construction materials and consumer goods and all of its petroleum products. Fishing is the largest industry, employing 25% of the work force and accounting over 60% of exports. Over 90% of government tax revenue comes from import duties and tourism-related taxes.⁹ During the 1980s tourism became one of the most important and highest growth sectors of the economy.

The Maldivian government initiated an economic reform programme in 1989 initially by lifting import quotas and opening some export to the private sectors. Subsequently, it has liberalized regulations to allow more foreign investment. Agriculture and manufacturing continue to play a minor role in the economy, constrained by the limited availability of cultivable land and shortage of domestic labour. Due to lack of availability of cultivable land, Maldives imports most of the required staple food. In 1993, tourism accounted for 17% of GDP and more than 60% of the Maldives foreign exchange receipts. Similarly, in the 1990s, industry accounted growth rate between 6.7% and 8.5% which consisted mainly of garment production, boat building, and handicrafts, where average growth rate of GDP varied between 5.9 and 7.6%.¹⁰

The Maldivian Republic, in global environmental context, has gained unprecedented visibility under President Maumoon Abdul Gayoom, making its presence felt in a variety of international forums. It has emerged as a vigorous champion of the rights and interests of small island states, focusing international attention on the

⁹ Far Eastern Economic Review, *Asia Yearbook 1997*, and other previous issues.

¹⁰ United Nations Economic Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 1995*, New York, 1995, p. 22.

dangers they face as a result of rising sea levels and global climate changes. President Gayoom argues that sustainable development of such countries is possible only through the transfer of environmentally sound technologies and provision of new and additional financial assistance to these states by the developed countries. The Maldivians have taken these concerns to such international organizations as the South Asian Association for Regional Cooperation (SAARC), the Commonwealth, the United Nations, the Earth Summit in Rio and, most recently, the Global Conference on the Sustainable Development of Small Island States held in Barbados. The Maldives has also hosted a ministerial meeting of small island states vulnerable to the rise in sea levels. Gayoom has also emerged as a strong advocate of international action to ensure the security of small states.¹¹

II. The Economic Liberalization and Development in Bhutan and the Maldives.

Most of the developing countries have been compelled to turn to the western donors, or IMF and the World Bank due to excessive borrowing during the last 15 years and the end of Cold War. The process of economic liberalization got momentum as a result of the failure of "third way" strategies or models all over the world. But the experience of South Asian countries are not the same. Most of South Asian countries had taken liberalized policies and have achieved some economic success with sustained economic growth rate. Economic reforms to remove restrictions and distortions have been chosen in this region since the late 1970s. Sri Lanka was the pioneer in this regard with the introduction of economic reform package of 1977. Trade liberalization measures have been accelerated in the SAARC region since then, and restriction on domestic and foreign private investment are being eliminated. Liberalization policies in

¹¹. *The Asia Yearbook 1997, op. cit.*, p. 170.

Bhutan and the Maldives along with Bangladesh, India and Pakistan followed similar lines; restriction on imports were relaxed in all of these countries. The countries have taken policies to reform the financial sector, covering broad issues of interest rate structure, improving efficiency of financial systems through institutional reforms, and formulation of monetary policies for achieving macroeconomic goals and objectives through indirect controls.

Economic Liberalization in Bhutan

Bhutan, throughout 1990s as a result of liberalization of economy, continued to experience macroeconomic growth and stability, primarily because of benefits derived from the development of hydroelectric power for export to India. GDP has grown 5%-7% annually since the early 1990s, and is expected to expand even faster as new hydroelectric power scheme is soon to commence along with a new cement factory in Tala, Bhutan. Both projects involve massive Indian assistance.

Bhutan's per capita GDP US\$ 470, (up from US\$ 220 a decade ago) is one of the highest in South Asia.¹² This high GDP is the main reason why Bhutan attracts so many impoverished people from Nepal and India. A 1995 report from the Bhutan round table of donor countries called Bhutan a "South Asian economic miracle" and noted "the close correlation between good governance and well-paid civil service".¹³ Hence, corruption is far less common than elsewhere in the sub-continent.

At the same time, notwithstanding significant achievements over the past decade, the industrial base of the economy remains dominated by a handful public-sector enterprise, mostly established in the 1980s. Inflation, which was 8.1% in 1994-95 jumped to 10.7% in 1995-96.¹⁴

¹². *HIMAL South Asia*, August 1996, Kathmandu, p. 57.

¹³. *The Asia Yearbook 1997*, *op. cit.*, p. 91.

¹⁴. *Ibid.*

In addition, in October 1993 a Royal Securities Exchange was established, supervised by the Royal Monetary Authority (RMA) and capitalised by the four financial Institutions-the Bank of Bhutan (the sole commercial Bank), the Royal Insurance Corporation of Bhutan, Unit Trust of Bhutan and the Bhutan Development Finance Corporation.¹⁵

A report published in February 1996 from Denmark, a major donor country for Bhutan, said that while domestic revenues are "respectable" the government relies on foreign grants "to a degree found in few other countries." The report noted that public spending accounted for 56% of GDP in 1994-95 up from 30% in 1990-91, due to sharp increase in projects funded by foreign grants. The ratio of foreign grants to GDP rose from the 14% in 1990-91 to 33% in 1994-95, and the central-government deficit rose in parallel.¹⁶ The main challenge for the Bhutanese economy is to ensure fund from external sources for grant-funded projects in the future.

The Bhutanese people remains some of the least taxed societies in the world. Royal taxes contributed a mere 0.3% to overall government revenues, and business taxes 3%. The rest of domestically-generated revenues come largely from such sources as dividends, royalties, excise duties and receipts from public utilities.¹⁷

In fiscal 1996-97, foreign grants are expected to cover 52.7% of the budget, domestic revenues 33.4% and external borrowing the remaining 13.9%. Some of these imbalance are likely to be addressed by the eight five-year plan, which commences in mid-1997. In August 1996, the King approved several financial measures expected to spur the growth of Bhutan's private sector. The stated aim is to reduce state control and to produce a more private economy.

¹⁵. *The World of Information Asia & Pacific Review 1997, op. cit.*, p. 21.

¹⁶. *Ibid.*

¹⁷. *HIMAL South Asia*, August, 1996, *op. cit.*

The most important single source of economic growth and government revenues is likely to remain hydroelectric power, which now provides 8% of GDP and 25% of exports. Most of the electricity is generated by the 336-megawatt Chukha hydroelectric plant built with Indian assistance in 1980s. However, Bhutan's most recent power master plan has identified a potential for 12,000 megawatts of profitable hydro-power generation. Mining is another potentially lucrative sector. The country is rich in gypsum, coal, limestone, marble, lead, zinc, copper, iron and, many believe, precious stones.

Economic Liberalization in the Maldives

The Maldivian economy during the last two decades have maintained rapid and sustained economic growth. The liberal economic policies of the Maldives have generally accelerated the economic growth. The Gross Domestic Product (GDP) grew at 7.9% per annum during the decade 1979-88.¹⁸ The growth rate of GDP in real terms was 58% or at an average annual rate of around 9.5% between 1987-1992. Nearly all the sectors except fisheries and agriculture have achieved such high growth rate, and gave exemption to fisheries and agriculture which achieved below average rates of growth.¹⁹

This rapid economic growth has been mainly contributed by the booming tourist industry. However, high rate of growth were achieved in all the major sectors of the Maldivian economy. For example, the services sector has grown between 6.7 and 8.5% during the 1990s. Industry also achieved growth rates between 8.4% and 9.8%. In both cases, their rates of growth have been above the

¹⁸. Ministry of Planning, Human Resources and Environment, *State of the Environment: Maldives*, Male, 1994, p. 6.

¹⁹. Ministry of Planning, Human Resources and Environment, "*Perspective Plan 2000: A Vision for the Future*", Male, October 1995, p. 3.

average rate of growth of the GDP, which has varied between 5.9 and 7.6 in the 1990s.²⁰

Public sector investment in infrastructure has made positive impacts on the economic growth. Harbour expansion, land reclamation, construction of government buildings, schools and road upgrading projects are included in the public sector investment.²¹ As a result, in recent years, government investment has reached 40% of the GDP. Public investment in fisheries alone in the 1980s amounted to around \$70 million. The Government also invested heavily in tourism with the construction and improvement of the international airport (\$100 million).²²

Such economic transformation in the history of the Maldives has been accompanied by both solutions and problems. One of the major problems the country faces is double-edged in nature. On the one hand, human resources comprise the most productive resource the country possesses. At the same time, demographic pressure of increased urbanization, and highest birth rates are imposing problems on the delivery of the benefits of such economic development to the population. Such pressures are also accelerating other weaknesses of the economy, such as growth based on fiscal expansion, and creating socio-economic concerns with some security implications.²³

²⁰. Ahmed Shaheed, Mohamed Jaleel and Midath Hilmy, "Regional Economic Trend and Security: Implications for the Maldives" Paper presented at the International Seminar on *Regional Economic Trends and South Asian Security* organised by Regional Centre for strategic Studies (RCSS), Colombo, held on October 17-20, 1995, at Bandos Island Resort, Maldives.

²¹. Ministry of Planning, Human Resources and Environment, *State of Environment*. p. 7, *op. cit.*

²². Maldives, *Republic of Maldives Vol 1. Sustainable Human Development-Constraints, Plans and Strategies*, Prepared for the Round Table Meeting October 1994, p. 4, cited in Ahmed and others, *op. cit.*

²³. Ahmed and others, *op. cit.*

The distribution of the population and the small limited size of the centres accelerated irrational high overhead costs involved in providing essential utilities and infrastructure services for all population centres. Out of 200 inhabited islands of the country, only three have a population more than 4000 people, 162 islands have less than 1000, and there are 90 islands with fewer than 500 inhabitants.²⁴ To serve such a small population inhabiting small centres takes high overhead costs. The transportation costs also become high due to the geographical dispersal of the population centres.

Lack of trained human resource and inadequate human resource development is another problem of the Maldives. A considerable portion of national income goes outside the country through remittances.²⁵ The problem of capital flow is another major issue for the Maldivian economy. The debt service ratio reached 7.2% in the 1980s as government expenditure share financed by net official capital flows increased. The government expenditure climbed to 13.8% by 1993 and ratio of external debt to the GDP stood at 60% between 1989 and 1992. However, the debt service ratio declined to 4.8% in 1993 as a result of large concessional element in official borrowings.²⁶

The problems of budgetary imbalance imposing restriction on sustaining public expenditure at the levels maintained in the 1980s. Considering the situation, Maldives economy envisages to attract private investment. The level of domestic savings and availability of credit, the foreign private investment must have played important role. But, the small Maldivian economy has to compete with the large regional economies and elsewhere, in the short term.

In these circumstances, to attract foreign investment, the Maldives needs to enhance its institutional machinery. The country

²⁴. *Ibid.*

²⁵. *Ibid.*

²⁶. *Ibid.*

is facing lack of legal and administrative modernisation as well as lack of finance sector support services. The international community especially the donors, already mentioned that the improvements of institutional capacity is essential to attract the much needed private and foreign investment for overall development of the country's economy. Macroeconomic reform, that is, reform of fiscal policy and improvement of state of balance of payments have to get priority in the government policies. On the other side, the demographic pressure and development priorities, focusing on human resource development and improvement of living standard, made continuous pressure on the budget. To solve these problems, it is essential to find new sources of public finance or other means of expanding revenues need to be examined.

The Maldives has developed significantly in the social and human development sectors. In 1971, when the United Nations prepared the list of the Least Developed Countries (LDCs), the Maldives was included amongst the world's poorest countries. However, the country has made remarkable progress over the past one and half decade, to be recognised as a middle level country in terms of human development. Most of these indicators of development are in the social field²⁷

During the last fifteen years, the Maldives have maintained a relatively open and liberal economic policy. The Maldivian economy is free from any kind of restriction to international payments and trade, and has no exchange control legislation. However, recognizing some of the structural weaknesses of the economy, the government has taken some macroeconomic reform policies including a reduc-

²⁷. Ahmed Shaheed, "Challenges of Development in the Maldives: Sustainable Growth and Evolutionary Change" paper presented at the International Seminar on *Governance and Development: South Asia in the Twenty First century*, Organised by BIISS, Dhaka on 21-23 December, 1996.

tion in fiscal deficits and monetary policy reform to remove disincentives for foreign private capital flows through reform of the legal and regulatory system.

SAPTA and Liberalized Maldivian Economy

Since the Maldivian export, imports and international trade relations are extra-regional, the Maldives, has a few limited number of export items like other less developed countries (LDCs) in SAPTA. Similarly, streamlining activities to avoid duplication is essentially needed in other projects of regional cooperation.

Impacts of Economic Liberalization in the Maldives

The Maldives economy has witnessed rapid sustained economic development compared to any other South Asian economy. Although the Maldivian government initiated deregulation to reform country's economy in 1989 to allow more foreign investment, tourism remains the key national industry, providing more than 18% of GDP and 25% of government revenue. Tourist arrivals in 1995 totaled 324,311 up 15.8% from a year earlier but slowing slightly from 16.2% growth in the previous year.²⁸

Tourism, is the top ranking contributor to the country's economic growth. In Maldives, commercial tourism operation began in 1972 with two tourist resorts. In the tourism sector, Maldives achieved tremendous success in the last few years. Today, Male has a number of five and six-story buildings, whereas two floors were a rarity a few years ago. The shops are brightly lit and well stocked, and an air of prosperity pervades the island. Tourist resorts that provided very crude accommodation in the early years have been upgraded – some to five-star standards - and the country has begun

²⁸. *The Asia Yearbook 1997, op. cit.*

attracting high spending upmarket tourists. Spectacular performance by the all important tourism sector and solid progress in fisheries sector has made these developments possible.

The existing infrastructural development in tourism sector, specially in number, was a far cry 25 years ago, when the first resort was established and the country attracted a mere 1,000 visitors. Today, there are 73 resorts, and the number of visitors exceeds that of the resident population. Still, the government wants more. The number of resorts has increased very quickly to 55 and the tourism surpassed the fisheries sectors, and became single most contributor to the national GDP by 1985. In 1995, tourism alone constituted 18.4% share of country's GDP, with gross earning of around US \$198 million. But a significant share of these earning again was repatriated as profits of foreign investors, payments for imports for use by the industry and remittance of expatriate salaries.

In 1981, number of visitors arrived in the Maldives was 60,000 whereas it stood up to 324,000 by 1995. The share of government revenue received from the tourism increased significantly during the period. In 1985 it was 18, in 1990, 28 and in 1995 it increase to 38%. Such a growth rate and its contribution to public funds was possible definitely as a result of increase in the number of visitors and development of infrastructure such as number of resorts and bed capacity.²⁹ It has declared 1997 "Visit Maldives Year" and has launched an intense promotional campaign.

The country's other main industry, fishing, continued to prosper in the 1990s. The mechanization of its fishing fleet, installation of a modern fuel-distribution system and enhancement of fish-collection facilities, make contribution to double the total catch around 60,000 tonnes between 1981 and 1985 and to reach 104,000 tonnes in 1995.

²⁹. Ahmed Shaheed, *op. cit.*

According to government officials, fishing provided about 11% of GDP in 1995 down from 15% a few year earlier because of accelerated growth of tourism and other sectors and 80% of export income coming from those sectors.³⁰ The government is promoting experiments in fish culture, which many hope, will become a growth industry.

Thus, increased revenue and foreign aid have enriched government to invest in other sectors and areas to promote further development and growth. The public sector investment in infrastructure has made success in recent years. This infrastructure development programme included construction of an international airport, investment in projects to increase the catch of fisherman and their local value-added, as well as other amenity related projects that contribute to medium and long-term development such as regional airports, schools, hospitals, paved roads and harbours.

In fact, such a huge investment in public sectors and growth had created problems in the early 1990s. The ratio of expenditure to GDP rose to around 57%. Due to decrease of grant aid, the budgetary deficit rose to nearly 17% in 1993. As a result, the ratio of external debt to the GDP stood at 60% between 1989 and 1992, and inflation rate reach to 18% by 1994.³¹

The government is the main source of investment in the country's key infrastructure development which, in addition to tourism and fishing facilities, includes a new international airport. While the government encourages an active private sector, it also wants a return on its own investments. It recently raised the rentals on islands it leased for resort development, and is considering imposing a corporate tax (there is no personal income tax in the Maldives).

³⁰. *Ibid.*

³¹. *The Asia Yearbook 1997, op. cit.*

Rapid growth has produced problems in Maldives. Male, the capital island, is overcrowded. More than a quarter of the country's population lives on a land area of less than 2 square kilometers. This has placed severe burdens on infrastructure and resources. The island's freshwater aquifer, for instance, has turned saline. In recent years, extensive land reclamation has nearly doubled the island's land area, and expensive desalination plants have been set up to meet the city's freshwater needs. A nearby island is also being developed as a suburb of Male to relieve the congestion.

But, the Maldivian Government has successfully taken appropriate measure to face the challenges. The debt ratio decreased to 4.8% by the end of 1993, which is less than 7.2% experienced in the 1980s. The government has taken firm monetary policy to run the country with balanced budget for two consecutive year. These measures reduced the inflation rate around 5%. Reducing government expenditures, implementing structural adjustment policies in public enterprises, critical analysis before taking public sector projects, and proper utilization of external assistance have been the hallmarks of the Maldives' monetary management. Therefore, the Maldivian economy has been restored largely through successful implementation of pragmatic policies of the government.

III. Environmental Challenges and Sustainable Development in Bhutan and Maldives

Environment and Sustainable Development in Bhutan

Bhutan, the country of Eastern Himalayas is one of the ecological wonders of the world. The country straddles two biogeographical realms: the Palearctic realm of the temperate Euro-Asia and the Indo-Malayan realm of the South Asian sub-continent.³²

³². Dechen Tsering, "The Bhutanese Experience of Managing Natural Resources", paper presented at the International Seminar on *Newer Sources of National*

The country is rich in biodiversity with its largely intact natural forest cover. Bhutan has been declared as one of ten global "hot-spots" for the conservation of biological diversity.³³ Nowadays, many ecologists around the World consider the Kingdom of Bhutan as the last best place for conservation in the Eastern Himalayas biological diversity.

Bhutan is a very small country with limited arable land, and its economy is more or less rural based and have acute scarcity of trained manpower. Its natural resources are facing greater strain because of changing pattern of consumption in a transitional society. To pay for its numerous needs it has little to sell to the outside world. The cost of financing development is the foremost among the needs. Development programmes became very costly in a country like Bhutan where most of the people live in scattered and remote settlements, which are isolated from each other and from administrative centres. In addition, due to the low tax base and centuries old agro-based economy, Bhutan is unable to generate resources internally to undertake ambitious development plan.

Although Bhutan is rich in natural resources, it is relatively poor in commercially valuable raw materials which are essential for Bhutan's national development schemes. But Bhutan Government has strong conservation policies that discourage commercial extraction of forests. The government also discourages unscientific large-scale mining although Bhutan has huge valuable mineral deposits. Simultaneously, the Royal government introduced the new Mining Act 1995 which requires the mandatory environmental assessments to be conducted for all mining projects. Although Bhutan's soil is rich in nutrients, it has limited use for agriculture.

Insecurity in South Asia organised by RCSS, Colombo on November 7-11, 1996, in Paro, Bhutan.

³³. *Ibid.*

Only 16% of the land is suitable for the use of agriculture of which 8% is now actually used for agricultural activity. The present high population growth rate i.e. 3.1%, adds to the compounding shortcomings. The growth of population creates pressure on the resource-base of the country to meet the food, shelter and other essentials. Urban areas of the Himalayan Kingdom similarly faces daunting challenges to cope with this increases. Though only 15% of the population currently resides in urbanized areas, its proportion is expected to increase dramatically as a result of the combination of two dynamics — the “pull” and “push’ factors of migration.³⁴

Bhutan’s current urban population is slightly over 100,000. The country’s urban and peri-urban environments will thus face unprecedented challenges in the next 25 years.³⁵ But the country’s predominantly mountainous terrain topography is the main constraint for the non-availability of suitable level land for the expansion of urban centres. Besides, the physical topography, the narrowness of the most of the river valleys where the Bhutanese urban centre has been built-up, has severe environmental implications for most urban sector activities—housing, construction, road building, and the provision of sanitary services.

However, as for as environment is concerned, the enlightened leadership and the strong conservation ethic of the Bhutanese have made positive contribution for the preservation of the country’s biological diversity. Conservation is the main principle of Buddhism. Preserving nature and giving back to the earth what one has taken is the central theme of Buddhism. The preservation, protection of nature, environment, sacred and cultural heritage has become integral part to the Bhutanese life style and value system. According to King Jigme Singye Wangchuck : “Throughout the centuries, the

³⁴. *Ibid.*

³⁵. *Ibid.*

Bhutanese have treasured their natural environment and have looked upon it as the source of all life. This traditional reverence for nature has delivered us into the twentieth century with our environment still richly intact. We wish to continue living in harmony with nature and to pass on this rich heritage to our future generations."³⁶

The King has also warranted that the environmental and cultural integrity and the processes of economic development are not in conjunction, but critical to the long-term viability of Bhutanese development. Like a charismatic leader, the King himself summarized the issue "Gross National Happiness is more important than Gross National Product."³⁷ This summarized definition has become principal guide lines for Bhutan's sustainable development strategy.

Bhutan, keeping herself isolated from the outside world, began its socio-economic development programmes in the early 1960s with the commencement of its first five year plan. This isolation and late starting for development gives Bhutan an opportunity to learn from the experiences of her neighbouring countries. This also gave her an advantageous position to follow a path of development where environmental conservation is an integral part of the development process.

In this situation in 1990, senior government officials met in Paro to begin thrashing out the broad criteria of Bhutan's sustainable development agenda. The meetings identified "Middle Path" of action for achieving the sustainable development in Bhutan. The Workshop concluded with a resolution on Environment and Sustainable Development with holistic statement of principles and

³⁶. This statement was made in a letter to the UNDP Administrator, Mr. Draper during the signing of the Bhutan Trust Fund for Environment Conservation in 1991, cited in *ibid*.

³⁷. Dechen Tsering, *op. cit*.

beliefs known as The Paro Resolution on Environment and Sustainable Development.³⁸

Despite the limited economic opportunities, and many other daunting challenges faced by Bhutan in the coming century, the Royal Government has stated categorically that Bhutan's government will not resort to unlimited marketing of its natural resources, because such a policy will quickly undermine the country's tradition of conservation and place Bhutan in the same predicament as countries that face severe ecological and environmental problems. Instead, the Bhutanese Government has chosen to forego immediate economic gains and placed a higher priority on the conservation of natural resources.³⁹

National Capacity for Conservation of Environment in Bhutan

Nature Conservation Section (NCS) of the Forestry Services Division of Royal Bhutan Government is primarily responsible for the nature conservation activities in Bhutan. The main objective of the NCS is to conserve country's rich biodiversity in consistence with the government's policy of sustainable development. The World Wildlife Fund (WWF, USA) provides support for environmental conservation activities in Bhutan. WWF began works in Bhutan with the key of developing a national capacity for conservation and resource management. WWF also supports the only non-government organization in Bhutan - the Royal Society for the Protection of Nature (RSPN). In 1989, under the command of King Jigme Singye Wangchuck, the Royal Bhutanese Government constitutes the National Environment Committee to ensure consistence of the development activities with the capacity of the fragile environment to provide a sustainable base of natural resources for future genera-

³⁸. The Paro Resolution on Environment and Sustainable Development 1990.

³⁹. *Ibid.*

tion. Later the committee was upgraded to the Commission under the leadership of Planning Minister. The National Environment Commission is empowered to meet long-term objective of defining policies and programme, plans and actions whereby sustainability of natural resources will be fully integrated into every aspect of development. The Commission is given mandate to place necessary regulations, monitor and coordinate the development activities related with the environment to achieve sustainable development through the rational use of natural resources. To meet its mandate effectively NEC works in close collaboration with the ministries and mid and local level development authorities.

Besides, to conserve the rich natural heritage of the Eastern Himalayas, Bhutan has set aside some 26% of its land. By this Bhutan makes a major contribution to the global efforts to conserve biodiversity and mitigate climate change sacrificing much of the opportunity to exploit its natural resources. However, over the years, every sector in the country has suffered from the lack of continuity in project funding that result from fluctuating budgets, which often leads to projects ending before they have had a chance to become fully realized. To overcome such economic constraint, Bhutan has established the Bhutan Trust Fund for Environment Conservation, by which world community can effectively made contribution for conservation of global environment. The Fund's objectives are to:⁴⁰

- develop a national system of protected areas;
- draw up and implement management plans for protected areas;
- provide institutional support to environmental organizations and train natural resource professionals;
- survey Bhutan's rich biological resources;

⁴⁰. *Ibid.*

- develop a natural resources database; and
- design and pilot integrated conservation and development projects.

The 5th Round Table Meeting of The World Wildlife Fund in Geneva urges the developed nations if they are serious about the nature and environment, to find new and innovative ways to support such activities like conservation of nature. WWF, the Netherlands and the Global Environmental Facility are the parties who are convinced that the Bhutan Trust Fund is such an innovative approach and merits full international support.

In addition to UNCED, the World Trade Organization (WTO), in a report urges the World community to support the developing countries to overcome the opportunity costs to conserve biodiversity and the forests to mitigate global climate change.

The physical characteristics, inherent smallness and its mountainous environment imposed a number of limitations on its absorptive capacity. Considering all these, Bhutan may consider the middle path of sustainable development to start its journey of development. In this regard, strengthening the resource base is crucial to ensure sustainable and prosperous future. It is essential to ensure an integrated approach in the implementation processes of development programmes, so that policies in one sector do not damage the resource base of another. However, the implementation of the NES, itself is a major challenge. The traditional agriculture and livestock management, hydropower, road construction, mining, tourism and other facets of economic development are emerging on the horizon which creates threats for the land, forests and watersheds of Bhutan.

Apart from above mentioned issues, Bhutan also signed the Convention on Biological Diversity (CBD) and United Nations Framework Convention on Climate Change (UNFCCC) during the

United Nations Conference on Environment and Development (UNCED) at Rio de Janeiro in June 1992. The 53rd Session (1995) of the National Assembly ratified these Conventions. Bhutan is committed to the objectives of the Conventions on biological diversity and climatic change. With this, let us turn to the Maldives, especially, how the island nation is coping with its environmental problems.

Environment and Sustainable Development in the Maldives

Apart from the socio-economic problems, the Maldives also faces tremendous threat in view of sustainability of the environment. Due to low-lying archipelago state, the country is facing uncertain future because of sea-level rise caused by global warming and climatic change. Recent scientific studies show that most of the low lying states in the world would face severe consequences even with the most conservative estimates of emission of greenhouse gasses to the atmosphere. In Maldives, many islands are facing constant erosion problems. Among the different environmental threats the complete submersion is one of the worst forms of insecurity for Maldives.

The Maldives, despite commendable achievements in economic and social fields, faces several challenges. Among the threats, sea-level rise is the major one for the country, although with 250,000 population its contribution in the processes of global warming is absolutely minimum. But unfortunately due to the small size and low lying elevation of the country, it is facing severe challenges due to the policies of other countries who made contribution to the degradation of global environment.

The Maldives, together with a number of Pacific islands, has been confronted in the 1990s with an altogether more fundamental problem. The archipelago rises barely two metres on average. The

earth's average temperature since the middle of the ninetieth century has risen by 0.5 degrees Celsius. If the rise of temperature continues, then it would have disastrous implications for the most of the archipelagos, the Maldives in particular. The United Nations Intergovernmental Panel on Climate Change (UN-IPCC) predicts that the sea could rise up by one metre in the next century. The Vulnerability of the Maldives as well as its paucity of natural resources was already highlighted by the storms of 1987, when extensive areas of newly reclaimed land became submerged and a number of causeways between the islands were damaged, and in some cases, washed away.⁴¹

However, the threat of sea-level rise, make the Maldives more cautious to take preventive measures in regard to submergence of the country. Maldivian President Gayoom has been playing a vital role in creating awareness at the apex forums of the world leaders and organizations. His role in alerting many world leaders, such as those of the Commonwealth, including Mrs. Margaret Thatcher, to the problems associated with global warming and sea-level rise is well known.⁴² In addition, in the early 1990s an Association of Small Islands States (AOSIS) was launched at the UN by delegations in New York. Essentially, AOSIS was a pressure group of small states which collaborated in advancing environmental issues at the UN. AOSIS is a useful example of how small states might work in every international organization to secure better conditions.⁴³

Other major challenges related with environment the country is facing the over-crowding in the capital. Then wide dispersal of population in small units of island Although 90% people of the

⁴¹. *The World of Information Asia & Pacific Review 1997, op. cit.*, p. 118.

⁴². See Keynote Address delivered by Mr. Sridath Ramphal at the "Small States Conference on Sea-Level Rise" held in Bondos, 16-18 November, 1989.

⁴³. Ronald M Sanders, "The Growing Vulnerability of Small States The Caibben Revisited" *The Round Table*, No. 343, July 1997, London, p. 372.

country live on 199 islands, but these islands under the 1000 population density.⁴⁴ At the same time almost a quarter of the country's people reside in the two square kilometers of the capital. Huge crowd and congestion in the capital create downward pressures on the quality of life, over-crowding and increased pressure on ecological resources. Thus, the issues of ecological degradation turns as an another important concern for the Maldives.

In the economic field, a remarkable thing is that, the Maldives made such a development from the low base, of resource poor small country. This economic development have been simultaneous with the growth of tourism industry and gradual political modernization and economic development. The population growth and the growth rate of Maldivian economy have shown fluctuations in the past. Dispersion among the ratio of these two parameters creates problems for achieving sustainable development. Sustainability in Maldives, like most of the other countries in the region, is also a major concern especially in terms of the extent to which the country has undergone structural transformation.

In the economic sectors, although UNDP found landmark development in social sectors, the same study said that national economy remains weak in structure because of its smallness and lack of resources. In addition, its limited export range, low rate of saving and capital formation, vulnerability to external economic debacle, and limited availability to depend on the international capital market works against achieving strong economic indicators. According to the Economic Diversification Index (EDI) of the UNDP report, the Maldives now in a position 50% below the level expected of a middle class income country in terms of the robustness of the economy.⁴⁵

⁴⁴. Ahmed Shaheed, *op. cit.*

IV. Conclusion

Both of South Asian small states are passing the crossroads of development. Development process in both countries have been accelerated for the benefits of the peoples and 'simultaneously faced many obstacles with regard to development associated with demographic changes and environmental degradation. The conservation of environmental parameters largely would depend on cautions policies and their proper implementation. Integrated development approach, conducive environmental policies, and legislative framework, capacity of institutions for guiding development programmes towards a path of sustainability is essential for both the countries. Fortunately the Government of Bhutan and the Government of the Maldives have taken these problems cautiously in the implementation of development programmes.

The Government of Bhutan and the Maldives in order to implement sustainable development programmes need global assistance. This is the modest responsibility of the developed country on the principle that sustainable development is a joint responsibility of both the North and South. Thus it is global responsibility to work with Bhutan and the Maldives with a view to achieving sustainable development in these small stats.

⁴⁵. *Ibid.*