



- Need for promoting value addition and to scale-up production of final goods within the country as an import substitution drive and for the export marketing.

Forest resource size and wood variety

The total timber production by types, conifer, and broadleaf from six forest divisions across the country in 2020 is shown in table 2.

Table 2: Timber production in 2020 at different forest division

SN	Divisions	Conifer (Cft)	Broadleaf (Cft)
1	Wang	132,798.50	
2	Rinpung	1,383,251.34	
3	Zhongar		188,193.86
4	Phuntsholing		32,278.27
5	Jakar	859,115.91	
6	Gelephu		68,770.64

INVESTMENT OPPORTUNITIES

Table 3 : Potential investment opportunities

#	Investment Area	Description of products
i	Wood furniture and interior fitouts	<ul style="list-style-type: none">• High-end furniture and fitouts for luxury hospitality sector• High-end household furniture and wood items to meet the changing taste of people and demands for both local and export markets
ii	Builders’ joinery and carpentry products	<ul style="list-style-type: none">• Wood panelling, floorings, doors and window frames for both home and institutional spaces.• High-end wood flooring such as parquet and panelling for domestic and export markets
iii	Engineered wood products	<ul style="list-style-type: none">• Glue laminated wood works• Cross laminated timber and I-beams• Environmentally safe engineered wood-products for both residential and commercial construction markets
iv	Wood-based panel products	<ul style="list-style-type: none">• Particleboard, fibreboard, MDF, OSB and plywood for domestic markets to substitute imports and for unutilised export markets in neighbouring countries.
v	Wood-based charcoal	<ul style="list-style-type: none">• Wood-based charcoal is an essential raw-material for the industrial sector and the production is mainly to substitute existing huge imports.

Key contacts

Ministry of Economic Affairs
Foreign Direct Investment Division
Department of Industry
Tel: + 975 2 337623/330435
www.moea.gov.bt
Email: investbhutan@moea.gov.bt

Ministry of Agriculture & Forests Department of Forestry and Park Services
PABX: +975 2 322909/335714/331638
Fax: +975 2 324898
PO Box. 929
www.moaf.gov.bt

WOOD PROCESSING SECTOR

Bhutan: overview

Bhutan is a small landlocked country in South Asia with a population of 748,931 people in 2020 and a per capita GDP of \$3,411.94 in 2019. Bhutan’s pristine ecosystem with rich forest cover and climate conditions divide the country into different altitude zones producing different forest characteristics and species composition. The country offers opportunities for investors in wood processing sector to enhance the absolute sale of value-added domestic production both as an import substitution drive and for export markets.

Key facts ¹	
Capital	Thimphu
Total area	38,394 Sq Km
Population (2020)	748,931
GDP growth rate (2019)	5.46%
Per capita GDP (2019)	USD 3,411.94
FDI capital inflow (as of June 2019)	USD 22.98 million
FDI capital inflow	INR 766.38 million
Exports (2019)	USD 654.99 million
Imports (2019)	USD 953.27million
Balance of trade (2019)	USD (298.28) million
Currency	Bhutanese Ngultrum (Nu.) USD 1 = Nu. 74.39

Why Bhutan?

Political and Economic stability:
Bhutan is a progressive country promoting an inclusive and sustainable development. The past governments have remained committed to maintaining a

stable politics and economy. The country is known for:

- The development philosophy of Gross National Happiness (GNH).
- Strong political will to pursue inclusive economic transformation through innovation and technology
- A thriving economy during pre-covid period with an annual average growth rate of 7.6% between 2007 and 2017. 2019 recorded a growth rate of 5.5% rebounding from 3.2% in 2018.

Predictable business environment

Stable political and economic context provides an enabling factor for boosting a predictable business environment:

- Bhutan ranks 2nd in South Asia in Ease of Doing Business in 2020.
- It is the most peaceful country in Asia and 22nd most peaceful country in the world according to Global Peace Index 2020.
- It ranks 24th in the world and 1st in South Asia in Corruption Perception Index 2020 indicating as less corrupt.



Liberal policy

The Royal Government adopted the revised FDI Policy in 2019 and 2020 with the objective of making the investment climate conducive and broadening the areas of investment. Among others, the key feature of the new policy are as follows:

- FDI in forest-based production in the priority list with a minimum project cost of USD 689,655.172 (Nu. 50 million) and up to 74% foreign ownership.
- FDI allowed in select small-scale production with minimum project cost of Nu. 5 million (USD 68,965.52) and maximum foreign investors' equity of 49%.
- Enhanced access to convertible currency.
- Institution of single window service and simplified approval system.

Market access

Bhutan's membership of and signatory to the following economic cooperation and agreements, among others, enable the country's access to the international markets:

- South Asian Free Trade Area (SAFTA).
- The Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC).
- Generalized System of Preferences (GSP).
- The World Customs Organization (WCO) and the Kyoto convention.
- Bhutan-India free trade agreement.
- Bhutan-Bangladesh preferential trade agreement- duty-free access for 34 products.

Strong natural resource base

Decades of focus on sustainable and environmentally friendly policies have yielded Bhutan in:

- Being the only carbon-negative country in the world with untrodden mountains and pristine glacial lakes with untapped water and forest resources.
- Having a diverse geographical and climatic zone, rich soils and favourable temperatures that vary between 500 – 4,000 masl.

Taxes and special incentives

Fiscal Incentives Act of Bhutan 2017 provides tax incentives to investors as follows:

- **Direct tax incentives:** 10 years income tax exemption on convertible earnings, 25% reinvestment allowance, up to 15% tax rebate on environmentally friendly upgradation.
- **Indirect tax incentives:** Sales tax and customs duty exemption on plant and machinery, professional equipment, raw materials, and packaging materials, etc.
- **Sector specific incentives:** five to 10 years income tax holiday on priority sectors such as agriculture and RNR, Tourism, CSI, ICT, Business Infrastructure Development, Health & Education, etc.

Logistics and connectivity

Connectivity within the country and abroad have seen tremendous improvement over the years. Bhutan is connected through:

- Flights to five countries (Bangladesh, India, Nepal, Singapore and Thailand), domestic flights to four domestic destinations with a travel time of less than an hour.
- The Asian Highway 48 and Asian Highway 2 connecting to neighbouring countries of India, Nepal and Bangladesh.
- Road network of 18,264.63 kms and 377 bridges², Bhutan is well connected internally.

Human resource

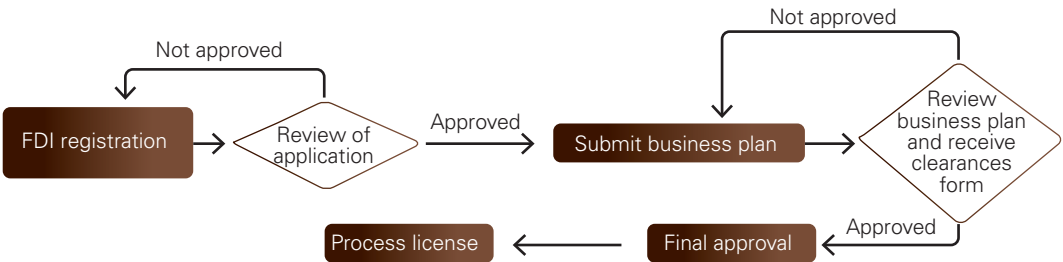
Bhutan's demography is young with around 40% of the total population comprising of young people between the ages of 15 and 34. The key strengths are:

- Fluent and conversant in English, the medium of instruction in schools.
- Wood processing skills are being taught in few vocational training institutes.
- With a prevailing monthly minimum wage rate of USD 95 for unskilled and USD 140 for skilled workers, the wage rate is competitive as compared to the rates in the region.
- Easy access to skilled foreign workers from neighbouring countries in the region.

FDI registration – A brief guide

The FDI registration and approval can be done online at www.citizenservices.gov.bt

FDI Registration & Approval in Bhutan.



SECTOR OVERVIEW

The wood processing sector is regarded as a sector with immense investment opportunities that has potential for generating future growth and employment in the economy³. The key features of the sector are presented below:

- Bhutan has 71% of total land area under forest cover.
- The national policies including National Forest Policy 2011 and the Economic Development Policy 2016 make clear provisions for private investments in utilising and marketing value added forest products.

.....

² Annual Information Bulletin 2020, MoWHS.

³ The world Bank (2020)