

Gelephu: Bhutan's Emerging Trade Powerhouse

ABSTRACT

Gelephu is a significant trade hub. Historically, Gelephu has played a major role in the country's trade, showing resilience through economic fluctuations and political upheavals. Its proximity to India is boon for both import and customers from across the border. Its potential as a business hub to connect South and South-East Asia will be tested over time. This article covers trade barriers, legal obstacles and other potential problems that might hinder the realisation of the Gelephu Mindfulness City (GMC) as a regional trading hub connecting Bhutan and South Asia with South-East Asia.

Keywords: trade, commerce, import, export, business, economy

Introduction

For years, Gelephu has been a major trade hub. It has seen ups and downs but always maintained the potential to be fulcrum of economic growth for more than a century. Because of its economic successes, those in Bhutan's capital city Thimphu feared the potential political power of Gelephu, concerned that its growth might eventuate in a challenge for power. The city is strategically located near the Indian border and is increasingly recognised for its potential as a business hub connecting South and South-East Asia. The establishment of the GMC aims to boost economic activities, enhance infrastructure, and create employment opportunities.

Gelephu is already a primary import-export route for Bhutan. Products such as boulders, cardamom, iron scrap, ply wood, saw dust and oranges are exported using Gelephu route while rice, bricks, petroleum products, wheat flour are imported through this route.

Current Economic Landscape

In 2005, Gelephu's economy is predominantly agrarian, with 38.2 per cent employed in agriculture, 23.5 per cent in services and 12.9 per cent in manufacturing. The share of employment in agriculture is declining while service industries are increasingly becoming the preferred employment sector in recent years (see Table 1). Services are fast becoming the dominant industry of employment opportunities at the national level too (Wangda, 2024). The pace of urbanisation has increased since 2005, with the urban population rising from 11,818 to 13,010 by 2017. As the urban population rises and land becomes increasingly limited in Gelephu, service industry expansion will continue. However, Gelephu has limited lands suitable for expansion of the bigger manufacturing or service industry capable of catering to the vision of a mega city. Male-dominated migration (sex ratio: 109.2 in 2017) and declining birth rates (13.3 in 2017) signals shifting labour dynamics (NSB, 2020). The expanding city is expecting declining youth population and that are mostly males, which would impact the industries that may require more youth population or females.

Table 1: Employment by Sector in percentage

Years	Agriculture	Industry	Services
2017	55.3	11.4	33.2
2019	52.4	14.7	32.9
2020	52.3	18.1	35.2
2021	53.8	11.1	35.1
2022	54.7	14	34.6

Source: NSB, Labour Force Surveys (collated from several survey reports)

Business Opportunities

Manufacturing

According to the 2024 industry census, there are 31 licenses issued in Gelephu and 90 in Sarpang district for production and

manufacturing industries. Over 90 per cent of the output from these industries are consumed within the country (MOICE, 2024). Gelephu region has the highest number of registered businesses in service industries for the whole country. As commercial activities grow, there are concerns about the pollution it creates (Wangdi, 2022), with inadequate plans for waste management.

Over the last 15 years, the textile (Yuden, 2024) industry was promoted (How Bhutan symbolises..., 2023) to be the primary sector of employment in the country, aligned with national goals. Women's employment increased as a result of this national initiative. However, the industry did not see significant increases in Gelephu. While the Royal Government of Bhutan (RGOB) pushes for promoting the textile industry, this does not appear to have created any business opportunity in Gelephu due to the fact that consumers of the traditional textiles are limited to those living within the country only, which is gradually changing with influences of the western fashions. Further, the thick traditional garment is not suitable for warm tropical climate in southern belts.

Strategic investments in technology and skill development, coupled with GMC's infrastructure, could position Gelephu as a cornerstone of Bhutan's sustainable manufacturing ambitions. Gelephu's strategic location along the Indian border and GMC's infrastructure investments position it as a manufacturing hub. However, limited access to advanced machinery and skilled labour could prove challenging for further growth.

Agriculture

Gelephu's fertile lands support organic agriculture. Farmers are trained (Farmers in Samtse..., 2021) and encouraged not to use chemicals. Chemical fertiliser imports were banned (Confino, 2014)

in the country. Bhutan claims to be the champion for organic farming (Department of Agriculture, 2006), with the produce attracting large buyers in India. Bhutan's major exports are cash crops such as oranges, cardamom while food crops are limited for domestic consumption (Lorenzen, 2018). Gelephu produces food crops such as rice, maize, wheat and seasonal vegetables. Attempts were made to increase production and commercialise the agriculture with limited success (Farmers in Barshong..., 2017) due to absence of coordinated effort to find markets, unavailability of commercial agricultural equipment and cheaper production costs in India by use of chemical fertilisers. The future success of Gelephu's commercial farming will be measured by its ability to supply processed and green groceries within Bhutan and neighbouring Indian towns.

Bhutan's commitment to 100 per cent organic certification by 2035 (Dema, 2020) positions Gelephu as a leader in sustainable agribusiness primarily due to the availability of larger flat lands, suitable climate, growing market within and beyond borders and transport infrastructure being planned in Gelephu and India connecting Bhutan. Yet, nearly two decades after declaring the 100 per cent organic goal, there appears to have been near zero progress based on the parameter of certified organic agriculture (Paull, 2023).

The organic movement in Bhutan may get some attention from the GMC project with enhanced logistics, linking farmers to global markets via India's Assam corridor. However, challenges like certification and fragmented landholdings hinder scalability. Strategic investments in cooperative farming and certification subsidies could unlock Gelephu's potential as a hub for premium organic exports.

Tourism

Southern Bhutan, including Gelephu, was not a typical destination for domestic or foreign travellers. That created a Bhutanese image of being a Buddhist country, people with northern Bhutanese dresses like *Gho* and *Kira* and a country of Tibetan descendants. However, domestic tourism to Gelephu started following the resettlement of northern Bhutanese in the land vacated after the eviction in 1990s.

Tourist in Bhutan has grown over the years and contributed US\$26m to the economy in 2024 (Dolkar, 2024), including from more than 100,000 foreign travellers. Majority of these tourists visit the northern parts of the country. Gelephu and other southern region of the country are not opened for tourists by design. Gelephu's proximity to Manas National Park (the only cross-border wildlife park in the world) and Phibsoo Wildlife Sanctuary offers untapped potential for tourism. The GMC is proposed to have separate visa regime for foreign travellers, which could boost tourism in the area. Currently, non-SAARC (South Asian Association for Regional Cooperation) citizens need to pay US\$200 a day for tourist visa, which deters budget travellers.

Eco- and agri-tourism, blending agricultural experiences with cultural immersion, is gaining traction in Gelephu. Region's fertile lands provide a robust foundation for agri-tourism ventures. The proposed GMC aims to integrate eco-conscious tourism, including farm stays, organic workshops, and harvest festivals, to diversify rural livelihoods.

The agri-tourism industry in Gelephu is in its infancy but holds potential. The Dhumra Farm Resort is one such example of the kinds of success that can be replicated in Gelephu. The district's organic farming practices are on the rise and has the potential to attract a

larger volume of eco-conscious travellers looking for organic food and a serene lifestyle, away from the metro hustle.

However, limited infrastructure such as transport and scarce lodging facilities pose challenges. Seasonal monsoons further disrupt tourism activities between June and September. There have been a few instances of hospitality training for farmers, including by Helvatas Bhutan (2024), which has provided limited training for engagement in tourism-related services.

Licensing Regime

The Government records show small-scale industries are the most prevalent accounting for 71 per cent of the total industries, followed by cottage-scale at 25 per cent, medium-scale at 3 per cent, and large-scale industries at 2. per cent. Service industries dominate across all scales of industry accounting for 85 per cent, followed by Production & Manufacturing with 10 per cent and Contract with 5 per cent of the total licenses (MOICE, 2024).

The distribution of industry by ownership is dominated by sole proprietorship which constitutes 96 per cent of the total industries, followed by private limited companies at 2 per cent and partnerships at 1 per cent.

Of these, Sarpang district has the third largest number of trade licenses issued accounting for 8 per cent (1,141) of the total licence issued nationally. Of these, 458 were issued by Gelephu municipality alone.

Though the licensing regime at the national level has improved over time, this has yet to be replicated for the GMC. The city has proposed its own licensing regime, which is expected to be better and more

streamlined than the national regime. However, with the GMC focusing on foreign investments to accelerate its economic presence in the region, there is long way to go. Since the announcement of the plan in 2023, very few foreign companies have expressed interest to invest in Gelephu. The city has not finalised any of its legal instruments (which is discussed in separate article) leading to confusion over how trade licences are issued.

Bhutan still ranks 89th on the Ease of Doing Business index (World Bank, 2020), citing delays in multi-agency approval. Foreign joint ventures face difficulties in gaining licences. Unless this situation improves, only small and local companies will be able to join the GMC vision.

Taxation

To promote eco-friendly ventures, taxation benefits are provided. At the national level, corporate tax stands at 30 per cent, but Small and Medium Enterprises (SMEs) and eco-friendly ventures enjoy reduced rates (15–25 per cent) depending on their size and sector. Priority sectors, like hydropower and organic farming, receive tax holiday of up to 10 years. Hydropower is the biggest contributor to the national exchequer – approximately 14 per cent of the total revenue. Gelephu is unlikely to facilitate large hydropower projects but the Mau river provides opportunities for small scale hydro plants.

The Value Added Tax (VAT) is levied at 7 per cent, with a registration threshold of Nu 2.5 million (approximately AUD\$30,000). This exempts 70 per cent of SMEs, as reported by the Bhutan Revenue and Customs Authority (BRCA) in 2023. Customs duties, averaging 10–15 per cent, apply to imported goods, though critical sectors like healthcare and education enjoy exemptions. Excise taxes target

non-essential goods, with rates as high as 100 per cent on alcohol and tobacco, reflecting Bhutan's health-conscious policies.

If the GMC intends to attract bigger international companies, corporate taxation would require revision to compete with other cities that provide substantial tax reductions for corporate world. Along with promulgation of laws for the GMC, the multilayer taxation system would need revision. While it's hard to forecast the future of the GMC based on national experience, it is likely to be assured not a paramount shift in the taxation system for Gelephu noting it's the same regime in Thimphu to approve these changes. Compliance costs remain high for SMEs due to complex filing processes, with only 35 per cent of businesses fully adhering to tax regulations. This would not be desirable for the GMC.

Trade financing

Gelephu's trade ecosystem is dominated by micro, small, and medium enterprises (MSMEs). These enterprises primarily depend on formal banking institutions like the Bhutan National Bank (BNBL) and the Bhutan Development Bank Limited (BDBL) for trade loans. In 2022, BDBL disbursed Nu 1.2 billion (≈AUD\$14.5 million) in loans to Gelephu-based businesses, focusing primarily on agriculture (BDBL, 2022). However, collateral requirements—often set at 150 per cent of loan values—exclude many small traders from accessing credit (Royal Monetary Authority, 2022).

The GMC aims to attract Nu 10 billion (≈AUD\$120 million) in investments by 2030, with a focus on improving trade infrastructure and financing access (Ministry of Industry, Commerce, and Employment, 2023). This initiative includes plans for dedicated trade financing windows through partnerships with international development agencies like the Asian Development Bank (ADB).

Gelephu's traders face systemic challenges, including high collateral demands, limited financial literacy, and bureaucratic delays in loan processing. Nationally, 35 per cent of MSMEs report difficulties in securing formal credit (RMA, 2022). To address this, the RMA established a Credit Information Bureau (CIB) in 2020 to streamline risk assessments, improving loan approval rates by 22 per cent by 2023 (RMA, 2023). Some subsidies in the form of collateral free loans (Lazon, K. & Dorji, S., 2024) on business loans provide relief to Bhutanese businesses, but it is too little to attract larger investments.

The GMC has established its own bank – ORO¹⁹. The bank is a replica of many fintechs seen germinating in developed countries in recent years. The bank is primarily controlled by Royal Family through Digital Kidu (DK) Limited, established during the COVID-19 pandemic to support the financial institutions in the country. It has been in the public domain for a few years now but has not made public how the company is financed.

Investments

Bhutan has effectively discouraged local investments in the GMC until recently (Zangpo, 2025, May 2). During several overseas tours, the King and the promoters of the city encouraged Bhutanese diaspora to open saving accounts with the ORO bank. The investment return rates (saving accounts, fixed term deposits) are generally higher than other local banks, potentially diverting majority of remittances from overseas Bhutan to their portfolio.

The town was initially announced as a Special Economic Zone. It facilitated to attract some local business. However, it did not attract

¹⁹ ORO is not an abbreviation.

enough foreign direct investment (FDI), despite increases in FDI in the region since the SEZ's inception (Royal Government of Bhutan, 2022). The RGOB actively promotes FDI through incentives such as tax exemptions and streamlined business regulations.

There is growing interest among the Indian business community to invest in GMC (Gyaltshen, 2024). With the region's lack of capacity to hold large industrial bases, the GMC is likely to attract investments in service industries, on a small scale. Bhutan's priority for FDI includes industries such as IT, wellness, agriculture and forestry. Except IT, the other industries are likely to attract attention from medium size investors considering Bhutan footprints in sustainable forestry, organic agriculture and happiness economy. Owing to lack of adequate local human resources to meet the IT industry demand, FDI in IT would be a challenging task. According to the GMC, its target would be to invite investments in Education, Finance, Green IT, Crypto mining, Health & wellness, Buddhism (Vajrayana Buddhism) and Agri-tech and forestry. Education and Finance would also face challenge to prove its authenticity and efficiency.

The RGOB seeks to amend its FDI policy to facilitate more foreign investments (Bold FDI changes coming, 2024).

Gelephu's geographical positioning enhances its role in cross-border trade, particularly with India. The Bhutan-India trade relationship is strong, supported by treaties that facilitate the movement of goods and services.

Conclusion

Gelephu is poised to become a significant trading hub. This gateway to Bhutan offers increased potential for bilateral trade and

commerce. The development of an international airport, enhancement of road networks, and changing the governing regime and status of a Special Economic Zone are clear indicators of Gelephu's future as a thriving trading centre.

Gelephu's proximity to India, one of the world's fastest-growing economies, provides it with a unique advantage for furthering its market aspirations for agricultural products, minerals, timber, and handicrafts. Gelephu's developing infrastructure and scenic beauty make it an attractive destination for Indian tourists, further boosting local businesses and enhancing cultural exchange.

The GMC's vision to integrate itself into the global economy to realise Bhutan's vision of sustainable development aligns perfectly with Gelephu's growth trajectory, ensuring that economic progress does not come at the cost of environmental degradation. Investments in renewable energy, waste management, and eco-friendly practices would be central to Gelephu's future. The new regime must work on simplifying the process for trade licencing, financing, local infrastructures and connectivity to reap the opportunity.

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