

Preface

Developing countries like Bhutan are dependent on foreign aid due either to shortage of domestic savings vis a vis investment or enough exports to meet import demands for ongoing development projects. Bhutan's traditionally backward economy has transformed to a rapidly growing modern economy during its plan period beginning in 1961. Receipt of foreign aid was inevitable for this transformation process. India was and still is major donor though aid from other international agencies is recently rising. However, the country is on track to achieve its self-reliance, Bhutan's long cherished development goal, due to development of domestic resources.

The economy of Bhutan has diversified substantially over its planned development regime. Various sectors like agriculture, industry and services recorded landmark changes over this period. The government of Bhutan has devised sound development policies and effectively utilized foreign resources. As a result, aid has significant positive impact on savings and economic growth of Bhutan.

Foreign trade of Bhutan has diversified both in terms of commodities and its trading partners. India is major trading partner of Bhutan although trade with other South Asian and South-east Asian nations is going up. Trade liberalization is one of the major policies of the government, substantially achieved in the last two decades. Export of hydro-electricity to India is a major determinant of Bhutan's economic growth.

Gross National Happiness remained the basic philosophy of overall development in Bhutan. Sustainability of development is one of the main pillars for this development philosophy. Government of Bhutan has implemented various measures to achieve this goal. Foreign financial and technical assistance has acted as a positive catalyst for the achievement of its environmental sustainability.

Therefore, the role of foreign aid and that of the government remains highly essential for development in the small developing countries even in the era of globalization based on market mechanism. Decreasing trend in total foreign aid disbursement at the global level is a major threat to development in small developing countries. Attention of the donor agencies is essential for raising external grants to the small developing countries for the attainment of Millennium Development Goals.