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Enhancing Bhutan's Tourism Sector: Strategies for Success

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By Bhawna Ahuja



Cover Image Attribute: Punakha Dzong (March 2023) / Source: Bhawna Ahuja

Bhutan, often called the '*Land of the Thunder Dragon*,' is celebrated for its pristine landscapes, vibrant culture, and unique approach to prosperity measurement – Gross National Happiness (GNH). While the Kingdom has gained global recognition for its sustainable tourism practices, recent years have brought forth economic challenges. The COVID-19 pandemic, coupled with repercussions from the conflict in Ukraine, has significantly impacted Bhutan's macroeconomic landscape. After experiencing consecutive years of economic contraction in FY19/20 and FY20/21, there have been signs of recovery in the non-hydro industry and services sectors. However, the revival of the tourism industry has been sluggish, partly due to the **Tourism Levy Act 2020**, which

tripled the sustainable development fee for international tourists, elevating it from \$65 to \$200 per night and most recently **reducing it to \$100 per night**. Additionally, Bhutan grapples with rising youth unemployment, soaring from 20.9 percent in 2021 to 29 percent in 2022, leading to an upsurge in outward migration. In this context, let's explore Bhutan's post-pandemic tourism industry dynamics and its delicate equilibrium between economic growth, environmental preservation, and cultural heritage.

The Fundamentals of Tourism in Bhutan

Bhutan, a small kingdom ensconced in the Himalayas — between India and China, is renowned for its *"low-volume, high-yield"* tourism. The country prioritizes the quality of the tourist experience over the number of visitors, in contrast to many other nations that attempt to attract as many tourists as possible. This strategy, which includes stringent regulations on tourist numbers and fees, has effectively preserved the country's culture, environment, and way of life, especially by discouraging certain kinds of tourism, such as low-cost and backpacker travel.

Various factors contribute to governments intervening and exerting control over tourism. Political reasons are a significant influence but are often subtle because governments do not openly disclose their political interests. For example, in communist countries like North Korea, China, and Cuba, tourism operations are nationalized as part of their ideological beliefs. The reasons for government intervention can include promoting nationalism and identity, managing foreign relations, and maintaining a power balance.

On the other hand, economic reasons for government intervention in tourism are more apparent. Protectionism is a common motive, where governments restrict foreign investments and ownership to safeguard the local tourism industry from competition with the international market. Additionally, some believe that tourism can be controlled through a supply-driven policy and that the public sector can manage it from above. However, tourism is essentially a demand-driven activity, where markets determine destinations and activities based on customer preferences. Therefore, public sector planners need to have complete control over tourism.

Bhutan is a country that has recently become accessible to foreign tourists and has had limited contact with other countries. Despite India's initial resistance to Bhutan's opening up to foreigners, the Royal Government of Bhutan chose to open its doors with many limitations to assert Bhutan's independence. This decision coincided with Sikkim's

accession to India in 1973, as Sikkim and Bhutan had similar geopolitical situations. The monarchy believed that by allowing foreign visitors, Bhutan would gain greater independence and distinguish itself from India.

However, the Bhutanese government wanted to open its doors to only some foreign tourists, and the restrictions were primarily due to political reasons. The monarchy aimed to safeguard its popularity among the citizens and maintain autocratic control by preventing exposure to democratic systems or the outside world. But in 2008, Bhutan eventually adopted its first modern Constitution, codifying government institutions and the legal framework for a democratic multi-party system.

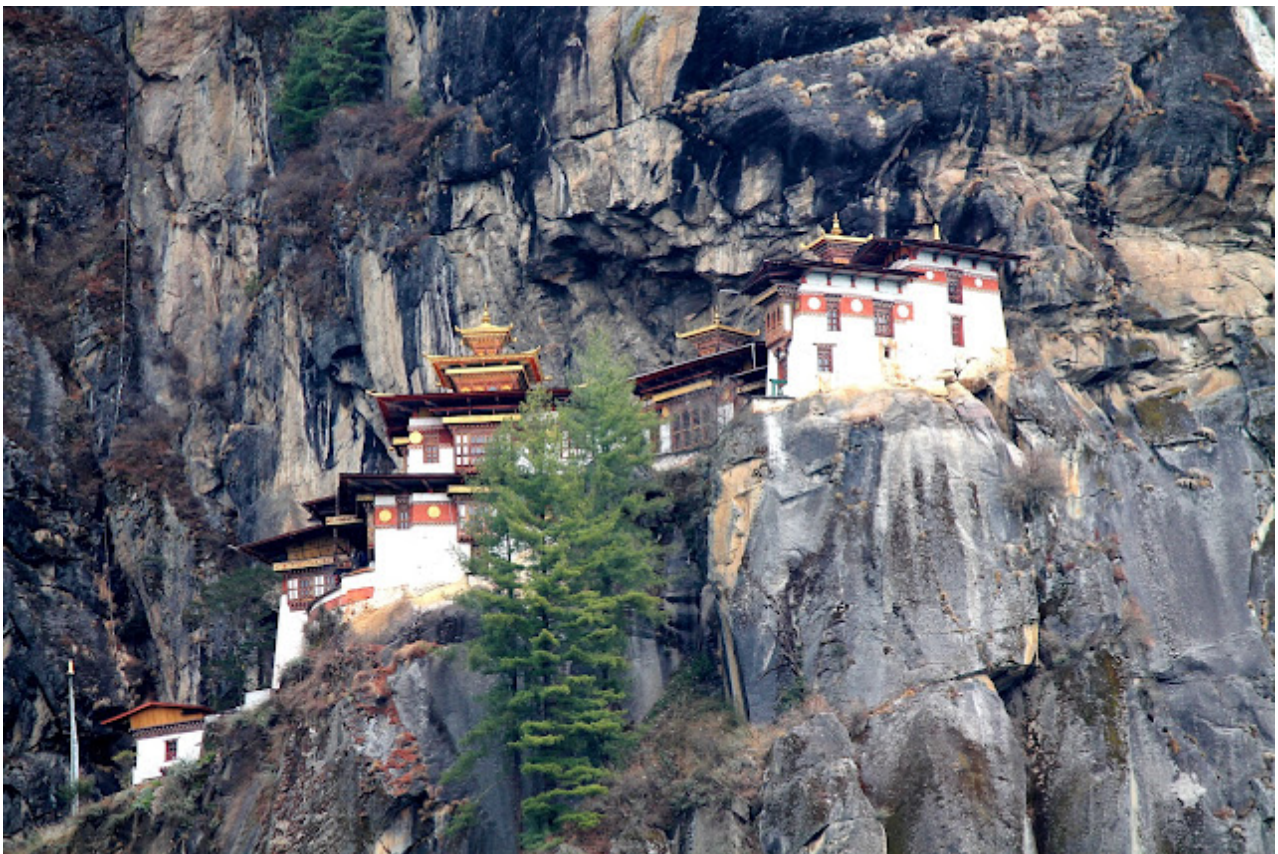


Image Attribute: Paro Taktsang a.k.a. Tiger's Nest (March 2023) / Source: Bhawna Ahuja

Sustainable Development Fee (SDF): The Economic Backbone

A cornerstone of Bhutan's tourism model is the Sustainable Development Fee (SDF), introduced in 1994, which all tourists must pay for their visit. Depending on the season, this fee ranges from \$200 to \$250 daily. It excludes accommodation, meals, transportation, and a guide, making it an expensive package for foreign visitors. Importantly, a portion of the SDF is allocated to the government's social and environmental programs.

Below are a few of the most recent developments concerning SDF;

Increase in SDF and consequent reduction: In September 2022, the Bhutanese government increased the SDF from \$65 to \$200 per person per night. This was done to offset tourism's environmental impact and fund sustainable development projects in the country. However, in June 2023, the updated regulations offer additional benefits to tourists who make a four-day SDF payment, extending their stay by four days. Similarly, tourists who pay for 12 days are granted the privilege of staying for a full month. These incentives remain valid until the conclusion of 2024 and are exclusively available to tourists who make their payments in U.S. dollars. As of August 2023, the Kingdom has opted to reduce this fee by 50 percent. Beginning in September, the updated rate will be \$100, and this reduced rate will be in effect for four years

Implementation of a daily fee for regional tourists: In September 2022, the Bhutanese authorities initiated a daily fee of Rs. 1,200 (equivalent to US\$15) for visitors from India, Maldives, and Bangladesh. This step was taken to counterbalance tourism's ecological effects and finance projects promoting sustainable development within the nation. This recent regulation led to a significant decline in the number of Indian tourists visiting Bhutan. In an effort to attract them back, Bhutan now allows Indian tourists who pay the SDF to make duty-free gold purchases in both Phuentsholing and Thimphu. This decision by the Himalayan nation is anticipated to be most advantageous for Indian visitors, who constitute one of the largest groups of tourists to Bhutan.



Image Attribute: Paddy field, near Chimmi Lakhang (March 2023) / Source: Bhawna Ahuja

Gauging the Impact

Ever since Bhutan welcomed foreign tourists, the country's tourism industry has positively impacted the private sector and local economies. The introduction of privatization in the tourism sector back in 1991 was a significant boost for private enterprises. Recognizing the potential for earnings in the tourism sector, more and more private entrepreneurs started investing and reaping profits. Given that foreign exchange in Bhutan is limited, these profits are reinvested into the Bhutanese economy.

Even though tourism provides numerous employment opportunities for culinary experts, tour guides, hotel personnel, homestay hosts, and transportation providers. Regrettably, many of these positions are not full-time due to the highly seasonal nature of the industry. While tourism has contributed to some economic advantages for local communities, there is still room for enhancing its local impact within Bhutanese tourism policy. Without the

growth of the informal sector in rural Bhutan, there is a growing concern that well-educated youth may choose mass migration to unprepared urban centers or even emigration to foreign countries like Australia.

Secondly, given the expenses associated with a trip to Bhutan, the average tourist usually spends around six nights in the country (as indicated by the **Bhutan Tourism Monitor 2020**). This duration may be further reduced following the introduction of the new Tourism Tax Levy Act. The rugged terrain and the constrained transportation infrastructure constrain exploring Bhutan's rural regions within this limited timeframe. Consequently, the level of interaction between rural Bhutanese and tourists from India or the Western world remains somewhat constrained.

Thirdly, the rigorous government regulation has also limited the extent of interaction between tourists and rural Bhutanese. As mentioned earlier, all tourism facilities, including accommodations, must receive approval from the Department of Tourism (DOT) to guarantee high-quality service. During our visit to Phobjikha in March 2023, it became evident that many DOT-certified homestays were vacant due to a new requirement for Indian tourists to stay exclusively in 3-star properties. However, as of May 2023, the DOT had **granted certification to over 200 non-star hotels** out of nearly 300 evaluated establishments. The DOT has been actively engaged in the assessment process; moreover, over 60 hotels still need evaluation due to a shortage of personnel. The DOT has established a set of criteria that these hotels must meet, encompassing aspects such as hygiene, cleanliness, comfort, safety, amenities, and services. Once these criteria are met, the hotels will be eligible for star ratings, either Star I or Star II hotels. According to local news reports, more than 500 registered non-star hotels operate in Bhutan.



Image Attribute: A pair of Black-Necked Crane at Black-Necked Crane Center in Phobjhika Valley (March 2023) / Source: Rahul Guhathakurta

Recommendations

Formulate tourist carrying capacity guidelines, specifically designed for particular regions like *dzongkhags* or combinations of one or two *dzongkhags*, should evaluate the tourism level that maximizes economic benefits while maintaining the integrity of community activities and lifestyles.

Execute a tiered Sustainable Development Fee (SDF) system and issue electronic permits (e-permits) in accordance with the designated zones, which can encompass either a single *dzongkhag* or a combination of one or two *dzongkhags* (as classified in tourist carrying capacity guidelines). If a tourist plans to explore Thimphu, Punakha, and Paro, they will be subject to a specific SDF fee. However, the SDF amount will rise if they include an additional *dzongkhag* like Bumthang in their itinerary. This graduated strategy has the potential for broader application within the already established biological corridors framework.

The Kingdom should consider exploring alternatives for broadening its tourism sector rather than enlarging it. Possibilities for diversification include ecotourism and niche tourism, such as bird-watching, photography, and angling. The Trans-Bhutan Trail, Lunana Snowman trek, and excursions to Phobjikha Valley hold substantial potential to draw quality foreign tourists.

About the Author:



Image Attribute: Author at Dochula Pass (March 2023) / Source: Rahul Guhathakurta

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Note: *The author traveled to Bhutan in March 2023 on a self-funded trip. The views expressed in this insight piece are those of the author and do not necessarily reflect any government or organization's official policy or position.*

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