

Tourism Law and Legislation

Assignment 7

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Literature Review: Challenges and Resolutions in Bhutan's Tourism Sector

Introduction

Bhutan's approach to tourism development presents a distinctive case study in the global tourism landscape. Guided by the philosophy of Gross National Happiness (GNH) and a constitutional mandate to maintain at least 60 percent forest cover, the country has pursued a "High Value, Low Volume" (HVLV) tourism policy since opening to tourists in 1974. This policy deliberately prioritises quality over quantity, aiming to attract mindful travellers who respect Bhutanese culture and environment while generating revenue with minimal disruption.

The significance of tourism to Bhutan's economy is substantial. By 2019, tourism contributed approximately 6 percent of GDP and employed an estimated 16 percent of the working population. In that year, Bhutan welcomed 315,599 visitors, with 274,097 foreign guests recorded. However, the COVID-19 pandemic precipitated a complete cessation of tourism, creating an unprecedented shock that prompted fundamental reconsideration of the sector's structure and purpose.

This literature review examines the challenges confronting Bhutan's tourism sector and the proposed resolutions emerging from recent scholarship and policy analysis. It synthesises academic research, government assessments, and industry perspectives to identify key themes, research gaps, and directions for future investigation.

The Philosophical and Policy Framework

Gross National Happiness and Tourism

Bhutan's tourism policy cannot be understood without reference to GNH, the development philosophy articulated by the Fourth King in 1972: "Gross National Happiness is more

important than Gross Domestic Product". This framework evaluates all policies—including those governing tourism—against four pillars: good governance, sustainable socio-economic development, cultural preservation, and environmental conservation.

The GNH framework represents a fundamental departure from Western development models that prioritise material accumulation. As Rath observes, Bhutan's approach is "deeply influenced by Buddhist principles of moderation, respect for all life, and reverence for nature, diverging from Western models focused on resource exploitation and materialism". This philosophical foundation has enabled Bhutan to construct sustainability into its national identity, linking environmental commitments to cultural and spiritual values.

The High Value, Low Volume Approach

The HVLV policy operationalises GNH principles within the tourism sector. "High Value" refers to targeting mindful, responsible visitors who generate substantial revenue while respecting local culture and environment. "Low Volume" ensures tourist numbers remain compatible with the carrying capacity of natural environments and infrastructure. This approach explicitly rejects mass tourism models in favour of controlled, quality-focused development.

The primary mechanism implementing HVLV is the Sustainable Development Fee (SDF), a daily tourist tax. Originally set at USD \$65 per person per night as part of an all-inclusive package, the SDF was increased in September 2022 to USD \$200 per person per night for non-regional visitors, with children receiving discounts. Revenue funds cultural preservation, environmental protection, and infrastructure development. Regional visitors from neighbouring countries, who previously paid no fee, were subject to a USD \$16 daily fee from 2020 .

This policy has attracted international recognition. Organisations including National Geographic and the Climate Council have praised Bhutan's commitments to carbon negativity and sustainability. However, as the following sections demonstrate, recent evidence reveals significant challenges requiring urgent attention.

Challenges Confronting Bhutan's Tourism Sector

Policy and Governance Challenges

A comprehensive diagnostic assessment conducted by Bhutan's Economic and Finance Committee (EFC) of the National Assembly has identified deep-seated weaknesses in tourism governance. The assessment found that the current framework, centred largely on the SDF, has "dampened overall demand—particularly from mid-range and regional markets." Frequent policy changes and inconsistent interpretation of the Tourism Rules and Regulations 2024 have "further eroded confidence among domestic tourism operators and international partners, creating uncertainty and discouraging long-term investment".

Tourism governance remains fragmented across multiple agencies, including Tourism, Immigration, Aviation, licensing authorities, financial institutions, and local governments. This fragmentation produces "conflicting regulatory interpretations, delayed approvals and lack of accountability." The absence of a single empowered authority has "slowed decision-making and undermined operational efficiency, service quality and investor confidence" .

Economic and Market Challenges

The post-pandemic recovery has been markedly slower than anticipated. From Bhutan's reopening in September 2022 to October 2023, only 89,326 tourists visited, compared to 315,599 in 2019. This dramatic reduction reflects multiple factors, including the increased SDF, global economic conditions, and ongoing policy uncertainty.

The hotel sector has been particularly affected. Among Bhutan's 409 registered hotels, occupancy rates have fallen from 37.2 percent before COVID-19 to just 17.4 percent in 2024. The sector employs approximately 13,000 people but now faces "loan distress, job insecurity and the risk of skilled workforce outmigration".

The liberalisation of tourist bookings has enabled offshore agents to dominate key components of the tourism value chain, resulting in "revenue and tax leakage, reduced foreign currency inflows, and diminished earnings for Bhutanese operators". This leakage undermines the economic retention that HVLV was designed to achieve. Dhradhul notes that "the risk of tourism revenues leaking out of the country when foreign operators bypass local enterprises" requires attention, emphasising that this challenge "cannot be addressed through rules alone" but requires stronger solidarity among Bhutanese service providers.

Bhutan's airfares remain uncompetitive compared to regional averages. The current three-tier pricing system—based on nationality and supported by domestic subsidies—"lacks transparency and predictability, potentially deterring international visitors".

Socio-Cultural Challenges

Despite Bhutan's carefully cultivated image as a sustainable tourism destination, scholars have identified emerging contradictions. Padwal argues that "for all of its appeal as a mystic and romantic escape from a deeply commodified world, Bhutan is beginning to show signs of problems that increasingly mirror the flaws of a global neoliberal system".

The tourism industry has not created equal gains for all Bhutanese and may be widening inequality. Local newspapers have reported water shortages in towns, "preventing locals from receiving water in their homes, which are further exacerbated by luxury hotels attempting to

meet the demand of tourists with swimming pools that take from municipal water sources". Such examples illustrate how tourism development can generate local costs while benefits accrue elsewhere.

The promotion of Bhutan as a high-end destination led to policies requiring hotel upgrades that disadvantaged smaller operators. Following the 2022 SDF increase, licensed guide numbers dropped from 5,600 to 3,000, with 30 percent failing new assessment requirements or choosing not to renew licences. Additionally, "650 one to two-star budget hotels were initially no longer allowed to cater to even regional visitors from Bangladesh and India unless they could upgrade to higher standards," with these regulations viewed as favouring high-end establishments.

Scholars have questioned whether GNH principles are being compromised through commercialisation. The original tourism slogan, "Happiness is a place," arguably implied "the consolidation of the values of happiness into a commodifiable product that seeks to attract tourists for revenue". Research indicates that ecotourism and GNH concepts are often not well understood by local Bhutanese, with some locals expressing concern over "increased inequality, and an erosion of traditional values towards the relationship between humans and the environment, resulting in the degradation of cultural values".

Environmental Challenges

While Bhutan's constitutional forest cover requirement and carbon-negative status represent significant achievements, tourism development has created environmental pressures. The concentration of tourism activity in western hubs—Thimphu, Paro, Punakha, Wangdue and Bumthang—accounts for "more than 95 percent of total activity," while central and eastern regions "suffer from limited infrastructure and services, constraining balanced regional development".

The absence of clear guidelines for culture- and nature-based tourism activities, including paragliding, kayaking, rafting and fly-fishing, creates regulatory gaps that could permit unsustainable practices. Pathirana, Choden, and Thinley note that growing tourist numbers, "while beneficial economically, could jeopardize Bhutan's vision of low-impact tourism".

Tourism Product and Diversification Challenges

Bhutan's tourism offering remains heavily concentrated in cultural sightseeing and trekking, with "declining participation from homestays, artisans and rural communities". Although opportunities exist in wellness tourism, agro-tourism, gastronomy, textiles, and MICE (Meetings, Incentives, Conferences, and Exhibitions), these segments remain underdeveloped. The 24-hour SDF waiver for border towns has delivered limited economic

benefits. Most tourists use the waiver "primarily for transit, travelling onwards to interior destinations and returning only for exit, thereby bypassing local hotels and restaurants". This implementation failure illustrates how well-intentioned policies can produce unintended consequences without careful design and monitoring.

Proposed Resolutions and Policy Responses

Governance Reforms

The EFC diagnostic assessment has proposed comprehensive reforms, including "a comprehensive review of the Tourism Levy Act 2022, to clarify roles, pricing instruments and governance mechanisms". Crucially, the committee recommended establishing "a single, empowered Tourism Authority to oversee policy, licensing, SDF management and inter-agency coordination," addressing the fragmentation that has hampered effective governance. The committee also proposed creating "a one-window digital platform integrating visas, SDF payments, bookings and safety monitoring" to enhance transparency, oversight, and visitor experience.

Pricing and Fee Structure Adjustments

Recognising that the uniform SDF has limited the sector's ability to respond to seasonality and diverse visitor segments, the EFC recommended "flexible SDF adjustments, incorporating long-stay incentives, group discounts and seasonal concessions, particularly to promote tourism in central and eastern regions". This represents a significant departure from the current uniform fee structure. The committee also proposed extending the border town SDF waiver from 24 to 72 hours "to encourage overnight stays and local spending," addressing the failure of the current waiver to generate intended economic benefits. Dhradhul similarly advocates for "flexible and dynamic pricing, region-specific incentives, and thematic travel circuits, particularly in eastern and southern Bhutan" to "activate demand without compromising HVLV principles".

Market Diversification and Targeting

Rather than simply seeking to restore pre-pandemic visitor numbers, Dhradhul argues for "rebuilding the tourism sector with greater resilience, coherence, and purpose". This includes actively cultivating the "high-values traveler"—a growing global segment of travellers who "prioritize meaning, learning, wellness, sustainability, and cultural respect over speed and consumption". Targeted storytelling, partnerships with ethical tour operators, and curated experiences such as "mindfulness retreats, cultural immersion programs, learning journeys, and nature-based restoration activities" can position Bhutan "as a destination of purpose rather than spectacle".

Strengthening Local Participation and Economic Retention

Post-COVID recovery must place communities at the centre of tourism revival. Supporting "Bhutanese operators, artisans, guides, homestays, communities and farmers will reduce revenue leakage and ensure that tourism benefits remain within local economies". Youth-focused entrepreneurship programmes, skills upgrading, and creative tourism initiatives can address employment gaps exposed by the pandemic.

Pathirana, Choden, and Thinley recommend that Bhutan "foster community participation similar to Mossman Gorge by empowering local communities in tourism planning and management, ensuring sustainable and culturally sensitive practices." They further suggest that "community-based tourism in Bhutan should be formalized with continuous development opportunities by linking with development agencies and the public sector".

Infrastructure and Product Development

The EFC assessment recommends "airfare rationalization through transparent, competitive pricing aligned with regional benchmarks" and "diversification initiatives to strengthen community participation and develop niche tourism products". Formulating "clear policies and guidelines for culture- and nature-based tourism" would address current regulatory gaps.

Pathirana, Choden, and Thinley propose innovative solutions including "heritage trails, sustainable tourism certifications, and digital platforms for information" to advance Bhutan's tourism development objectives. They highlight Bhutan's existing ecotourism experiences—such as the Trans Bhutan Trail, Gangtey Nature Trail, and Phobjikha Valley's Black-Necked Crane Festival—as foundations for more sustainable and regenerative approaches.

Demand-Side Research and Understanding

Darjay, Wong, and Gountas identify a significant research gap: while tourism literature has focused on supply-side issues regarding eco-friendly products and services, less attention has been given to "planning appropriate critical demand-side aspects, such as attracting and managing tourists' expectations, values of eco-friendliness and culturally respectful behaviours".

Their research aims to "empirically determine the salient motivating and predictor factors influencing eco-friendly behaviour and environmentally sustainable purchases," employing self-congruity theory, self-expansion theory, and norm activation theory to understand tourist behaviour. This demand-side focus could enable more effective targeting and communication strategies aligned with HVLV principles.

Learning from International Models

Comparative research offers valuable insights. Pathirana, Choden, and Thinley's examination of North Queensland tourism attractions—specifically Mossman Gorge and the Daintree Discovery Centre—demonstrates how cultural preservation can be integrated with environmental sustainability. They note that "ecotourism programs at Mossman Gorge and the enhanced visitor experience at the Daintree Discovery Centre serve as exemplary models" for Bhutan. Training programmes for local leaders and educational initiatives for tourists and locals, as implemented at the Daintree Discovery Centre, could similarly promote cultural and environmental stewardship in Bhutan.

Strategic Alignment with Gelephu Mindfulness City

The emerging Gelephu Mindfulness City (GMC) initiative offers Bhutan "a unique opportunity to integrate tourism, wellbeing, innovation, and sustainability into a coherent development ecosystem". Tourism experiences linked to GMC—such as wellness, education, cultural exchange, and regenerative practices—can serve as "pilots for future-oriented tourism that balances accessibility with restraint".

Research Gaps and Future Directions

The literature reviewed reveals several gaps requiring further investigation:

1. **Demand-side dynamics:** While considerable attention has focused on policy design and supply-side considerations, Darjay, Wong, and Gountas correctly identify that "the research literature has been concerned mainly towards tourism supply-side issues". Understanding what motivates eco-friendly tourist behaviour and how to attract travellers aligned with HVLV values requires empirical investigation.
2. **Local perspectives and experiences:** Padwal notes that "the concepts of ecotourism and GNP are often not well understood by local Bhutanese". Research examining how Bhutanese communities experience tourism development, perceive benefits and costs, and understand GNH principles would provide crucial insights for policy refinement.
3. **Implementation and outcomes:** The gap between policy intention and implementation outcomes—evident in the border town SDF waiver failure—requires systematic examination. Understanding why well-designed policies produce unintended consequences would inform more effective governance.
4. **Comparative analysis:** While Pathirana, Choden, and Thinley's comparative study with North Queensland offers valuable insights, further comparative research

examining other small, culture-rich destinations managing tourism-sustainability tensions would enrich understanding.

5. **Long-term cultural and environmental impacts:** Longitudinal research tracking cultural change and environmental conditions alongside tourism development would enable evidence-based assessment of HVLV effectiveness.

Conclusion

Bhutan's tourism sector stands at a critical juncture. The HVLV policy and GNH framework have generated international recognition and, for many years, delivered outcomes aligned with national values. However, the diagnostic assessment by Bhutan's Economic and Finance Committee reveals "deep-seated policy, governance and operational weaknesses that continue to hamper recovery, competitiveness and long-term sustainability".

The challenges are multifaceted: governance fragmentation, economic viability concerns, socio-cultural tensions, environmental pressures, and underdeveloped tourism products beyond core offerings. Yet the literature also identifies promising resolutions: governance consolidation, flexible pricing, community empowerment, targeted marketing, infrastructure development, and strategic alignment with initiatives like Gelephu Mindfulness City.

As Padwal observes, "Bhutan's sustainability policies are not perfectly sustainable. Their priorities are not perfectly pristine. However, in a world of self-interested states becoming less cooperative in an increasingly complex and interconnected society, we cannot afford to wait for perfection". The task for researchers and policymakers is not to abandon the HVLV vision but to refine it—learning from experience, adapting to changed circumstances, and ensuring that tourism serves Bhutanese well-being rather than compromising it.

The literature suggests that Bhutan's greatest contribution to global tourism thinking may be its willingness to ask fundamental questions: "How much tourism is enough and for whom?". In a world confronting the consequences of unchecked tourism growth, these questions deserve serious attention.

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