

PIONEER SCHOLAR RESEARCH PAPER

ENVIRONMENTAL ECONOMICS

IMPACT OF POLICIES IN THE KINGDOM OF BHUTAN

Research Question: How did the implementation of new tourism strategies in Bhutan impact the societies of Paro and Thimphu in terms of environmental, economical and cultural aspects?

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1. INTRODUCTION

Imagine you are looking for places to visit and you find Bhutan. As foretold by ancient prophecies, Bhutan comes across as a truly blessed land and a paradise led by a compassionate and visionary King. A carbon-negative country that pledges to conserve 60% of forest coverage for all times to come. A country so rich in culture that every house is built with traditional designs and people wear their traditional dress every day to school and work. Bhutan stands as an oasis of tranquility in a perpetually busy world, presenting an array of earthly delights to be savored. Immerse yourself in the age-old pursuits of archery and traditional crafts, relish the flavors of homemade cheese and fiercely fiery chilies, embark on breathtaking treks that leave you in awe, and rejuvenate your senses with restorative hot-stone baths.

Now imagine that you are a Bhutanese in 2019, setting off to work during the tourist season, with an important meeting you need to attend. On the way you are obstructed by traffic and end up missing the meeting, therefore, losing your only job. You are distressed and head to your last string of hope in a nearby temple. There too you can barely make it through the entrance due to a long wait line. Upon entering the sacred place, it disheartens you to see litter all over the place. You realize that all of your misery for the day came from tourism in your small country. (BHUTAN TRAVELS, 2019, 2)

The Tourism Council of Bhutan considers this and realizes that the stakeholders of tourism are not only service providers but the nation as a whole. The pandemic worked as a blessing in disguise to take a step back and plan tourism for the future of Bhutan.

The Sustainable Development Fees (SDF) have been increased to 200 USD from 65 USD per day for foreigners and 1200 INR for Indian nationals from no fees on 23rd September 2022. These strategies will be reviewed for two years and revised accordingly. The mission comes with the great notion that our sacred country should not be exploited. However, the new strategies that came along with the introduction of the SDF left primary tourist service providers worried about the future of their income.

I was inspired to tackle this topic as a responsible global citizen and a proud Bhutanese feeling the impact of policies on society. I realize that such unique implementations can be useful to other countries in moving towards a sustainable future or that it may be harmful to certain stakeholders. For that reason, this research paper is a thorough investigation of the impacts of the new strategies at Paro and Thimphu, the most touristic places in Bhutan. It will further explore how this approach could be useful in other countries that are highly dependent on tourism such as Maldives and Thailand.

To understand the context of this paper it is essential to first gain some knowledge about the previous strategies and implementations regarding tourism in Bhutan.

1.1 BACKGROUND INFORMATION

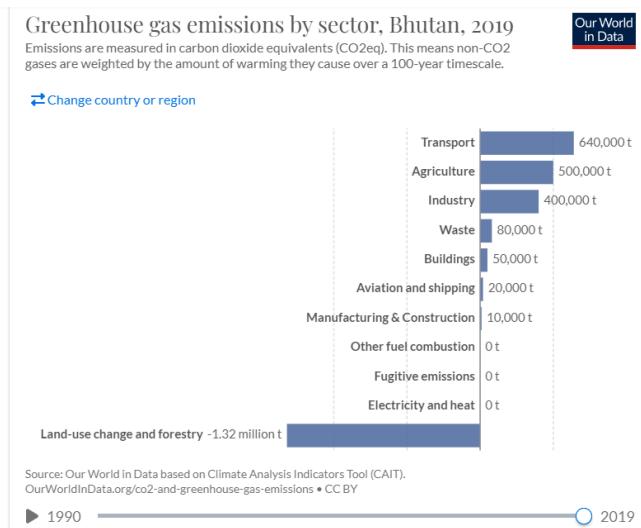
How did Bhutan became friends with the environment?

Dating back to 2008, the 4th King of Bhutan, Jigme Singye Wangchuk put forward the Gross National Happiness principle to view development with a holistic approach. This philosophy endeavors to enrich individuals across multiple dimensions encompassing environmental sustainability and societal harmony. Its four domains include:

1. Sustainable and equitable socio-economic development
2. Environmental Conservation
3. Preservation and promotion of culture
4. Good governance

Following this approach as a guiding principle, tourism in Bhutan has been inclined to act by the policy ‘High Value, Low Impact’, which aims to maintain a peaceful environment and sustainable future. The implementation of the new strategies can be seen as an effort to strengthen this quality which has been overlooked in the past for tourism in Bhutan despite the country’s initiatives. In a display of accomplishments, Bhutan has become the foremost country worldwide to attain carbon negativity and has shown a profound commitment to preserving the environment through its constitutional measures.

Greenhouse gas emissions by sector in 2019



Greenhouse gas emissions

It is clear from the data above that transportation produces the highest greenhouse gasses in Bhutan as compared to the other sectors. Land use and forestry can be credited for its positive impact on greenhouse gas emissions.

Tourism in Bhutan in 2019 with the old strategies

Bhutan's tourism industry appeared to be thriving in 2019 which greatly contributed to the socioeconomic development of the country. Minimum Daily Package Rate (MDPR) was priced at 250 USD per person each day during tourist seasons which would have included a minimum of 3-star accommodation with meals, a licensed Bhutanese tour guide, all ground transport, camping equipment, and haulage for trekking tours, and 65 USD as Sustainable Development Fee.

With a population of about 700,000 and a total area of 38,394 km² Bhutan witnessed an increase in foreign visitors by 15%, attracting a total of 315,599 tourists. MDPR-paying nations included India, Bangladesh, and Maldives and non-MDPR-paying nations consisted of any other foreign nations. Most of the arrivals consisted of visitors from non-MDPR-paying nations which was 243,400 while the number of visitors from MDPR-paying nations was 72,199.

In comparison to the previous year's total of USD 88.63 million for MDPR paying arrivals' gross receipts, there was a rise of 3.77 percentage points reaching a sum of USD 88.63 million. Bhutan had a total of 309 certified accommodation providers, including village homestays with over 3,020 registered tour operators and more than 4,500 licensed tour guides. (BHUTAN TOURISM MONITOR, 2019, 5)

Gross Earnings

Table 33: Gross earnings from MDPR paying Tourist

Gross receipts (in USD Million)	88.63
SDF (In USD Million)	23.42
Visa fee (In USD Million)	2.57
2% TDS (In USD Million)	1.24

(Source: Tashel System, TCB)

Gross earning figure (BHUTAN TOURISM MONITOR, 2019, 6)

	4 or 5 star accommodation	3 star accommodation	Budget hotel/Non-Star hotel	Village home stays	Campsites	With friends/relatives	Rented house/apartment	Guest house/transit camp
Paro	14.88	54.50	21.29	1.48	0.32	0.16	0.03	0.65
Punakha	7.65	37.20	7.71	0.89	0.16	0.03	0.00	0.13
Thimphu	16.47	56.15	21.89	0.97	0.27	0.59	0.24	1.13

Tourist accommodation in Paro and Thimphu (BHUTAN TOURISM MONITOR, 2019, 6)

Variable	Mean	Std. Dev.
Accommodation satisfaction	1.4	0.64
Food and beverages satisfaction	1.8	0.81
Passport control or immigration procedure	1.4	0.77
Local transportation services	1.3	0.58
Guide services	1.3	0.62
Overall satisfaction	1.3	0.52

Very Satisfied-1, Satisfied-2, Somewhat satisfied-3, Somewhat Dissatisfied-4, Dissatisfied-5, Very Dissatisfied-6

(Source: Survey estimates)

Tourist satisfaction (BHUTAN TOURISM MONITOR, 2019, 6)

Inequality in Bhutan (2019)

According to World Economics, the Gini Index is a measure of how equal a country's distribution of income is, with 0% representing very high inequality levels and 100% represents perfect equality. Bhutan's Gini Coefficient Index is 57.9% for the year 2019(WORLD INEQUALITY DATABASE, 2019, 6). This indicates a Bhutanese society with moderate inequality.

Tourism in Bhutan during the pandemic (2020)

In 2020, visitor arrivals to Bhutan reached a record low of 29,812, which is a significant decrease of 90.55% compared to 2019. Additionally, the earnings from tourism dropped by 88% in 2020. These declines can be attributed to the COVID-19 pandemic and the resulting travel restrictions and border closures implemented worldwide. The impact of the pandemic on the economy and the lives of people in Bhutan and across the globe has been unprecedented, and the travel and tourism industry has been particularly affected.

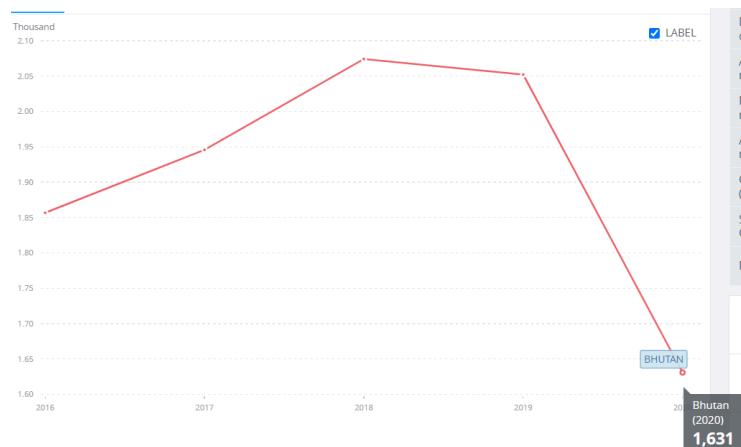
Visitor Arrival by Dzongkhag

Dzongkhag	Table 4: Visitor arrivals and Visitor nights by Dzongkhag Trends					
	Visitors	%Change	Visitor Nights	%Change		
	2020	2019	2020	2019		
Paro	5,394	60,706	-91.11	11,138	138,900	-91.98
Thimphu	5,172	58,593	-91.17	8,090	104,307	-92.24
Punakha	4,863	53,904	-90.98	7,218	77,443	-90.68
Wangdue Phodrang	1,632	20,529	-92.05	2,219	30,090	-92.63
Bumthang	955	11,950	-92.01	2,077	30,580	-93.21
Haa	490	5,751	-91.48	550	7,233	-92.40
Trongsa	448	5,364	-91.65	516	5,934	-91.30
Chukha	320	2,490	-87.15	375	2,768	-86.45
Mongar	261	2,593	-89.93	509	3,808	-86.63
Trashigang	223	2,648	-91.58	379	5,616	-93.25
Samdrup Jongkhar	190	1,721	-88.96	242	1,981	-87.78
Trashi Yangtse	97	1,031	-90.59	114	1,411	-91.92
Gasa	31	813	-96.19	41	4,605	-99.11
Lhuentse	58	761	-92.38	72	1,215	-94.07
Zhemgang	58	346	-83.24	211	915	-76.94
Sarpang	64	263	-75.67	70	396	-82.32
Pema Gatshel	32	96	-66.67	102	175	-41.71
Tsrang	6	74	-91.89	8	107	-92.52
Dagana	2	30	-93.33	5	67	-92.54
Total	20,296	229,663		33,936	417,551	

(Source: TCB | Includes only MDPR paying visitors whose purpose of visit is holiday / leisure and recreation and incentive travels)

Visitor arrivals 2020 (BHUTAN TOURISM MONITOR, 2020, 7)

Greenhouse gas emissions in Bhutan (2020)



Greenhouse emissions trend (WORLD BANK 2020, 8)

Considering the drastic decrease in the number of tourists and linking the greenhouse emissions by transportation, it can be concluded that restricting tourism had a direct impact on the emissions of greenhouse gasses.

Tourism Rules and regulations 2022

Unlike the MDPR costs in 2019, tourists are required to pay a tourism levy Sustainable Development Fee, which amounts to USD 200 per night which does not cover other expenses. Tourists are not required to adjust for accommodations with a tour operator but it is mandatory to be accompanied by a certified guide from Bhutan for every ten tourists. Tourists may arrange for their transportation and bring a vehicle by paying appropriate fees or refer to the list of certified service providers.

Referring to the strategies implemented in 2022, this research paper will examine the following research question.

1.2 *Research Question*

How did the implementation of new tourism strategies in Bhutan impact the societies of Paro and Thimphu in terms of environmental, economic, and cultural aspects?

To answer this research question, I was physically present in Bhutan during the data collection process which made it easier to understand the necessary information required and grasp the situation.

2. METHODOLOGY

2.1 *Data Collection*

1. Realization and recognition of the role of policies in changing the lifestyle of citizens and motivation to investigate further.
2. Gathering information from the internet and reliable sources about the policy and changes. Websites used in this research mainly consisted of the Tourism Council of Bhutan and papers from Nber, econlit, and google scholar. Secondary information for general measurements were mostly collected from the World Bank and Our World in Data.
3. Conducting in-person interviews with stakeholders and policymakers. There have been in-person interviews with the Director General of the Tourism Council of Bhutan (TCB), two tour operators, and three 3-star hotels.
4. Survey emails and an attached questionnaire set were sent to all the service providers of the tourism sector including hotels, homestays, guides, and tour operators by the certified list from the Department of Tourism (DOT).

The reason for including the policymakers in the interview is to gain a different perspective, valid information, and the main purpose of the new strategies. Two tour operators previously handling MDPR-paying nationals and Non-MDPR-paying nationals correspondingly were enough to get an insight into the situation and form questions for the survey. The brief conversations with citizens made it clear that only hotels from three stars and below were affected by the new strategies which is why they were given priority in the interview. All the certified individuals from the DOT- list were emailed to include as many voices and construct an inclusive research paper. The links to the surveys and questionnaires can be found in the appendix.

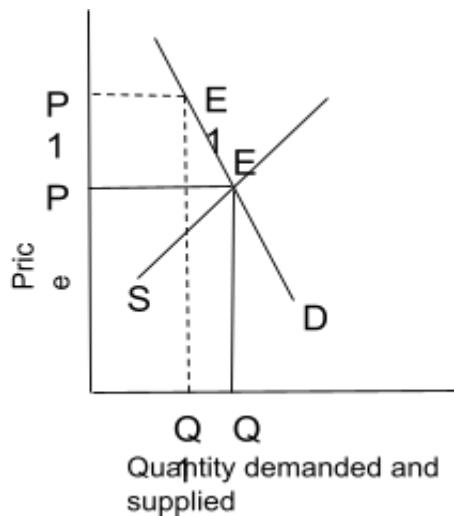
5. Compiling, confirming and organizing findings.

All the information from the surveys is compared and the majority of the service providers of different strands had their unique inputs and perspectives.

The data discussed and analyzed will be assessed according to the inputs from a few who responded to the emails and from the secondary sources.

2.2 *Discussions and Data Analysis*

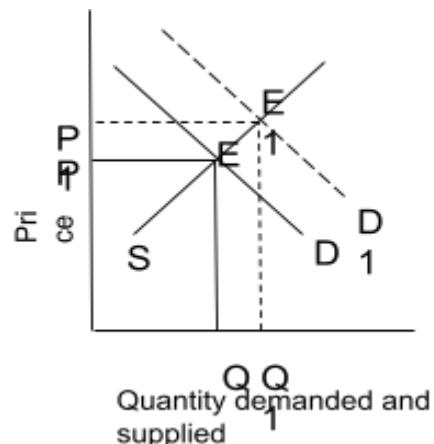
The Director General of TCB stated that the current trend in the rate of tourists coming to Bhutan is positive and performing better than forecast. What led to this trend could have been the unique features mentioned above that Bhutan poses, leading to an inelastic demand curve. A significant change in price will have little impact on the quantity demanded whereby tourists will still visit Bhutan and the government can earn better revenue.



Inelastic demand graph

At price P and quantity demanded Q , the market is at equilibrium. When the price is increased to P_1 the quantity demanded drops to Q_1 and revenue is generated for the government while there is a welfare loss for the consumers which in this case are the tourists and producers as the service providers.

The positive trend in the demand for tourism could also be attributed to the shift in the demand curve due to the pandemic. When the pandemic hit Bhutan, people could not freely travel for about three years and when the restrictions were uplifted, all longing tourists might have rushed to visit Bhutan. Although the price increased, the quantity demanded also increased due to that reason. This assumption, however, may take a longer term of observation to validate its authenticity.

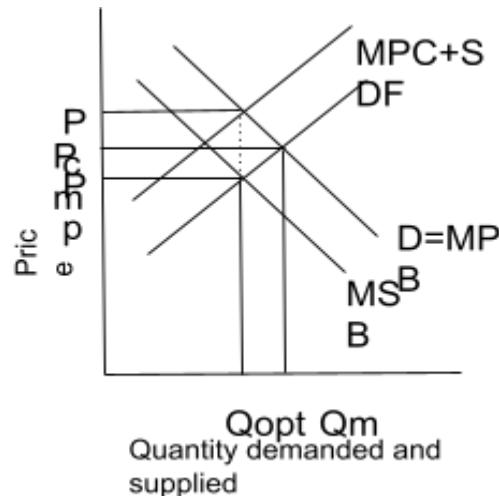


Shift in demand curve

Initially, the SDF price at P corresponds to the quantity demanded Q at equilibrium.

Now, according to the law of demand when the price increases, the quantity demanded decreases. In this case, non-price factors such as the pandemic and desire to travel may have caused a shift in demand from D to D1 when the SDF increased to P1 from initial price P.

The introduction of new strategies would also address negative consumption externalities as the SDF works similar to indirect taxes or like a hidden cost.



Negative externalities graph

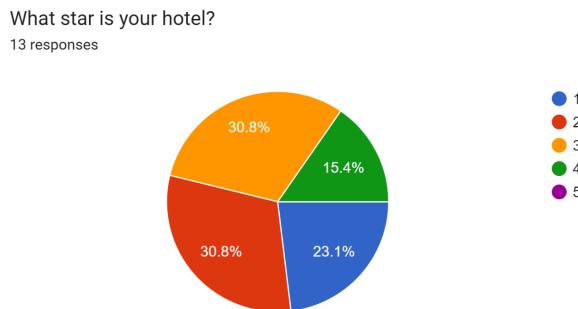
At Marginal Private Benefit (MPB), the price corresponds to the desirable market price (P_m) and quantity demanded (Q_m). At that point, the third parties affected by this industry are not taken into account. This increase SDF includes the citizens of Bhutan as a stakeholder in tourism and proposes a shift in perspective of stakeholders as only the service providers.

When such a cost is imposed on consumption, it creates an external cost which results in a decrease in supply and an upward shift of the supply curve from MPC to MPC + SDF. If the costs equals the external cost, the MPC + tax curve intersects MPB at the Q_{opt} level of output, and quantity produced and consumed drops to Q_{opt} .

The externalities address the issue of air pollution as reducing the number of tourists will reduce the demand for cars and ultimately the emission of greenhouse gasses. The use of public transport is not common for tourists coming to Bhutan which again reinforces the problem with increasing traffic. From a cultural standpoint, the targeted tourists who are informed and considerate about the weight of respecting religion in Bhutan are prompted to visit. The revenue earned from the SDF could also be used for providing aid and subsidies for those who were negatively impacted.

The economic implications from the survey will be further presented and discussed in this section to gain an insight of the real situation of the stakeholders.

Hotels: Out of the 148 emails sent to hotel owners of all-stars from the certified list from DOT, 13 replied.



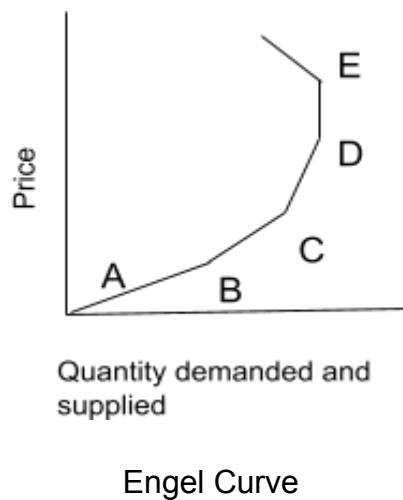
Most three-star hotels and below reported to be badly impacted and not happy about the new strategies. They are still hoping for the government to make changes and some believe that it is widening the gap between the rich and poor businesses. Many businesses reported to have been dependent on loans to set up the hotels which they are finding hard to pay back and hopes that the government would have let them come back to their feet for a while after the economic crisis due to the pandemic. These implications of financial burdens caused a supporting chain in the industry of laborers to lose employment and were paid less than previously. On the other hand, they reported to receive quality tourists who were respectful and informed as compared to before.

Some representatives believe that all the service providers of the tourism industry should work collectively to avoid any misconduct that the government and tourists may not be aware of. Such behaviors include tour operators charging extremely high costs as compared to the cost of hotels or brokers keeping contact with hotels in Bhutan and receiving tourists at very low rates.

The comments of the hotel representatives often mention an occurrence of price competition. They are displaying a strategic behavior where each player is lowering their prices to attract consumers. According to game theory, the adverse impacts of such conduct can lead to a price war where all hotels are worse off financially.

All the participants reported supporting and agreeing with the mission and motivation for the new strategies.

The four and five star hotels didn't have much input and seemed happy about their business and the new strategies as they did not make much differences. The reason for disparities in the market could be because of the Engel curve for income elasticity of demand in economics. At very low income a good may be a luxury and as income increases the good may become a necessity and finally as income is high the same good becomes a luxury. Correspondingly the demand for the good can be elastic, unit elastic, and inelastic according to the value placed on the good as a portion of your income.



The steepness of the curves determines their elasticity as the steeper it is, the more inelastic demand becomes. For high-paying hotels regular tourists will not feel the impact of the SDF and the demand is inelastic(C-D). An average hotel with an increase in SDF or a slight price increase will lose many of the regular tourists and demand is highly elastic (A-B).

Homestay: Out of the five certified homestays at Paro and Thimphu one responded. One representative of this sector noted that they are in favor of the new strategy's goal; however, it has negatively impacted their business and discourages small industries from working in the market. Profit which is one of the driving forces of the economy is under loss for many of the service providers and this discouraged people to improve their services both creatively and manually due to lack of capital.

Guides: 593 emails were sent in ascending order to certified guides in the DOT list, out of which 44 responded. Many guides argued about the dignity of labor facing their jobs as it is an unstable source of income and they are paid to barely survive, especially during the off-season. It can also be noted that many youths of Bhutan are employed in the tourism sector.

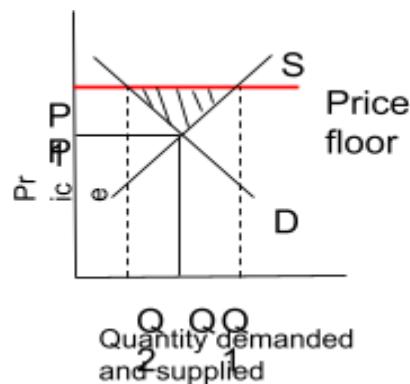
Some positively commented that the compulsion of guides was a positive change as they were provided the opportunity to be the ambassadors of 'Bhutan Believe' and expand on its cultural aspects. Bhutan believe is the current tagline for tourism in Bhutan which aims to believe in the future of a sustainable tourism strategy.

Proposed solution.

Hotels: Introduction of price floors to the price of hotels according to stars would resolve the issue of price competition. Setting a minimum wage for staff in the hotels will create job opportunities and incentivize Bhutanese to work in this sector.

Instead of the SDF, the costs of hotels could be increased by a huge amount with the according services and star ratings. The revenue from this sector will be distributed in a higher minimum wage for employees to recover from the pandemic.

The non-price competition will be a driving force in improving services and quality for the quality tourists we seek. The tourists also may be more incentivized to pay for the cost of expenditure rather than for the cause of the country.



Price Floor and Minimum wage

The introduction of a price floor would increase the price for tourists from P to P1 but reduce the quantity demanded from Q to Q2. This would reach the same goal as the Sustainable Development Fees in attracting few high-quality tourists.

Drawbacks of this strategy is that the distribution of wealth may lack regulation and hotel owners may not follow the minimum wage or the price floor of the hotel costs. In order to mitigate these issues, the government could send strict inspections every month to one hotel on a random basis to keep the prices in check.

On the other hand, revenue generation for the government would be hindered. The revenue which is used for public expenditure like free health care and education in Bhutan, may lack funding.

Tour operators: Setting a price ceiling for tour operators would address the misconduct of charging extremely high costs from the tourists. They should not charge more than 25% of what the hotels cost and may lower the charges according to the special services provided. Arranging and planning vacations should be made mandatory through a tour operator for tourists to access better services and a smooth experience in Bhutan. Since real-time information is hard to obtain in Bhutan, going through a licensed certified tour operator would be much more efficient and trustworthy. The price ceilings would also address the problem that comes with high excessive costs while creating employment opportunities for tour operators.

Drawbacks of this strategy is that tour operators may choose to charge high, ignoring the price ceilings if tour operators are made compulsory. To keep this strategy regulated, the randomized inspections just like hotels can be held for every five tour operators in one month. Another disadvantage is that 25% may not be able to sustain a proper income in special cases. Further research can be conducted in this regard, gathering specific information about the desired and justified price ceiling.

Guides: Suggestions from the survey include that the Guide Association of Bhutan (GAB) should educate guides by conducting proper training sessions. They also suggested that the Standard Operating Procedures (SOP) should have strict supervision of procedures in the bordering neighbor facing India.

The analysis also suggests that there is an excess supply of tour guides which may not be necessary for the demand of tourists especially with the rise in prices. In order to address this problem, the government could consider conducting free language courses with a restrictive class size according to the visits by each country. This could create a comfortable environment for tourists who do not understand english.

The government could also consider diversifying the economy and introducing employment opportunities with government run businesses to generate revenue for public expenditure as well as create job opportunities.

The compulsion of guides for a group of every ten tourists should not be made mandatory but only mandatory in religious areas to educate tourists about its significance and importance in the Bhutanese context. They should be reminded of the value we place on our nation and feel the same way when residing in Bhutan. At the same time, tourists should be able to enjoy their stay and get their worth back without having a guide follow them everywhere.

3. CONCLUSION

Although the implementation of new strategies have an amazing holistic approach to development and happiness, the direct stakeholders of tourism in Bhutan are facing great difficulties in managing their daily monetary means. With this in mind it is important to consider the livelihood of such implementations in their lives and the government should be inclusive while creating a better society. While the new strategies may be reviewed, the voice of people in Bhutan should be heard and considered with due care and consideration.

It seems as though the new strategies have caused concentration of wealth and unexpectedly worsened inequality. However, every policy has its drawbacks and should be monitored for future generations to come. Looking from an optimistic view, it can be argued that the negative impacts are only short-term and will benefit in the long run. Many positive implications have been made for the environmental and cultural aspects as well.

Although this approach may not be optimal in Bhutan, other nations such as Maldives and Thailand could benefit from such strategies. Thailand reported 39.92 million tourists for the year 2019 with a population of 71.31 million. It is noticeable that just like in Bhutan tourism was a thriving economy with possible negative consumption externalities.

Overcrowding in Thailand has led to multiple concerns regarding the safety of both citizens and tourists as well as the environment. (AMRO ASIA, 2019) In order to control overcrowding, the government could implement the sustainable development fees through research on the utility and space, range of income of tourists and stakeholders that could be potentially affected.

In the same year 2019, Maldives recorded 504,508 population with about 2 million international tourists. The statistics clearly shows that the number of tourists out grow the population by four times its size. Transportation in Maldives is also the highest sector of greenhouse gas emissions and implementing SDF could have a better result with the government giving back to stakeholders at loss.

In conclusion, my research sheds light on the ongoing practices in Bhutan and the role of the government in shaping lives and the environment we live in. Further research could be done in the future carefully monitoring the situation and there could be more research regarding the tour guides.

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5. APPENDIX

Links to surveys:

Hotels: [Hotel survey](#)

List of certified hotels: [hotel certified](#)

Homestays: [Homestays survey](#)

List of certified Homestays: [homestays certified](#)

Guides: [Survey for guides](#)

List of certified Guides: [certified guides](#)

Tour Operators:

List of certified Tour Operators: [travel agencies certified](#)

The questionnaire sent to the emails can be found in this link: [Survey questions](#)