Deviating Development?
Exploring the linkages between Foreign Direct Investment and Gross National Happiness in Bhutan

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Thesis submitted in partial fulfilment of the requirements for the Degree of Master of Philosophy in Development Studies.

Trinity Term 2016
Word Count: 29,996
Abstract

Foreign Direct Investment (FDI) is a potential source of capital, technology and knowledge. However, without technology transfer or other positive "spillover" effects, it is a second-best option as a source of investment (as compared to domestic investment) because of the repatriation of capital gains. In Bhutan, the purpose of government and public policy is to advance Gross National Happiness (GNH) - a philosophy and policy framework for sustainable development - rather than GDP. GNH takes a holistic approach to development and posits that human happiness (or rather, wellbeing) is more important than mere economic growth, and is often characterised by its four pillars of good governance, equitable socioeconomic development, cultural preservation, and environmental conservation. In 2002, Bhutan opened up to FDI for the first time with the intent of helping the country achieve the goals of GNH. Hitherto unexplored, my MPhil thesis asks whether FDI has had any impacts on sustainable development in Bhutan (as defined by GNH) and indeed whether it promotes the goals of the GNH framework. Focusing on the hospitality sector, I spent three months conducting qualitative research in three different locations in Bhutan. In addition to context interviews with relevant stakeholders in the capital Thimphu, I did two case studies of communities in Paro and Wangdi districts which have received FDI in the form of luxury resorts. These case studies included both individual interviews as well as focus group discussions with local community members. I find that in spite of high expectations, FDI hotels have had only a marginally positive impact on their local communities in terms of socioeconomic development and in Paro has helped create a shortage of freshwater for subsistence farming. Overall, there has been a positive spillover effect in the country's hospitality sector (via. competition and labour mobility) but it is a poor target for FDI in terms of technology transfer and employment generation. My broader findings indicate that FDI in Bhutan is not yet aligned with the overall development goals of the country, risks exacerbating inequality, and appears to undermine the principles of GNH with an increasing influence of free-market logic. The case of Bhutan offers lessons on the need for careful government regulation to ensure welfare gains from FDI.
“The life of money-making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else.”


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Acknowledgments

This thesis has been the culmination of the efforts of many people who I cannot possibly thank enough in these few words. Without my informants, my research assistant Wangchuk Dema, and everyone else in Bhutan who helped or befriended me, this project could not have borne fruition. My thesis largely belongs to them. Neither could any of it have been initiated or succeeded without the painstaking help provided by my adviser, Dr. Sabina Alkire. I could not have asked for a more supportive adviser and mentor. I would also like to thank Lyonpo Norbu Wangchuk, whose gracious invitation allowed me to carry out my MPhil research in Bhutan.

Another special recognition goes to a dear friend, Carol Shubin, who made my undergraduate and postgraduate studies possible. Similarly, my course supervisor Dr. Imane Chaara has provided me with enormous help and support throughout this program, while Ananya Shrestha spent long hours proofreading my draft and supporting me in the final hours before submission.

For my thesis fieldwork, I received charitable grants from the Oxford Department of International Development and Wolfson College. I also owe an immense gratitude to those who made my degree possible when I was in dire financial straits. Ravi Ramakrishna, Dale McCreery and Gyuri Fritsche each made extremely generous donations towards my crowdfunding campaign in the fall of 2015 which enabled me to finish my MPhil degree on time. Similarly, I would like to acknowledge Nabilah Rosli, Jeff Kemp, T. Mithilesh, Krisje Fritsche, Miriam Fauzia, Nathan Taitano, Rakib Islam, Christian Wasner, Janek Newman, Henry Kreuzman, Evan Riley, Omar El-Bedwiwy, Paul Kaufmann, Imane Chaara, Swati Narasimhan, Pailin Chirananunt & Phu Nguyen Thien, and the 45 other people who donated to the campaign and helped make this thesis possible. I would like to take this opportunity to re-commit to paying all of your donations forward to educational funds and charities in the future.
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List of acronyms

BCCI – Bhutan Chamber of Commerce
BTN – Bhutanese Nultrum (currency)
CBS – Centre for Bhutan Studies
CSR – Corporate Social Responsibility
GDP – Gross Domestic Product
FDI – Foreign Direct Investment
GNHC – Gross National Happiness Commission
HRAB – Hotel and Restaurant Association of Bhutan
MoEA – Ministry of Economic Affairs
MNCs – Multinational Corporations
NEC – National Environment Commission
OECD – Organisation for Economic Co-operation and Development
RGoB – Royal Government of Bhutan
TCB – Tourism Council of Bhutan
TTP – Thimphu TechPark
UNCTAD – United Nations Conference on Trade and Development
USD – United States Dollars (currency)
WB – World Bank
Glossary of Dzongkha words

Chiwog – An administrative unit consisting of a village or village cluster.

Dzongkhag – District. There are twenty administrative districts in Bhutan.

Gewog – Subdistrict.

Goenpa – Monastery.

Gup – The elected head of a gewog (subdistrict) administration.

Lyonchhen – Prime Minister and head of the government.

Lyonpo – Cabinet Minister.

Mangub or Mangmi – Deputy headman.

Shedra – Monastic college.

Tshechu – Religious festivals typically marked by ritualistic mask dances.
1. Introduction

The Kingdom of Bhutan is prominent for its cultural heritage, beautiful geography, and unique development vision known as ‘Gross National Happiness’ or GNH. Western nostalgia often romanticizes the country as a pristine, unspoilt utopia (Brunet et al. 2001: 245); one of the most well-known purveyors of this myth is the 1997 television documentary Bhutan: The Last Shangri-La, which cemented the country’s image as a sacred Himalayan Kingdom where Buddhist teachings are vigilantly kept alive in a timeless bubble. Yet Bhutan, like any other country, faces inevitable change which has rapidly accelerated since the Third King first began political and economic reforms in the 1950s. With the size and complexity of Bhutan’s economy continuously expanding, the country has moreover increased its linkages with the global economy which offers both opportunity and vulnerability aplenty. Perhaps a watershed moment, Foreign Direct Investment (FDI) was introduced in 2002 for the first time in the Kingdom’s history with the entry of its inaugural five-star hotel chain, Amanresorts International.

Bhutan’s development has since the 1970s been guided by GNH, a philosophy known for prioritizing the holistic happiness of the population rather than economic growth. Happiness in the context of GNH is a holistic understanding of human wellbeing, in contrast to Western notions which typically refers merely to mental states. GNH has moreover been expanded into development objectives for public policy and embedded in the fabric and practice of the Bhutanese state. As such, GNH has become characterized by its four pillars (equitable socioeconomic development, environmental conservation, cultural preservation, and good governance) which, since the early 2000s, were further expanded into nine domains which guide public policy. This unique development approach – described further in chapter 2 – has become synonymous with Bhutan’s gradual modernization process, designed to preserve its cultural values and national sovereignty. The question remains, however, whether the demands of a modern economy can be fulfilled sustainably without compromising the principles of GNH.
In recent years, Bhutan has faced a variety of socioeconomic challenges including rising youth unemployment, a consistent current account deficit, and the need to diversify away from relying on hydroelectric power. Within the overall aim of expanding GNH, recent economic policy has been strongly concerned with tackling these issues (Royal Government of Bhutan 1999; RGoB 2010; GNH Commission 2013). Although strictly controlled through an annual quota until the 1990s, Bhutan has, for example, embraced a “high value, low impact” tourism model to help generate government revenue and foreign exchange earnings; similarly, FDI was introduced not only to bring in capital investments to develop the high-end hospitality sector but also with a view towards introducing new technologies and increasing exports. As of December 2014, 46 active FDI projects had been approved by the Ministry of Economic Affairs (MoEA) in Bhutan of which 26 have begun commercial operations, and the single-largest recipient has been the hospitality sector, accounting for 43% of the number of approved projects. Although Bhutan still sees very modest FDI inflows, the number of approved projects has been gently increasing since 2013. The MoEA’s *2015 FDI report* (forthcoming) claims that FDI projects have created a little over 3,000 jobs and in 2014 generated Nu. 1.1 billion in tax revenues. However, no studies have yet analysed the broader socioeconomic impacts of FDI in Bhutan, at either the local or national level, or whether FDI is actually compatible with GNH.

Tourism is viewed as having great potential for alleviating poverty through macroeconomic spillovers and local philanthropy (Meyer 2007), and FDI in the high-end hospitality sector has been identified as a particular engine of economic development. As claimed by Davidson and Sahli (2015: 182), “[MNCs] investing in the larger, more upmarket end of the hotel sector contribute to the overall capacity and range of available accommodation, helping make tourism a viable industry and providing flow-on benefits to those depending on it and to the economy overall.” So in theory, FDI in Bhutan is being channelled to a sector that would be expected to contribute to economic growth while placing a premium on environmental and cultural preservation. Thus, it might be expected that FDI in Bhutan’s tourism industry would have enormous potential for stimulating equitable and sustainable development, and expanding GNH. As explained in chapter 2, Bhutan’s government has set high
expectations regarding the role of FDI and there is a positive attitude towards the supposed benefits that Bhutan has received from FDI in tourism that is highly pervasive (discussed further in the beginning of chapter 4). This study seeks to shed light on whether or not FDI in Bhutan’s tourism sector promotes aspects of GNH without compromising it.

As many studies have demonstrated, the positive spillovers associated with FDI in an economy are by no means guaranteed (see chapter 2). Each sector, and indeed each country, faces different socioeconomic conditions and policy environments. Contemporary literature places increasing emphasis on the dangers of a ‘race to the bottom’ as countries (and even subnational regions) compete to attract FDI (Brenner and Theodore 2002: 376) at the cost of providing living wages and adequate environmental safeguards, and on the importance of developing policies which place redistributive conditions on inbound FDI (Davidson and Sahli 2015: 169). Otherwise, developing countries are at risk of receiving minimal positive spillovers from FDI as the economic gains are repatriated abroad. For Bhutan, the question is whether the benefits obtained from FDI, even if growth ensues, place unacceptable socioeconomic, cultural or environmental burdens on the nation.

The purpose of this thesis is therefore to explore what potential linkages FDI in Bhutan has with GNH and the forms of sustainable development that undergird it. The findings presented here are based on three months of fieldwork conducted during July – September 2015 which relied on a wide variety of interviews with relevant stakeholders in Bhutan. Given its prominence in FDI inflows, my context interviews in the capital Thimphu had a heavy focus on the country’s hospitality sector. Similarly, the two case studies that I will present from Paro and Gangtey valley looked at communities which had received FDI in the form of upscale tourist resorts. In the literature review I discuss academic research on FDI, its linkages to economic growth, and discuss it in context of sustainable development. I also define the theoretical underpinnings and structure of Gross National Happiness. The overview identifies the gap in the literature regarding the linkages between FDI and GNH to which this thesis is directed. This is followed by a context chapter, where I provide a brief overview of Bhutan, describing the country, its demographics, and recent history together with an overview of its current
economic outlook. The outline also serves to situate the economic role of FDI, and includes a
description of the national FDI policy introduced in 2002. Followed that is a chapter on my research
methodology. I then present my empirical findings in two separate chapters and finally conclude with
a discussion of their relevance and theoretical contributions.

Given that my case studies focused on Bhutan’s hospitality sector, the first empirical chapter
discusses the impacts\(^1\) of FDI in upscale tourist hotels in terms of GNH. The chapter shows that FDI
has been positioned as a potentially powerful tool for Bhutan to reach its development goals. The two
in-depth case studies, however, while confirming that Bhutan’s hospitality sector has had an important
role in raising the number of international tourist arrivals, find only negligible socioeconomic impacts
at the local level. Because the favourable rhetoric concerning FDI may exaggerate its actual benefits,
I suggest that FDI in tourist hotels be primarily judged in accordance with its employment generation
at either the local or national level (although upscale tourist resorts have been a poor employment
generator relative to Bhutan’s nascent IT industry). The second empirical chapter discusses the
broader implications of these findings in terms of Bhutan’s path to expand GNH. Significantly, the
second empirical chapter shows that none of the thirteen hotel and non-hotel FDI companies I
interviewed are motivated by the goals of GNH, and discusses how FDI to an extent appears to be
serving the interests of the private elite in Bhutan. This is a worrisome trend because it is potentially
implicated in rising income inequality and inequality of democratic voice. Moreover, it may be
undermining the principles of GNH through the gradual osmosis of free-market principles. Therefore,
apart from its significant economic potential, FDI must be subject to critical scrutiny, to assess the
extent to which certain investments might pose serious long-term challenges to Bhutan’s long-term
sustainable development as defined by GNH.

Broadly, this study seeks to make a small contribution to the literature on FDI in context of
sustainable development, and redress in part the shortage of in-depth studies of FDI in tourism (Endo

\(^1\) I use the word ‘impact’ throughout this thesis in a broad sense to refer to effects, linkages and political
significance. As an exploratory study, this thesis identifies several changes and phenomena related to the
introduction of FDI, but does not attempt to make any causal claims.
2006). More specifically, it attempts to shed light on the impact of a key economic transformation currently taking place in Bhutan and to clarify under what conditions opening up to foreign investment is compatible with the principles of sustainable development enshrined in its GNH framework. This thesis thus attempts to tackle questions about the local and national socioeconomic impacts of FDI, but also other equally important GNH domains such as cultural diversity, community vitality, and ecological resilience. The evidence presented here demonstrates that without stringent oversight by policy makers and stakeholders, foreign investment could readily become an Achilles heel that derails Bhutan from its development objectives.
2. Literature Review: Foreign Direct Investment, Development, and Gross National Happiness

2.1 Introduction and Overview

USD 1.2 trillion in Foreign Direct Investment (FDI) flowed between countries in 2014 of which a historically high (55%) went to developing and transition economies (UNCTAD 2015: 2). By way of comparison, international investment flows accounted for nearly 1.8% of global GDP that year (World Bank Development Indicators). The increase in FDI inflows to developing economies is generally considered a positive trend, as FDI is viewed as an important instrument for economic growth. FDI is generally defined as “an individual or firm acquiring a controlling interest” (generally ten percent, although in Bhutan it is defined at twenty percent) “in productive assets in another country” (Blonigen 2008: 459). This contrasts with other capital flows like bank lending and portfolio investment, which does not provide control over a company. As Wang and Wong (2009: 316) point out, FDI can be broadly categorized as either “greenfield investment,” which “involves building new facilities,” or “mergers and acquisitions” (sometimes called brownfield investment) which involves “acquiring existing firms in the host country.” Although domestic investments are preferred to foreign investment (ceteris paribus) since FDI-generated profits are repatriated, FDI can be an important catalyst for economic development in capital-starved countries. Furthermore, FDI can have a wide array of direct and indirect economic impacts on the host economy.

Alfaro et al. (2004: 90-91) argue that policymakers value FDI for bringing capital injections, new products and technologies, and managerial know-how to a host country. Because of this, Alfaro et al. (Ibid.) and Li and Liu (2005) posit that FDI is a key driver for economic growth in developing countries (c.f. Borensztein et al. 1998). Conversely, as Moran (1998: 21-22) explains, FDI sceptics maintain that it also has the potential to generate significant negative externalities like environmental pollution, driving out domestic firms from of a sector, crowd out local borrowers in the financial market, or result in monopolistic activities. Foreign Multinational Corporations (MNCs) may also maintain tight control over technology, managerial functions, and export routes to prevent positive
spillovers in the host economy (c.f. Aitken and Harrison 1999: 606-7). There is therefore an extensive debate in the literature concerning the effectiveness of FDI in driving economic growth, whether the benefits outweigh the costs and (if so) under what circumstances.

Perhaps more importantly, it is also questionable whether the growth potential of FDI can become a driver for sustainable development. Although there is no commonly accepted definition, sustainable development generally refers to economic development which is both socially equitable and environmentally friendly. Gardiner (2002) for example proposes that FDI can be applied to sustainable development along economic, social and environmental objectives if key institutions cooperate and adopt relevant indicators. For the purpose of this thesis, particularly as it applies to Bhutan’s “Gross National Happiness” framework (described further below), the paramount question is whether FDI can promote a form of economic growth that is socially equitable and environmentally sustainable while promoting the overall wellbeing of a nation.

The purpose of this chapter is to provide a brief overview of relevant literature concerning FDI, its impact on economic development, and GNH, Bhutan’s philosophy of sustainable development. The next section below begins by describing the contradictory views of FDI and the mixed empirical evidence regarding FDI's impact on economic growth, then explores the specific mechanisms through which FDI can have indirect impacts (‘spillover’ effects) on host economies. Section 2.3 discusses the theoretical underpinnings and structure of GNH and how this provides a set of interconnected policy-bundles for sustainable development, while section 2.4 discusses the notion of sustainable FDI before concluding. Overall, this chapter contextualizes the lack of academic research on whether FDI can support a holistic notion of development (as defined by GNH) and how this thesis is the first in-depth case study that examines, critically, the impacts that FDI has had on GNH in Bhutan.
2.2 FDI and Economic Development

Changing Paradigms

Early literature assessed FDI in highly dichotomous terms (see for example Penrose 1959). In the 1970s, three main perspectives on economic development existed: the neoclassical, neo-Marxist, and structuralist approaches (Chenery 1975: 310). Neoclassical models based on for example the work of Robert Solow (1956) saw foreign investment as exogenous to an economy and therefore viewed FDI as a net capital addition (e.g. Hansen and Rand 2006). In other words, the more FDI the better. Neo-Marxist perspectives such as the dependency school, in contrast, view FDI as essentially exploitative and having a largely negative impact on ‘periphery’ (developing) countries. This is based on the idea of foreign companies extracting economic surplus – often from exporting primary commodities using cheap labour – which are repatriated to the home country with little or no economic stimulation of the local economy (Baran 1957). The structuralist approach ignores the class-based assumptions of Marxist views but nevertheless focuses on how disequilibria in the underlying structural relations of the economy can lead to suboptimal social outcomes (Chenery 1975), such as how access to capital and technology lead to an uneven distribution of gains from FDIs between developed and developing countries (Hymer 1976: 25-26). However, recent trends challenge the assumptions of these frameworks with for example the successful harnessing of technology transfer from FDI among several East Asian economies and (more recently) the rise of the BRICS economies leading to increased South-South investment flows (Aykut and Goldstein 2007; Gammeltoft 2008). South-South investment is also a predominant trait regarding FDI in Bhutan, whose largest source of foreign investment is India (Ministry of Economic Affairs, forthcoming).

In the 1980s, attracting FDI became a key component of the Bretton-Woods Institutions’ Structural Adjustment Plans (SAPs) imposed on developing countries to ensure fiscal discipline and promote economic development. The policy paradigm within which the SAPs were formed later became known as the ‘Washington Consensus,’ which (broadly) recommends policies for macroeconomic stability and internal and external liberalization which saw FDI as a critical generator of development
(Gore 2000: 789-90; Brauner 2013: 36). Moran (1998: 19-20; 2002: 108-9) explains that FDI is thus seen as a powerful tool for boosting economic output and – in turn – socioeconomic development, and Zarsky (2012: 10) claims that there is a "reigning orthodoxy that FDI is an elixir for development, and that investment agreements that favour foreign investors over public goods are needed to attract it."

More recently, the 2008 Growth Report by Spence et al. repeatedly highlighted the centrality of promoting FDI as a policy tool to boost economic growth (which they see as crucial to achieving development goals) by facilitating technology and knowledge transfers.

Literature on FDI and development from the past two decades however is divisive and shows mixed empirical evidence, underlining that impacts are highly dependent on country- and industry-level differences. Borensztein et al. (1998), Alfaro et al. (2004), and Alfaro et al. (2008) all find that FDI only creates economic growth when certain conditions in host countries are met, namely human capital, financial markets, and institutional quality (respectively). Similarly, Moran (1998: 24-25) cites Reuber (1973), Lall and Streeten (1977) and Wells (1986) to reason that FDI can have either a significantly positive or significantly negative impact on a host society’s development, primarily based (among other factors) on the competitiveness of the host markets. More critically, Carkovic and Levine (2005) show econometrically that FDI in of itself does not appear to increase growth when taking other determinants into account, while Mencinger (2003) finds that FDI is negatively correlated to growth. As Lipsey and Sjöhold (2005: 40) conclude, “the search for universal relationships is futile.” Economic success stories like South Korea and Taiwan (which both continuously changed the type of FDI favoured dependent on political and economic considerations) seem to demonstrate that FDI policies need to be both strategic and flexible and that “there is no one-size-fits-all foreign investment policy that works for everyone” (Ha-Joon 2004: 700-8).

Lipsey and Sjöhold (2005: 23) argue that in spite of the lack of convergence in empirical research, “policymakers seem to have made their own judgments that inward FDI is valuable to their countries” and have been consistently making regulations more FDI friendly. The OECD (2002: 9) for example maintains that the positive spillovers from FDI “contribute to higher economic growth, which is the
most potent tool for alleviating poverty in developing countries,” while World Bank reports (e.g. World Bank 2013: 1-3) often emphasize that FDI can greatly raise productivity and growth among South Asian economies. In Bhutan, FDI reforms are similarly included in the government’s Economic Development Policy (2010) in context of achieving sustainable economic growth as guided by the philosophy of Gross National Happiness (explained further below). Nevertheless, positive impacts are not automatic and the need for government regulation in inducing positive welfare impacts is increasingly recognized by contemporary research. UNCTAD (2003a: 1) for example notes that “Foreign direct investment (FDI) can play a significant role in host economies' development process,” while adding that “neither inflows of FDI nor the benefits from such inflows are automatic.” Indeed, developing countries may face a difficult trade-off between attracting FDI and maintaining policies which extract social benefits from the investments (Sumner 2005). The rest of this section briefly describes some of the most relevant positive and negative spillovers associated with FDI.

**Positive spillover Effects**

Moran, Graham and Blomstrom (2005: 3) define positive spillovers as “benefits created by the project that are not appropriated by the foreign investor undertaking the project, nor by the [workers] employed by the project” or any other directly involved parties. The most common form of positive spillover from inward FDI is the transfer of knowledge, which includes both the use of appropriate technologies and managerial practices. Technology has long been of particularly interest to economists, as for example South Korea and Taiwan successfully used stringent screening mechanisms for decades to prioritize FDI with appropriate technology transfer (Ha-Joon 2004: 703-4) while China relied primarily on joint-venture foreign investments until 2001 (Long 2005: 316). However, recent academic research (Fu 2012) has also turned towards the diffusion of managerial practices as a knowledge-based spillover.

Knowledge transfer can happen through a variety of mechanisms, including demonstration or imitation of new technologies in the host market, the creation of export distribution networks which local firms can make use of, and labour mobility (Crespo and Fontoura 2006: 411-12). Labour
mobility induces a positive spillover when domestic firms hire employees who have previously worked for FDI companies and can then apply their knowledge of different technologies or management methods (Fosfuri et al. 2001; Glass and Saggi 2002). However, Blomström and Kokko (1998: 14) argue that FDIs often spend more on training their labour which – together with a wish to stop domestic firms from accessing their knowledge – creates an incentive for them to pay their staff higher wages that would limit labour mobility spillovers (c.f. Glass and Saggi 2002). This highlights that knowledge transfers are not necessarily automatic; foreign firms may choose to maintain control of their knowledge or the host country may lack “domestic [absorptive] capabilities” (UNCTAD 2003a: 3) which both impede potential knowledge transfers.

FDI companies can also create positive spillovers through local supply linkages. When FDIs develop relationships with domestic suppliers (known as backward linkages), they may transfer knowledge to local supplier to lower input costs (Matouschek 1999; Javorcik 2004). It is noteworthy that even in the absence of such a spillover, procurement of goods through local supply chains may generate economic gains (Morrissey 2012: 27). However, in cases when FDIs are primarily procuring imported goods (as is often the case in Bhutan), the benefits are confined to a narrow profit margin for the reselling firm and does not lead to any productive growth in the host economy. Overall then, backward linkages have the potential to both directly and indirectly augment productivity among domestic producers which increases economic growth.

Competition is another commonly studied spillover effect. By increasing competition in a given sector, foreign firms may force domestic firms to become more productive by working harder and adopting existing or new technologies (Wang and Blomström 1992; Blomström and Kokko 1998: 2-3). Lipsey and Sjöholm (2005) for example use a variety of statistical techniques to show that Indonesia has experienced competition-induced productivity gains from the entry of FDI firms, although it mainly characteristic of sectors with a pre-existing high degree of competition (Ibid.; Sjöholm 1999). Through demonstration, FDI may also “crowd in” domestic investment by showing  

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2 Domestic market oriented FDIs may also generate forward linkages by producing cheaper intermediary goods (see Girma et al. 2004).
the profitability of a previously unexploited sector in the host market (Borensztein et al. 1998). Both of these potential spillover mechanisms lead to increased capital formation, thus benefiting the host economy.

Foreign investment may also generate economic spillovers at the local level. According to Jalilian and Weiss (2002: 247), FDI indirectly stimulates growth through trickle-downs. Davidson and Sahli (2015: 171) for example argue that the jobs generated by tourism FDIs in rural areas may have an indirect trickle-down effect, as “locals employed in foreign organisations spend their wages on goods and services outside the tourism industry, which stimulates the local economy.”

**Negative spillover Effects**

Nevertheless, FDI may also induce significant negative spillover effects such as stifling competition, environmental degradation and increasing inequality. An UNCTAD (2003a: 174) article moreover points towards legal ambiguity, rising power imbalances between large MNCs and national governments, and continued liberalization of FDI policies as the general conditions that “makes it hard to capture development gains from FDI,” thus increasing the likelihood of negative spillovers outweighing benefits. For the purpose of this thesis, the first three effects will be discussed here.

On competition, Backer and Sleuwaegen (2003) explain that foreign MNCs often enjoy considerable economies of scale from their market size and use of technology, which may not only force out domestic firms but also raise barriers of entry to the market segment for domestic entrepreneurs (c.f. Markusen and Venables 1999). Their market power may also force domestic firms to operate at an inefficient scale, thus increasing their average costs, and the aggregate effect may be to “crowd out” domestic investments (Aitken and Harrision 1999; Gardiner 2002: 4). Cross-sectoral empirical literature reviews by Görg and Greenaway (2004) and Crespo and Fontoura (2006) both indicate that the impacts of FDI spillovers on domestic firms are, at best, mixed. Similarly, using three decades of panel data, Agosin and Mayer (2000) found different periodic trends in Africa, Asia and Latin America, concluding that FDI often leaves domestic investment unchanged; however, for Latin
America in particular they observe a consistent crowding out of domestic investments. FDI-induced competition is therefore a double-edged sword.

Another common negative externality associated with FDI is the risk of environmental degradation. This has long been a concern among critics of free trade and globalization since MNCs have an incentive to relocate to countries with lower environmental standards (Daly 1993), often labelled the ‘pollution havens hypothesis.’ FDI activity since colonial times centered on exporting primary commodities (i.e. minerals, fuel and unprocessed agricultural produce) from developing countries and to a lesser extent manufacturing (Sumner 2005: 270), although foreign investment flows are today concentrated in the service sector (UNCTAD 2003b: 8). Maber and McNally (1998) thus argue that foreign investment has been accompanied by massive environmental damage from destructive practices associated with mining and manufacturing, including deforestation, water pollution, loss of biodiversity and increased greenhouse gasses. Separate from pollution, there is also an increasing global concern over an unsustainable consumption of fresh water resources due to increased global investment and land grabbing, which carries significant ramifications for agriculture and subsistence water consumption (Mabey and McNally 1998: 24-25; Von Braun and Meinzen-Dick 2009).

Empirically, however, it is difficult to test whether FDI has a proportionally smaller or larger impact on pollution levels relative to economic growth. This is because while FDI-induced growth is likely to increase the level of polluting activity, it may or may not be at the same intensity relative to domestic investment activity. Some contemporary versions of dependency theory argue that MNCs are effectively dumping toxic waste and emissions in periphery (developing) countries, based on both case study analysis (Frey 2003) and panel data (Jorgenson, Dick and Mahutga 2007). In contrast, other studies based on both country-level (He 2006) and panel data analysis (Cole 2004) find only sporadic evidence of pollution havens, indicating that although FDIs often seek countries with lower environmental regulation they also tend to employ higher environmental standards than domestic firms (c.f. Eskeland and Harrison 1997). Regardless of whether FDI leads to proportional growth-
induced pollution, mining and manufacturing activities have an environmental impact which may require effective mitigation by for example state or civil society initiatives (e.g. Jorgenson 2009).

FDI also has the potential to increase concentration of wealth and power among the local elite of a host country, thus increasing inequality. As Moran (1998: 21) notes, “[FDI] operations may support a small oligarchy of indigenous partners and suppliers,” who accumulate wealth from these business associations. In terms of power, a local ‘oligarchy’ of private entrepreneurs may act to serve the political interests of MNCs to enhance their own economic wealth, thus undermining democratic processes through industry lobbying (Skilair 2002; Drahokoupil 2009). In the case of Bhutan, its nascent private elite overlaps significantly with the state’s civil service, which Mancall (2004: 33) suggests constitute a “new modern ruling class” with an ability “to use asymmetrical power to its advantage in the acquisition of sources of wealth and income.” As Evans (1979) found in Brazil, alliances between foreign MNCs and private entrepreneurs in developing countries can promote industrialization that benefits the elite partnership while excluding the general population from the benefits of that growth.

As pointed out by Velde and Morrissey (2002), FDI may also exacerbate inequality by increasing wage differentials. This is supported by Basu and Guariglia (2007) and Choi (2006) who show that FDI is statistically correlated with increased income inequality. However, another study by Sylwester (2006) indicates that FDI – in some countries – has no impact on wages, while Velde and Morrissey (2004) show that FDI paid higher wages in East Asia (in the period 1985-1998) but increased wage inequality in Thailand. Yet another study by Figini and Görg (2006) implies that FDI does not have a linear relationship to wage inequality in developing countries and that inequality first increases then decreases with further FDI. The discord between these studies supports the hypothesis that FDIs impacts are highly context-driven (c.f. Lipsey and Sjöhold 2005: 40).

2.3 GNH: A Framework for Sustainable Development

The philosophy of Gross National Happiness (GNH) was conceptualized by His Majesty the Fourth King of Bhutan, Jigme Singye Wangchuck (Ura 2007), and has since become the very image of the
Bhutanese state (Mancall 2004; Schroeder 2014). GNH is centered on the idea of “contentment or happiness as the optimal value to be aimed at in governance” (Ura, n.d.), and can be summed up as “a multi-dimensional approach to development aimed at spiritual and material balance and harmony” (Thinley 1998: 22). In addition to being a philosophy of holistic and sustainable development, it is also a policy framework that provides a set of interconnected policy priorities. This section briefly fleshes out the theoretical underpinnings and structure of GNH.

Early development theories tended to consider economic growth the paramount goal of public policy, assuming it would result in better living standards for the world’s poor through the trickle-down effect or redistributive government policies (Hicks and Streeten 1979: 567). However, economic growth has often been highly unequal (ibid.: 567-68) and Richard Easterlin (1974) famously challenged the assumed positive correlation between economic growth and happiness. Recognizing these limitations, the basic needs approach (Streeten et al. 1981) sought to shift development policy towards ensuring both income and adequate conditions for productive life along the areas of education, healthcare and nutrition. Going beyond this, the human development paradigm – based on Amartya Sen’s conceptual framework of the ‘capabilities approach’ – emphasizes the individual freedom and opportunities necessary to achieve well-being (Fukuda-Parr 2003; Alkire and Deneulin 2009). The paradigmatic shift was to move away from equating development with economic growth (c.f. Seers 1972) and instead prioritizing human wellbeing.

This is a feature shared with the philosophy of GNH. According to Johnson (2004: 465, 470) and Jigme Thinley (1998; 1999), there are many parallels between the human development paradigm and GNH, including the primacy of the multidimensionality of human wellbeing in which economic wealth is but one factor. Rinzin (2006: 30) notes that “the concept of GNH is human centered, as it places the individual at the centre of all development efforts and recognises that material, spiritual and emotional needs of the individuals must be fulfilled.” However, Dasho Karma Ura (2008: 3) contends that GNH is not a “reductionist concept where citizens are only concerned with happiness for themselves” but posits collective happiness as the goal of governance. Another factor that
distinguishes GNH from Western notions of wellbeing is the emphasis on harmony with nature (Ura et al. 2012: 8).

It is noteworthy that GNH is a Bhutanese philosophy and (thus) wholly autochthonous in its origins.³ Dasho Karma Ura (2015a) notes that the essential tenet of GNH can be traced all the way back to Bhutan’s 1729 legal code, which stated that “if the government cannot create happiness (dekid) for its people, there is no purpose for the government to exist” (cited in Ura 2015).” Dasho Karma Ura (forthcoming) further explains that in contrast to the path-dependency of Western growth-centered narratives, GNH created a new discourse that “mobilized indigenous viewpoints on what development should be, and what purpose it should serve” (emphasis added). However, GNH has in recent years gained international traction: Bhutan’s unique development approach was shared with a global audience in 1998 at the Millennium Meeting for Asia and the Pacific (Thinley 1998) and in 2011 inspired the adoption of UN resolution 309, which recognized the pursuit of happiness as a fundamental human goal and invites member states to “pursue the elaboration of additional measures that better capture the importance of the pursuit of happiness and well-being in development with a view to guiding their public policies” (UN A/RES/65/309, 2011). Although elaborated along Bhutanese cultural values, the main principle of GNH is to place human wellbeing at the core of public policy and can be applied universally.

The Fourth King famously expounded that the collective happiness of Bhutan’s citizens as being more important than economic development of the country. Although an implicit policy goal ever since his coronation in 1974, the term ‘Gross National Happiness’ was inadvertently coined in 1979 during an interview in Bombay Airport when His Majesty said “We do not believe in Gross National Product. Gross National Happiness is more important.” (cited in Dorji 2012). The philosophy of GNH has since been further articulated as a multidimensional framework for sustainable development that provides a holistic vision of social progress to guide public policy. In 2013, in a foreword to the Oxford Handbook of Happiness, His Majesty the Fifth King Jigme Khesar Namgyel Wangchuck

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³ Western scholars have however collaborated on the conceptual expansion and operationalization of GNH since the early 2000s.
explained that, “GNH has come to mean so many things. To me it signifies simply—Development with Values... for Bhutan, Gross National Happiness is the bridge between the fundamental values of Kindness, Equality, and Humanity and the necessary pursuit of economic growth.”

Being rooted in Bhutanese culture, GNH thus coheres with Buddhist values (Ura 2007). Priesner (2004: 223), Dorji (2011), and Givel (2015) all discuss the similarities between the conceptualizations of happiness in Buddhism and GNH, suggesting that both view human flourishing as a result of harmony between internal and external experiences (c.f. Ura 2015b). Similarly, Tashi et. al. (2004) argues that it is even possible to conceptually compare the four pillars of GNH (described below) to the Eightfold Noble Path central to Buddhist doctrine. However, happiness in Buddhism is an internal experience whereas GNH conceives of human wellbeing in a much broader sense as encompassing a number of objective goods as necessary conditions (Dorji 2011; Ura 2015b: 6-7). Theoretically similar to Nussbaum’s (2000) take on the capabilities approach, these external conditions are specific to Bhutanese cultural values and include for example good governance, environmental conservation and community relations (Ura, Ibid.). GNH is therefore a secular doctrine, although its rooting in Bhutanese cultural values means that it is largely consistent with Buddhist notions of human happiness and flourishing.

Happiness in the GNH framework is therefore different from the more hedonic notion of happiness in Western thought. As mentioned above, GNH draws some inspiration from Buddhist theology; Priesner (2004: 223) points out that happiness in Buddhist moral philosophy may be more accurately equated to wellbeing. Lopen Gembo Dorji (2011) explains that in the Vajrayana tradition as practiced in Bhutan, happiness is considered an undiluted, natural state of bliss. This is arguably a more stable form of happiness compared to Western conceptualizations, which view happiness more like a temporary state of mind (Ibid.). While hedonic happiness can potentially be achieved through material gains alone, the philosophy of GNH posits happiness as something far more holistic which can only be achieved when economic growth is pursued in balance with other human needs. In the words of Jigme Thinley (1998: 20), former Prime Minister of Bhutan, “in a world where everyone who has less
is trying to catch up with everyone else who has more, we may become richer but happiness becomes elusive.”

Because GNH is culturally situated, it is continuously evolving and being further refined. Nevertheless, the earliest analytical developments established what is possibly the most recognizable feature of the concept, namely the four ‘pillars,’ which were expounded to provide a “broad strategic framework through which national development processes were to be actualized” (GNH Commission 2009: 18). The four pillars are as follows (Ibid.; National Environment Commission 1998; Ura 2003: 3,6; Rapten 2009; Ura et. al. 2012: 118; Schroeder 2014: 70-73):

- **Sustainable and equitable social economic development**: although GNH rejects economic growth as an end in itself, neither is it rejected as unimportant. Sustainable and equitable social economic development is necessary to raise income which affords people good standards of living. From a policy perspective, economic growth is moreover vital to promote healthcare, education and other social provisions. However, this requires a sustainable approach that does not compromise natural resources or cultural values for example by bringing in rampant consumerism. It also requires inclusive growth which promotes equity and equality.

- **Environmental conservation**: Interconnectedness between people and nature is at the core of GNH, and Bhutan’s natural environment is considered one of the country’s best and most important assets. Environmental stewardship has thus been enshrined in the Bhutanese constitution, ensuring at least 60% forest cover for perpetuity with a view towards balanced resource utilization for socioeconomic development.

- **Cultural preservation and promotion**: Culture is intrinsically important because it acts as a unifying force that forms the basis of collective and individual identities, which is critical to human well-being. Promotion of indigenous culture is ingrained within the GNH framework not only to resist unreflective globalization – which otherwise undermines local values – but is also seen as a matter of state sovereignty in Bhutan given its geopolitical position.
Embedded within the national psyche and as advocated by the fourth king, Bhutan’s lack of economic or military power has spawned a vital necessity to preserve its cultural heritage as a way of consolidating its uniqueness. This, in turn, strengthens its national identity and sovereignty in international politics (particularly with respect to neighbouring India or China), thus ensuring long-term security.

- **Good governance**: Good governance is necessary to achieve GNH and is thus an enabling factor. It provides the means to pursue equitable socioeconomic development, environmental conservation and cultural preservation. Popular participation is a key priority, as evidenced by the fourth king’s decentralization initiatives, in addition to transparency, accountability and efficiency.

In the 2000s the four pillars were expanded to nine domains, thus adding a further level of conceptual analysis and identifying key areas of GNH for policy purposes (Ura et al. 2012: 10). These include: psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards (Ura 2008; Ura et. al. 2012). The nine domains represent “an attempt to specify the most important factors or conditions that give rise to happiness in the Bhutanese context” (Ura, forthcoming) and, “taken together, reflect the purpose of development” in Bhutan (Ura et al. 2012: 10). While education, healthcare and living standards are common dimensions of public policy, the spheres of time use, community vitality and cultural diversity are “distinctive and innovative” (Ibid.). The addition of the nine domains exemplifies how GNH is a dynamic framework that continues to evolve, thus taking into account that cultural values – and in turn, human needs and aspirations – are never static (RGoB 1999b: 10; Upreti 2005: 6).

It would be mistaken to take the four pillars or nine domains as the goals of GNH. Rather, the four pillars constitute ‘policy-bundles’ which support the *achievement* of GNH (Ura 2008). Stressing their interdependence, Ura (forthcoming) maintains that “the structuring of values according to domains should be viewed merely as a heuristic device.” Although GNH is typically articulated as a policy
framework, it is first and foremost a philosophy which views individual and collective well-being of people as the end-goal (Ura 2003; Ura et. al. 2012). It is similarly a mistake to equate the implementation of the GNH framework with the ‘creation’ of happiness. Rather, “GNH as a state objective is to provide enabling conditions for happiness as it cannot directly provide happiness” (Ura 2015: 3, emphasis added). GNH therefore provides both a goal as well as a strategy to achieving that goal.

This relates to another subtle aspect of GNH that is often missed, namely its holistic nature (Ura et al. 2012: 7). A measurable increase in one pillar or domain does not necessarily lead to an increase in another factor or in the overall happiness of the population. Rather, all are to be advanced, because the values reflected in the GNH framework are interconnected, “recognizing the complexity and interrelationships within and across social, economic, ecological, cultural and governance systems” (Schroeder 2014: 72). Rinzin (2006: 30) explains that “harmonious development” therefore requires “meticulous orchestration” of all GNH principles. A simple example might be an economic development project which promotes cultural resilience while harming local ecosystems, raising the question of whether its socioeconomic gains are worth the environmental impact. At state-level, Bhutan has addressed this interconnectivity through the introduction of the GNH screening tool, which all new policy documents must be subject to before being submitted to the cabinet, 4 as well the GNH Index which has operationalized the nine domains into 33 indicators (in turn made up of 119 variables) to measure societal progress according to the policy goals of GNH. 5

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4 The GNH Screening Tool was developed for the GNH commission by the Centre for Bhutan Studies in 2008. The tool systematically assesses policy proposals based on 26 variables which evaluate potential policy impacts in accordance with the values of GNH. Committees of experts and stakeholders use a 4-pointer scale to grade each variable, and only policies which average scores above ‘neutral’ (26*3=78) are approved. Source: www.gnhc.gov.bt, acc. Apr. 25, 2016.

5 After a pre-pilot and pilot survey in 2006 and 2008 (respectively), the first GNH survey was carried out by the Centre for Bhutan Studies in 2010. The second survey was carried out in 2015, and interviewed 7,153 individuals across all dzongkhags (81% of the sample size). The survey results are reported according to sufficiency cut-off points, which categorize people as unhappy, narrowly happy, extensively happy, or deeply happy based on how many of the domains (in percentages) people had achieved sufficiency in. The results are then analyzed and reported by socioeconomic factors such as age, gender, occupation and geographic area, and provide the basis for public policy and funding allocation. For a more detailed analysis of the GNH index, refer to Ura et al. (2012).
GNH has also received criticism both inside and outside Bhutan (e.g. Duncan 2007). However, the purpose of this thesis is not to evaluate the framework but rather to apply it to FDI to explore whether foreign investment is consistent with Bhutan’s development principles. It should be noted that sustainable development in the common minimalist sense (economic growth that does not compromise social equity or environmental resources) is subsumed under the pillars of GNH. However, GNH can also be taken as a model or philosophy of sustainable development in a more holistic sense, since GNH simply places human wellbeing at the centre of development policy while broadly considering all of the subjective and objective conditions which ensure human flourishing in a given cultural context. This thesis therefore considers GNH and sustainable development as interchangeable concepts.

2.4 FDI and Sustainable Development?

Although section 2.2 above has highlighted studies which discuss the potential negative spillovers of FDI, including environmental degradation and social inequality, only sporadic literature has explicitly dealt with the topic of sustainable FDI. In light of how multinational trade agreements increasingly favour MNCs, a volume edited by Zarsky (2012) discusses the regulatory ability of host governments to ensure sustainable practices at length. Similarly, Gardiner (2002) and Fortanier and Maher (2001) call for public policies to ensure the sustainability of FDI in economic, social and environmental terms, and discuss some of the measures that companies and governments can apply to ensure this (such as promoting the use of sustainable technology, better labour standards, increased youth training, and environmental impacts assessments). While the Vale Columbia Center on Sustainable International Development (2010) for example defines “sustainable FDI” along four dimensions (economic development, environmental sustainability, social development, and good governance), there is no commonly accepted theoretical framework of what makes FDI “sustainable.”

Other studies discussing FDI and sustainability point towards exploitative control of certain economic sectors (Tenuche 2010) and the potential for long-term environmental constraints (Adenaeuer 2012) vis-a-vis FDI in developing countries, but none have relied on a refined theoretical framework for
sustainable development or, indeed, sustainable FDI. Taking a step beyond conceptualizing sustainability in mere economic terms, Reiter and Steensma (2010) apply the HDI framework to a statistical analysis of panel data for 49 countries over the period 1980-2005, and find that FDI inflows are more positively correlated to gains in HDI when national policies restrict foreign investors from certain sectors and moreover discriminates against them relative to domestic investors. However, the HDI index is severely limited by its simplistic nature and no studies have yet analyzed the sustainability of FDI in context of a holistic, national sustainable development framework like GNH. Moreover, FDI studies (with the notable exception of Davidson and Sahli 2015) have primarily been confined to national (or macroeconomic) development issues, leaving unanswered the question of whether FDI companies play an active role in developing the culture, economy and natural environment of the local communities within which they operate.

In context of this thesis, existing literature has focused on the “sustainability” of FDI in a narrow sense of the word. The studies cited above rely heavily on economic indicators, even for social sustainability, and fail to move beyond the education and good governance aspects of human development. This however does not fully account for immaterial needs. In contrast, GNH looks at wellbeing much more holistically, by including factors such as psychological wellbeing, community vitality and time-use which have been proven to play an enormous part in promoting happiness (see Ura et al. 2012). GNH can therefore act as a heuristic framework for sustainable FDI by contextualizing the relevant dimensions that expand human wellbeing. The purpose this thesis, then, is to look beyond sustainability in the narrow sense and ask whether FDI can promote development in a multidimensional sense like GNH. By conducting an in-depth empirical study of the linkages between FDI and GNH in Bhutan – the first of its kind – this thesis hopes to make a contribution to existing literature on how foreign investment may influence sustainable development based in an indigenous and holistic development framework.
3. Context: Bhutan and its Unique Development Path

Bhutan is distinguished for its unique development approach, but is otherwise not well known. The purpose of this chapter is to provide a brief overview of the country, its recent history, and the accompanying socioeconomic transformation. These factors have all given rise to a unique set of economic and developmental challenges, which contextualizes how Bhutan has sought to increase tourist numbers and Foreign Direct Investment (FDI) as sources of foreign exchange and employment generation without deviating from the country’s development policy (as defined by GNH). The chapter ends with a section on the general goals and legislative structure of Bhutan’s FDI policy.

3.1 Overview of Bhutan

A unique country, Bhutan is surrounded by stereotypes and misconceptions which often caricaturize it as either a backwards feudal kingdom or ‘the happiest place on earth.’ This makes it very difficult to write a succinct overview of the country, and this brief section is therefore insufficient to dispel many of the persisting myths about Bhutan. As an introduction, this overview describes the recent history of Bhutan which set it on its present development path based on the principles of GNH, briefly presents the country’s human and natural geography, and considers the far-reaching political and economic reforms undertaken by the monarchy since the mid-twentieth century.
In Bhutan, history is a complex amalgamation of facts and myths that are very much alive in the cultural psyche today. Someone merely needs to visit one of its historical sites to experience this, such as the renowned Taktsang monastery, located at the site where the 8th century Guru Rinpoche supposedly arrived on the back of a flying tigress. Little is known of Bhutan’s early history before the introduction of Buddhism in the 7th century (Hutt 2005: 16). Its political history begins with Zhabdrung (‘In Front of the Feet’) Ngawa Namgyal’s flight from Tibet in 1616, a lama who united Western Bhutan (thus beginning the process of state-building) under the auspices of the Drukpa lineage of the Kagyu school of Buddhism, which remains the official state religion today⁶ (Hutt 2005: 17; Mancall 2004: 2-3). The last Mahayana Kingdom in the Himalayas, Bhutan is popularly nicknamed The Land of the Thunder Dragon (druk meaning dragon in Tibetan).

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⁶ Much of central and Eastern Bhutan remains primarily within the Nyingmapa school of Tibetan Buddhism.
After the death of the Zhabdrung in 1651 – which was kept secret for 56 years to ward off succession disputes (Kinga 2009: 101) – Bhutan was thrown into regional rivalries that largely dominated the next two and a half centuries (Mancall 2004: 4, Kinga 2009: 109). Although Bhutan carried out some trade with Tibet and had limited diplomatic contact with the British (Basu 1996), it maintained political isolation and managed to retain its independence in spite of being exposed to the regional power-politics of neighbouring China and British-ruled India (Penjore 2004; Kinga 2009: 218-220). The period of political strife came to an end with the unification and establishment of absolute monarchy in 1907 by Ugyen Wangchuk, a regional governor from Trongsa (in central Bhutan) who had developed positive relations with the British (Kinga 2009: 181). Wangchuck’s crowning as the first Drak Gyalpo, or Dragon King, for the first time unified Western, Central, and Eastern Bhutan under a hereditary Monarch.

Bhutan’s policy of isolation was consolidated during the reign of the first two kings. The Third King, Jigme Dorji Wangchuck (1928 – 1972), introduced a series of reforms and slowly brought the kingdom into contact with the outside world. This was in large part a reaction to China’s annexation of Tibet in the 1950s which highlighted Bhutan’s precarious position of being sandwiched between the giants, India and China (e.g. Kinga 2009: 221). These reforms included an end to serfdom, the formation of Bhutan’s first National Assembly, the establishment of the Royal Bhutan Army, and initiation of the process of planned development through Five Year Plans (FYPs) which included construction of hospitals, schools and roads (Mancall 2004: 7-8). Nevertheless, the king’s modernization initiatives were deliberately cautious to avoid Westernization and uphold Bhutanese culture (Sinpeng 2010: 29). Thus, the “process of reform and modernization was intended to maintain Bhutanese sovereignty, cultural uniqueness and development interests as it increasingly became subject to external influences” (Schroeder 2014: 64). Significantly, it was the third king’s initiation of cautious modernization which created the modern Bhutanese state and put it on its present-day path of sustainable development (Kinga 2009: 217 – 257).
The reforms begun in the 1950s were continued during the reign of the fourth King, Jigme Singye Wangchuck (1955 –). Famously conceiving ‘Gross National Happiness’ as Bhutan’s unique development strategy, the Fourth King initiated a long process of decentralization and democratization. According to the king, this was undertaken to protect the country from “inheriting a king of dubious character,” which could not be guaranteed under absolute monarchy (cited in Sinpeng 2007: 38). Reversing the centralization policies of the previous king, local governments were created at the dzongkhag (district) and gewog (sub-district or village cluster) level in the 1980s and 1990s. Democratization was initiated in 1998 with the devolution of executive power as well as the introduction of a no-confidence mechanism, which gave the National Assembly the power to replace the monarch with a hereditary successor (Singpeng 2007: 39). After the draft of a new democratic constitution was completed in 2006, the king abdicated in favour of his son, Jigme Khesar Namgyel Wangchuck (1980 – ), who oversaw Bhutan’s transition to a constitutional monarchy with the first national elections in 2008. Another milestone was achieved five years later, when the second elections in 2013 saw the peaceful transition of power to the opposition party.

Bhutan is extremely diverse, both topologically and ethnolinguistically. Its 40,076 km² land area lies on the southern flanks of the Eastern Himalayas, and its altitude difference of 7400m – ranging from a sub-tropical 150m to the alpine climate of the Gangkhar Pensum’s peak at 7,570m – makes Bhutan “one of the most topologically diverse countries in the world” (Brunet et. al. 2001: 247). Due to its rugged landscape, only about 7.8% of the country is arable, meaning that most of Bhutan’s rural population relies on subsistence agriculture (GNHC Commission 2010b: 4). As of the last census in 2005, Bhutan’s population stood at 635,000 – projected to reach 757,000 in 2015, according to NBS – of which 69% was rural (GNH Commission 2010b: 7, 26). Most commentators identify three main ethnic groups, namely the Ngalong, Sharchop and Lhotshampa (Hutt 2005: 4); however, with

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7 It is important to emphasize that the Fourth King initiated GNH as an implicit continuation of the cautious modernization programme initiated by his father the Third King. In light of Bhutan’s widening permeability to the influences of globalization, GNH provides what Rinzin (2006) calls a “middle path” approach to development which is open to gradual modernization while conserving cultural and natural assets. This cautious transformation, in turn, is considered vital to protecting Bhutan’s national identity and sovereignty.
numerous aboriginal and semi-nomadic groups scattered throughout the country’s valleys, Bhutan has at least nineteen major and several more regional languages (Van Driem 2004: 295).

The stark reality of Bhutan’s geography – a small population with a distinct culture, spread throughout rugged mountains, tundra and subtropical land and sandwiched between two geopolitical giants – has led to unique development challenges. In 1961, at the start of the third king’s reforms, Bhutan’s GDP per capita was an estimated $51, then the lowest in the world (Brunet et. al. 201: 257). By 2014 it had shot up to $2,370, making it the second highest in South Asia after the Maldives (WB Database). Today, the country is grappling with high youth unemployment, rapid rural-urban migration, and lack of economic diversification (GNH Commission 2013: 7; RGoB 2010: 5). However, as a former chairman of the National Environment Commission Lyonpo (Minister) Chenkyab Dorji pointed out, Bhutan’s late start to planned development “has been a blessing in disguise, as we [the Bhutanese] have been able to learn from the mistakes of others who have trodden the path before us” (RGOB Biodiversity Action Plan 1998). It was with the potential environmental and cultural impacts of modernization in mind that the Fourth King conceived of ‘Gross National Happiness’ as a sustainable development framework for Bhutan, as explained in the previous chapter.

3.2 Macroeconomic Outlook

The arduousness of implementing GNH – a state that manages cautious growth and modernization to promote a holistic set of conditions for happiness – rises as Bhutan creates stronger linkages with the global economy. As discussed later in the literature review, increased exposure to international competition solicits further economic liberalization. This section provides a brief overview of Bhutan’s current economic conditions, with an emphasis on key indicators such as unemployment, external debt and balance of payments. Together with socioeconomic issues like rapid rural-urban migration and high youth unemployment, these factors strongly shape macroeconomic policy and political discourse in Bhutan today. In context of this study, it is notable that unemployment and balance of payment issues have been key motivators behind Bhutan’s tourism and FDI policies, which are described in the following two sections.
For centuries, Bhutan’s population relied largely on subsistence agriculture. When modernization and economic planning were initiated by the Third King, this brought slow but accelerating structural changes to the country’s economy. While Bhutan’s first FYPs focused on infrastructure development and agriculture and livestock improvements, the sixth FYP (1987-1992) switched emphasis to fostering mining, trade and commerce. This was complemented by political decentralization, including the establishment of Dzongkhag (district) planning committees in the 1980s, while the ensuing seventh, eighth and ninth FYPs switched emphasis to privatisation, environmental sustainability, socioeconomic inclusion and cultural preservation (Rinzin 2006: 27-8). The tenth (2008-2013) and eleventh plans (2013-2018), implemented after the transition to parliamentary democracy, both focus on economic self-reliance as well as poverty reduction and full employment (respectively), among others (GNH Commission 2009; 2013). The most significant change was the initiation of Hydroelectric Power (HEP) production in the 1970s, with the first major plant in Chukha (producing 336MW) completed in 1986. This gave rise to a consistent source of export earnings and remains the largest source of government revenue today. Since Chukha, HEP projects have been carried out in corporation with the government of India which provides finance in return for guaranteed sale of excess electricity.

Major macroeconomic indicators are strongly influenced by Bhutan’s energy sector. Buoyed by energy exports, Bhutan has experienced consistently strong GDP growth year on year since the 1990s with an average growth rate of 6.79% between 1990 and 2014 (World Bank Development Indicators). GDP growth in 2014 stood at 5.5%, largely supported by the service sector which accounted for 3.8 percentage points. Total GDP was Nu. 119.5 billion, or roughly USD 1.787 billion, although according to World Bank figures it stood at USD 1.958 Billion (at current market prices). This information is summarized in table 3.1 below together with data on the sectoral composition of the economy (as a fraction of GDP).  

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8 It should be noted that economic data on Bhutan is frequently based on estimates, and sources like the World Bank occasionally vary widely in their estimates from those published by the Royal Government of
Table 3.1: Size of Bhutan’s economy and sectoral break-down as % of GDP in 2014, according to Royal Government of Bhutan and World Bank data.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Government of Bhutan</th>
<th>WB</th>
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<tbody>
<tr>
<td>GDP (at current prices)</td>
<td>USD 1.787 Billion¹</td>
<td>USD 1.958 Billion</td>
</tr>
<tr>
<td></td>
<td>(Nu. 119.5 Billion)</td>
<td></td>
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<tr>
<td>GDP growth (annual)</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Agriculture, livestock and forestry</td>
<td>16.8%</td>
<td>17.7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.1%</td>
<td>9%</td>
</tr>
<tr>
<td>Service sector</td>
<td>56.1%²</td>
<td>39.4%</td>
</tr>
<tr>
<td>Government Revenue (share of GDP)</td>
<td>30.4%</td>
<td>N/A</td>
</tr>
<tr>
<td>Government Expenditure (share of GDP)</td>
<td>32.8%</td>
<td>N/A</td>
</tr>
<tr>
<td>Public Debt (share of GDP)</td>
<td>98.9%</td>
<td>N/A</td>
</tr>
<tr>
<td>FDI Inflow (in USD/share of GDP)</td>
<td>8.3 million/0.43%</td>
<td>8.38 million/0.43%</td>
</tr>
</tbody>
</table>

¹Based on average exchange rate for the month of March 2016.
²Calculated from electricity and water; construction; wholesale and retail trade; hotels and restaurants; transport storage & communication; financing, insurance and real estate; private, social and recreational services.

Sources: Bhutan Royal Monetary Authority Annual Report, 2014-2015; World Bank Development Indicators; 2015 FDI Report.

Bhutan has been facing a consistent deficit in its current account for goods since 2005. Demand for imported consumer goods has been accelerating together with higher standards of living, while the construction of several new plants has increased hydropower-related imports. It is noteworthy that about 90% of Bhutan’s trade is with India, partly a result of a 2006 free trade agreement between the two countries. Conversely, the capital and financial account (mainly compromising foreign aid) has increased sharply since 2008 which allowed the overall BOP to remain positive up until last fiscal year 2013-2014.⁹ Nevertheless, the increasing current account deficit has placed export promotion at the centre of economic policy (RGoB 2010: 1, 5).

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Bhutan. Because their estimation assumptions are unknown and therefore incommensurable, data presented in this chapter is based on a variety of sources.

⁹In 2014-2015, the overall balance was a deficit of Nu. 560.4 million or 0.5% of GDP, compared to the previous year’s surplus of Nu. 4,280.5 million or 4.1% of GDP. Source: Royal Monetary Authority Annual Report 2014-15.
Imports and exports have similarly been rising with increased activity in the hydropower sector, representing 67% and 39% as a percentage of GDP (respectively) in 2014. Significantly, external debt has been increasing at an average rate of 17.1% since 2008 and reached 112% of annual GDP in 2015 (Dorji 2015). This has in large part been due to changes in hydropower financing arrangements with India: while hydropower projects were previously financed through a 60/40 split between grants and loans, this recently changed to being 70% based on loans. Although such a debt level is relatively high, it is expected to be sustainably serviced by increased energy exports (Khan and Robson, forthcoming).

Inflation estimates vary widely between sources (i.e. World Bank, IMF, and Bhutan’s Royal Monetary Authority). In the past decade, inflation has generally stood between 5% and 10% although estimates vary from 4.3% to 13.5% (World Bank; OECD; RMA Annual Reports). According to RMA, inflation in 2013 had slightly decreased to 5.2%, a trend which the IMF has projected will continue into the next few years. Overall unemployment in Bhutan is relatively low – estimated at 2.1% in 2012 – but rapidly rising, particularly among youths. This is due to the sharp increase in university graduates who flock to urban areas seeking white-collar jobs, compounding other
difficulties arising from rapid rural-urban migration. Nationally, youth unemployment stood at 7.3% in 2012 but was estimated to be as high as 20.2% and 29.5% for male and female youth in urban areas, respectively (UNDP 2013: 6). This has placed youth unemployment at the centre of the country’s 11th FYP (2008-2013) with a target of reducing youth unemployment to 2.5% (GNH Commission 2013: 20).

Table 3.2: Summary of key demographic indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>757,000(^1)</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>69 years(^2)</td>
</tr>
<tr>
<td>Youth (age 0 to 24)</td>
<td>52.3(^3)</td>
</tr>
<tr>
<td>Urban population</td>
<td>38(^7)</td>
</tr>
<tr>
<td>Urbanization Rate</td>
<td>3.4(^2)</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>63.0(^4)</td>
</tr>
<tr>
<td>Secondary school completion</td>
<td>74.2(^4)</td>
</tr>
<tr>
<td>Under-5 mortality rate</td>
<td>36 per thousand(^5)</td>
</tr>
</tbody>
</table>

\(^1\)2015 Projection (Bhutan National Statistics Bureau)  
\(^2\)Figure for 2014. Source: World Bank  
\(^3\)Figure for 2012. Source: UNDP, Ministry of Labour and Human Resources (Bhutan)  
\(^4\)Figure for 2012. Source: Bhutan National Statistics Bureau  
\(^5\)Figure for 2013. Source: UNICEF

3.3 Tourism and Hospitality in Bhutan

As earlier noted, fascination with Bhutan’s ‘pristine’ and ‘unspoilt’ land (Brunet et al. 2001: 245), Vajrayana Buddhist heritage, and unique development approach has fuelled a significant rise in international tourist arrivals in the country. Tourism is well-known for its potential for economic development but also presents broad threats to local environment and cultures (Cohen 1978; Brown et al. 1997). Nevertheless, tourist sector development and environmental conservation have the potential to be symbiotic and mutually reinforcing (e.g. Budowski 1976; Pigram 1980; May 1991). In Bhutan, tourism is an exemplary field of contestation between economic growth and other facets of GNH as policy making is influenced by a variety of private and public institutions (Ura 2015b: 18-19).
Tourism has become an important source of foreign exchange earnings and it was partly with a view towards developing Bhutan as a high-end tourist destination that FDI was introduced in 2002.

Bhutan’s tourism policy was initially guided by the principle of “high value, low volume” but later changed to “high value, low impact” in 1999 in an attempt to expand the number of international arrivals and (thus) the economic role of the sector (Ibid.: 19). The international airport in Paro was opened in 1983 and the tourism industry became privatized in 1991. Although no longer enforced through a quota system, tourism is limited to high-paying visitors through a minimum daily fee of $200 (high season) and $250 (low season) per person. Of this amount, which guarantees coverage of all accommodation and travel-related costs, the government receives direct revenue from the $65 ‘royalty’ which is spent on social service provisions and other budget items. In light of environmentally and culturally damaging mass tourism previously seen in Nepal, the minimum daily tariff was implemented to ensure “that the number of tourists visiting Bhutan is kept to what is hoped to be an environmentally manageable level” (Brunet et. al. 2001: 252-54, 259).

Tourism is seen to have generated significant economic benefits for Bhutan. From a modest 2,850 and 7,158 arrivals in 1992 and 1999 respectively, the number of tourists visiting Bhutan has dramatically increased to over 133,000 in 2014, of which a little more than half were dollar-paying international visitors (Dorji 2001: 84, 89; Tourism Council of Bhutan 2015). Tourism brought in USD 73.2 million in direct revenues in 2014 and has become the country’s biggest source of foreign exchange earnings (Royal Monetary Authority 2015). The royal government has pledged to attract 200,000 annual visitors by 2018 (Ibid.). However, ‘regional tourists’ from India, Bangladesh, and Maldives are not subject to any minimum tariff or the royalty which has been the largest source of growth in international arrivals in recent years.

One of the impacts of the rise in international tourists has been a rapid expansion of the hospitality industry. In keeping with the national tourism policy, visitors paying the minimum tariff are required to stay in at least a three-star property and Bhutan today has a little over a hundred tourist hotels (3, 4, and 5-star) in operation (see data description in footnote 46). Twelve of these hotels are partly or
wholly FDI-owned, and another eight FDI projects are currently under construction (Ministry of Economic Affairs, forthcoming). According to data published by RMA, hotels and restaurants grew 17.4% in 2014 – one of the fastest growing sub-sectors in the economy – and accounted for 1.7% of total GDP (Royal Monetary Authority 2015).

In terms of employment, the tourism industry is the second-largest employer after the public sector, and was estimated to directly and indirectly employ a total of 19,600 people in 2010 (Sharma et al. 2012: 2). National statistics are yet to calculate the total impact of tourism on the overall economy, but the World Tourism Organization estimates it at 6.6% of GDP for 2013 (UNWTO 2015). This was corroborated by one of my sources at the Tourism Council of Bhutan (TCB) who added that the figure was likely lower in 2013 relative to other years due to a temporary spike in economic activity caused by several large hydropower projects.\(^{10}\) The tourism industry is therefore a vital source of employment and government revenue and a large foreign exchange earner, which has helped Bhutan’s economy fund the current account deficit and diversify away from relying on energy exports. However, in light of rising youth unemployment it has become clear that the tourism sector alone is unable to cover the need for jobs or garner sufficient export earnings, making FDI an increasingly relied on political solution.

### 3.4 Foreign Direct Investment in Bhutan

In an attempt to resist the potential cultural and environmental erosion associated with FDI, Bhutan prohibited investment from foreign entities until the early 2000s. Although Bhutan is a geographically stark investment climate due to it being a landlocked country with a small population and limited natural resources, it does offer opportunities in niche areas like high-end tourism and green and/or organic businesses that can benefit from its unique global image. However, in line with the larger picture of cautious development within the GNH framework, Bhutan has sought to limit foreign investment to businesses that can promote GNH by for example transferring innovative technology and creating skilled jobs. The role of FDI in Bhutan’s development is further discussed in section 5.1.

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\(^{10}\) Interview, Kinley Wangdi, Thimphu, [Jul. 21, 2015].
Overall, political discourse in Bhutan has positioned FDI as a promising solution to youth unemployment and a rising current account deficit, and the country is now promoting itself as being ‘open for business’ to help build a modern, self-sufficient economy (Barka 2010).

The first foreign firm to invest in Bhutan was Amanresorts International, which began a line of five luxury hotels in 2002. Amanresorts had prior to that spent several years lobbying Bhutan’s government to be allowed entry and assisted the government in setting up a policy framework that made it legally possible for foreign entities to invest in Bhutan.\(^\text{11}\) The 2002 National FDI policy was based on a “positive list” approach which strictly limited foreign investments to a few key industries in the service and manufacturing sectors (such as tourism, education, IT, mineral processing, and agriculture) with the intention of “contribut[ing] in accelerating the pace of industrial development in Bhutan” (Ministry of Trade and Industry 2005). In 2010, major revisions to the FDI policy replaced this with a “negative list” policy which significantly liberalized foreign investments by only excluding certain strategic sectors from foreign investment while also listing a priority list of sectors for fast-tracked approval and clearance (Ministry of Economic Affairs 2010). The 2010 policy also increased the maximum foreign investor equity from 70% to 100% for many of the priority activities including 5-star hotels. Minor revisions to the policy in 2014 expanded options for repatriating dividends and purchasing land.

Table 3.3 below summarizes the annual FDI inflows to Bhutan between 2011 and 2014. FDI contributed a modest 0.43% to national GDP in 2014, although the annual flow the previous year was roughly six times larger (ca. 2.77% of GDP). An average of four FDI projects were approved each year from 2007 to 2011, which rose to an average of eight between 2012 and 2014; there were 26 FDI projects in commercial operation in 2014 (Ministry of Economic Affairs, forthcoming). This demonstrates that in light of the small size of Bhutan’s economy, even a small change in the number or scope of FDI projects entering the country can readily impact total GDP. By comparison, Bhutan’s

\(^\text{11}\) Interview, John Reed, Thimphu, [Aug. 1, 2015]
neighbour India in 2014 received nearly USD 33.9 billion in FDI inflows, accounting for 1.65% of national GDP (World Bank Development Indicators).

Table 3.3: FDI Inflows between 2011 and 2014 according to data from the Royal Government of Bhutan and the World Bank.

<table>
<thead>
<tr>
<th>Year</th>
<th>Government of Bhutan</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>USD 31.1 million</td>
<td>USD 31.1 million</td>
</tr>
<tr>
<td>2012</td>
<td>USD 24.1 million</td>
<td>USD 24.4 million</td>
</tr>
<tr>
<td>2013</td>
<td>USD 49.4 million</td>
<td>USD 49.8 million</td>
</tr>
<tr>
<td>2014</td>
<td>USD 8.3 million</td>
<td>USD 8.38 million</td>
</tr>
</tbody>
</table>

Sources: World Bank Development Indicators; Royal Monetary Authority.

Figure 3.3: Net FDI Inflow (% of GDP)

Source: Khan and Robson (forthcoming).

3.5 Summary

This chapter provided a brief overview of the recent political history of Bhutan and its socioeconomic transformations. It highlighted some of the unique economic developmental challenges currently facing the country, including an expanding consumption-led current account deficit, rising youth unemployment, and the need to diversify the economy away from hydroelectric power exports. FDI was introduced in 2002 as a source of capital and employment generation, but also as a way of upgrading and expanding the country's tourist facilities and help accommodate an increase in
international arrivals. However, the GNH framework places socioeconomic issues on equal footing with other national development priorities like environmental conservation and cultural preservation, which means that FDI in Bhutan should be evaluated in more than just economic terms. Chapter 4 below gives a detailed description of my research methodology, before I present my findings in chapter 5 and 6.
4. Methodology

The purpose of this section is to outline the nature, scope and approach of this research project and situate it in an epistemological framework. It moreover includes a detailed description of what kinds of data were collected and how, as well as a discussion of key ethical issues and considerations. My overall research question was what linkages foreign direct investment (FDI) has with GNH in Bhutan, which was explored through interviews with a variety of stakeholders and a case study of the country’s hospitality sector. To address this question, three months of qualitative data collection was undertaken in three different locations across Bhutan, namely Thimphu (the capital) and Paro and Gangtey valleys. In total, 51 interviews and eight focus group discussions (FGDs) were carried out in the three localities, in addition to collecting a small amount of data and grey literature alongside numerous informal conversations throughout my stay. All interviews in Thimphu were conducted in English, while a research assistant was hired to translate between English and Dzongkha, the national language and vernacular of Western Bhutan, for my case studies.

This research project is contextually specific, and the results are therefore not generalizable to FDI or hospitality outside of Bhutan. Nevertheless, its exploratory nature – possibly being the first case study of its kind looking at the impacts of FDI on a holistic development framework like GNH – may have broader application thus lending itself to opportunities for further research (as discussed at the end of this chapter).
4.1 Epistemological considerations

This investigation used a grounded theory approach, situated within an interpretivist ontology. As such, the data collection process adopted a constructivist approach which recognizes reality as “produced and reinforced by humans through action and interaction” (Orlikowski and Baroudi 1991: 14). Nevertheless, in line with Hammersley’s (1992: 52) “subtle realism,” it is also accepted that there is a reality independent of our knowledge of it although we can only access this reality though our own perspective and positionality. Since qualitative research is only as good as the reflexive nature of the researcher regarding their influence on data collection and analysis (Broom et al. 2009: 52), the subjectivity and positionality of both the researcher and participants were carefully addressed and emerging insights were systematically triangulated whenever possible.
Similarly, qualitative research is epistemologically subjective and thus “socially, culturally, historically, racially, and sexually located” (Lincoln 1995: 280). In a sense, then, it can only represent an incomplete truth. I have therefore taken care to identify the subjectivity and positionality of myself and my informants – as well as the interpretative choices I made as a researcher – which are discussed further below. In light of these ontological and epistemological considerations, it can therefore be assumed that this research project has produced findings that are scientifically valid.

4.2 Approach

Before departing for fieldwork, I wrote a research design project which included a literature review. It included a tentative time schedule and a taxonomy of relevant stakeholders that I intended to interview, and outside of the research design I prepared semi-structured questionnaires for each group. I also attempted to gather as much contextual information about cultural norms and my intended case study sites as possible, but in light of the limited information available on Bhutan this frequently had to be complemented by personal advice from people with experience working in Bhutan or conducting business case studies, such as Prof. Sabina Alkire, Dr. Tobias Pfaff and staff members at the Technology and Management Centre for Development (TMCD) at the University of Oxford.

The two main sectors that have received FDI in Bhutan are hospitality and mineral processing, accounting for 20 and 9 out of a total of 46 FDI projects operating or under construction as of December 2014 (Ministry of Economic Affairs, forthcoming). My research design originally anticipated focusing on both the hospitality and manufacturing. However, the official markers’ feedback on my research design (which I received after arrival in Bhutan) together with consultations at the MoEA led me to narrow my focus on cases within the hospitality sector. Similar to Moran (2005: 282), I thus chose to concentrate on the sector which has received the highest amount of FDI (in terms of both equity and number of projects) while recognizing that the results might not be generalizable. To understand the broader phenomena of FDI in Bhutan and to avoid selection bias,

\[12\]

I also received feedback on my methodology from Professor Mark Mancall of the University of Stanford whom I interviewed in Thimphu on September 28th, 2015. Prof. Mancall is a renowned scholar and public intellectual in Bhutan, a former royal adviser to Their Majesties the Fourth King and Fifth King, and holds Bhutanese citizenship.
however, I also conducted a series of context interviews with government and private-sector stakeholders in the capital Thimphu.

All but one of foreign-owned manufacturing companies in Bhutan are concentrated in the Pasakha industrial estate, alongside domestic firms, which is not conducive to a community-based investigation into local-level impacts. In contrast, I found that most upscale hotels are located in secluded areas within or near rural villages, which made it more plausible to investigate the community relations and GNH-related impacts of individual companies. The hospitality sector was therefore the most effective area of focus for this type of exploratory study.

The field sites that I chose, namely Paro and Gangtey valleys, were selected based on the principle of maximum variation (Flyvbjerg 2006: 230) both within and between each area. In Paro I identified three geographically isolated hotels – Haven Resort, Nak-Sel Boutique and Spa Hotel, and Hotel Zhiwaling – which were located within or near a village cluster and had contrasting investment ratios (maximum FDI, limited FDI, and fully domestic ownership, respectively). Gangtey only has two upscale resorts that were both fully-owned by foreign investors;\textsuperscript{13} however, Gangtey is a remote locality in contrasts from Paro where each village is relatively close to an urban centre. Another contrast is the high level of competitiveness in the hospitality market in Paro (with over 50 domestic and foreign-owned hotels in the valley) due to its proximity to the country’s sole international airport and major tourist attractions, whereas Gangtey only has five tourist hotels in total. These two valleys thus maximized the demographic, financial, and market variation between the two case studies.

This reflexive decision-making process illustrates the nature of a grounded-theory approach, which calls for constant reflection on the research methodology in light of research findings (Dowling 2008: 747). It is important to recognize this reflexivity given that we as researchers “are always beholden to the decisions that we make about what is valuable and useful enough to study and what would be the best way to go about studying it” (Angen 2000: 387). For instance, the main research question of this

\textsuperscript{13} Given that my initial investigation and FGDs in Gangtey were completed quicker than anticipated, I also interviewed the owners of three locally-owned tourist hotels.
investigation (see below) remained the same whereas the focus and location of the case studies were further narrowed after I arrived in Bhutan. Similarly, participants and interview questions were adjusted on a continuous basis in light of daily reflections written in my research journal. As part of my reflections on the research process, notes in my fieldwork diary were complemented by observations, impressions and feelings, and reflections on emerging research findings.

*Figure 4.2: Map of Paro valley, highlighting case study sites (Jeshingang, Ngoba and Jagathang) and their local FDI hotels (Haven Resort, Nak-Sel Hotel and Zhiwa Ling respectively).*

Sources: Google Maps, Electoral Commission of Bhutan (Delimitation Committee).
Figure 4.3: Map of Gangtey, highlighting case study sites (Gangtey, Gella and Tokha) and the valley’s two FDI hotels (Amankora and Gangtey Goenpa Lodge).

Sources: Google Maps, author’s field notes.
4.3 Data collection and analysis

Research Questions

As indicated above, the scope and methodology of this investigation were adjusted as new information came to light. Nevertheless, the main research question – namely, what are linkages between FDI on GNH in Bhutan – essentially remained the same, although it was narrowed to focus on FDI in the hospitality sector after arrival. This gave rise to two secondary questions: (i) what impacts (if any) has FDI had on the hospitality sector at the national level, and (ii) what impacts has FDI in the hospitality sector had on local communities (in terms of GNH). In addition to the hospitality sector, I also interviewed stakeholders from government institution and the private sector, as well as public intellectuals, on other issues relevant to FDI, GNH and tourism in Bhutan. I also noted relevant information from conversations with people I encountered in Thimphu, Paro and Gangtey. Figure 3.4 below summarizes the stratified evolution of the main research question.

One of the main difficulties faced in applying the research questions to my case studies was the broad nature of GNH. As described in the previous chapter, the four pillars of GNH are further elaborated into nine domains, which in turn consist of 33 indicators. Had I chosen to investigate only some of the indicators, it might have caused severe response bias from posing the wrong questions. I therefore relied on using open-ended questions concerning the impacts and relations in my case study communities. However, I also asked about specific impacts in terms of the four GNH pillars. Based on consultations with my research assistant, and given that the philosophy of GNH is rooted in local cultural values, I confirmed that concepts such as economic and cultural change can readily be articulated in Dzongkha. Although we occasionally made minor adjustments to how questions were posed and in what order, the wealth of data collected during the first case study in Paro confirmed the transmutability of these concepts from English to Dzongkha.
**Forms of Data Collected**

This investigation relied primarily on interviews and FGDs with relevant stakeholders in both the public and private sector. I carried out a total of 51 interviews and eight FGDs, of which all but 12 of
them were recorded with a dictaphone (subject to their consent).\textsuperscript{14} These lasted from 7 minutes to 2.5 hours, with an average of about 42 minutes, including FGDs. My list of participants was purposefully prepared ahead of my departure, but was also complemented by snowballing as interviews and networking data gave rise to further relevant contacts. None of my potential interviewees declined to participate and only two failed to take place due to time constraints on their part. In Thimphu, I mainly interviewed government officials in public offices involved with FDI (such as MoEA’s Department of Industry, the Royal Monetary Authority, the National Environmental Commission and the Gross National Happiness Commission) as well as owners and/or managers of both foreign-owned firms and locally-owned firms. In Paro and Gangtey, I interviewed local government officials, hotel staff, and monastic leaders, and had focused group discussions and informal conversations with local members of the communities. Most official interviews were held in the interviewees’ offices and a few took place in public restaurants. While I aimed at conducting focus groups outdoor in a public space to maintain spatial neutrality, one FGD was held in a public assembly hall while four were conducted in the private home of our local hosts. The main themes that arose from interviews are summarized in table 3.1 below.

As with many qualitative studies, my field notebook was extremely important (Brodsky 2008: 341-42). During interviews and FGDs, I took extensive notes which included themes, quotes, impressions, and observations on personal dynamics. I also used my notebook to write reflective notes about the research process on a weekly basis, and used it to plan interviews and case studies.

\textit{Table 4.1: Summary of interview participants and themes.}

<table>
<thead>
<tr>
<th>Participants</th>
<th>Themes of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government agencies</td>
<td>• Bhutan’s unique value proposition as an FDI destination</td>
</tr>
<tr>
<td></td>
<td>• Potential role of FDI in promoting economic growth/GNH</td>
</tr>
<tr>
<td></td>
<td>o Managerial knowledge</td>
</tr>
<tr>
<td></td>
<td>o Technology transfer</td>
</tr>
<tr>
<td></td>
<td>o Better facilities in upscale hotels</td>
</tr>
<tr>
<td></td>
<td>o Local socioeconomic development</td>
</tr>
</tbody>
</table>

\textsuperscript{14} These interviews were not recorded usually because I felt that at the start that it might make the participant uncomfortable, but were sometimes also due to a scarcity of time or – in one case – for the sake of anonymity.
| **FDI hotels** | **FDI application process**  
| | | | | | | o Environmental clearance and other steps  
| | Motivations for investing in Bhutan  
| | Relationship with local community  
| | o Employment  
| | o Local procurement  
| | o Volunteering  
| | Use of expatriate staff and Bhutanese management staff  
| | Salary structure  
| | Increased standards due to FDI  
| | Increased tourist arrivals  
| | Competitiveness of the hospitality sector  
| | o Profitability  
| | Tourist tariff liberalization  
| | Relevance of GNH  
| **Domestic hotels** | Motivations for starting business  
| | Relations with local community  
| | o Employment  
| | o Local procurement  
| | o Volunteering  
| | Employee composition  
| | Competitiveness of the hospitality sector  
| | o Profitability  
| | Tourist tariff liberalization  
| | Role/relevance of GNH  
| **Other companies (both FDI and domestic)** | FDI application process  
| | o Environmental clearance and other steps  
| | Motivations for investing in Bhutan  
| | o Pro’s and con’s  
| | Potential economic benefits of FDI \(^1\)  
| | Potential disadvantages of FDI (esp. competition) \(^1\)  
| | Role/relevance of GNH  
| **Local government officials** | Relations between FDI hotel and local community  
| | o Sharing of water resources  
| | o Potential for employment generation  
| | o Benefits of new road \(^2\)
<table>
<thead>
<tr>
<th>Local community members</th>
<th>Relations between FDI hotel and local community</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Local procurement</td>
<td>o Sharing of water resources</td>
</tr>
<tr>
<td>o Volunteering</td>
<td>o Potential for employment generation</td>
</tr>
<tr>
<td>• Potential cultural impacts</td>
<td>o Benefits of new road(^2)</td>
</tr>
<tr>
<td></td>
<td>o Local procurement</td>
</tr>
<tr>
<td></td>
<td>o Volunteering</td>
</tr>
<tr>
<td></td>
<td>• Potential cultural impacts</td>
</tr>
</tbody>
</table>

\(^1\) Introductions with BCCI officials, a private-sector umbrella organization.  
\(^2\) Only in Ngoba village (Paro district).  
Source: Author’s interview recordings and field notes.

My research design planned to include an ethnographic element in my case studies. Due to time constraints it was unfortunately not feasible to include in-depth participant observation. Nevertheless, given that the research questions included local and potentially cultural impacts, I adopted an approach in line with Wolcott’s (1990) notion of ‘microethnography’ which included walking ethnography, living within the local community, and observations of everyday life while taking extensive notes of it in my field notebook. I also collected limited amounts of grey literature (such as government policies, annual reports, and newspaper articles) and quantitative data (including hotel staff lists, tourist occupancy rates, and volunteer hours). The variety of data collected made it easier to triangulate claims, thus increasing the validity of my research.
Ethical Issues and Key Considerations

Foreign investment is a recent phenomenon in Bhutan and its impacts considered an important but unexplored question. My investigation was therefore not of a sensitive nature and generally met positive interest (only two of my informants requested anonymity). Nevertheless, I took great care to conduct my research in a fully transparent manner. Oral consent was formally secured at the beginning of each interview and interviews and focus group discussions were only recorded with participants’ consent. On the few occasions that I was given unsolicited information without establishing formal consent, the individuals were well-aware of my position as a researcher and I have chosen to quote them anonymously. My research diary, notes, and audio recordings were kept on my person at all times for safety and security, and all data backed up online remains password protected.

There were nevertheless several key challenges relevant to data collection. First, given that my visa was issued by the MoEA with the support of His Excellency The Minister of Economic Affairs, Lyonpo Norbu Wangchuk, the objectivity of my research could have been compromised. In particular, the FDI Division within the Department of Industry helped facilitate several of my interviews with foreign and locally-owned companies in Thimphu. However, the division’s help was carried out in the spirit of assisting whatever requirements I had during my stay as directed by the Lyonpo, and information was always provided to me upon request. In fact, the official status I enjoyed provided relatively easy and almost unrestricted access to key informants in various public offices and local government administrations. I was particularly conscious of the potential for the FDI Division prejudicing my choice of field sites towards a ‘best case’ scenario, and always verified relevant information through multiple informants. Ultimately, I selected my case study sites after multiple consultations with my thesis supervisor on the principle of maximum variation and geographic isolation (see field site selection above), which I believe has preserved the integrity of my investigation.

15 At a cabinet reshuffle on 30 March 2016, Lyonpo Norbu Wangchuk was appointed Minister of Education. Source: Kuensel.
Second, I faced significant response biases from participants who may have had political or commercial agendas. This was typically seen in Thimphu in either government officials or individuals in the private sector who appeared positively biased towards FDI. In rural areas, I was more likely to face social desirability bias from lay people attempting to please me as a respected guest in their community, which I sought to avoid by only using open-ended questions. Such issues are potentially compounded by poor memory or re-evaluation effects among participants, which leads to modified responses over time (Lilleker 2003: 212). In order to avoid both response and non-response biases, I attempted to triangulate information as much as possible by interviewing other sources, reviewing secondary data, and occasionally rephrasing or reintroducing questions later in an interview (although this was done as sparsely as possible to avoid social desirability bias). Although I took systematic steps through the investigation to avoid them, response and non-response biases are impossible to completely eliminate.

Third, I faced significant cultural and language barriers during my rural field site visits. As highlighted in the previous chapter, Bhutan’s culture is unique and I attempted to attune myself to cultural nuances as much as possible. Nevertheless, it is highly possible that cultural barriers of communication might have led to interpretative errors. All interviews in Thimphu were conducted in English and a research assistant was hired to translate between English and Dzongkha in Paro and Gangtey valley. Given that meaning is constructed by language (Barrett 1992: 203), a translator forms “part of the process of knowledge production” (Temple and Young 2004: 164). I therefore took great care in selecting a research assistant who demonstrated great interpersonal communication skills, a strong command of English and Dzongkha, and the ability to apply critical thinking to analytical problems. After each case study interview, we discussed the linguistic nuances of key words and

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16 While in Thimphu I spent a week selecting my research assistant. After inquiring into candidate suggestions from the Centre for Bhutan Studies and other contacts, I interviewed a short-list of five potential candidates. The interview questions focused primarily on previous research experience, research reflexivity, and interpersonal communication skills. All candidates were informed that we would be living in meager accommodation, embedded within the communities being studied. After selecting a candidate, I spent five days on training her before we traveled to our first case study site in Paro. This included providing documents and articles for her to read, careful discussions of the purpose and aims of my research, carefully planning the
compared our impressions and interpretations, which I added to my interview notes. In line with Edwards (1998), I therefore treated my research assistant as a key informant rather than a neutral transmitter of messages. This reflexive approach to translation resulted in richer data collection and helped facilitate a more neutral interpretation of field interviews.

Lastly, I was constantly aware of my own positional ity throughout the research process as a “young,” “white” “male” with an outsider’s perspective. My research findings are thus bound by my own biases, but also those of the participants. In particular, since I had not previously been to Bhutan my knowledge of FDI in the country and its local culture was shaped by information gathered through my research design’s literature review, personal advice, and other preparatory readings about Bhutanese culture. I was moreover influenced by my own pre-conceived notions of Bhutan as a ‘semi-pristine’ land yet to be transformed into a capitalist society and some scepticism towards the motivations of foreign investors entering the country. Being aware of this, I periodically deliberated on my own bias and changing perspectives throughout my fieldwork by means of reflective journaling and frequent discussions with my thesis adviser.

The positionality of my respondents also affected my research in terms of gender and race. It is commonly accepted that gender relations not only “shape[s] the social interactions between researcher and interviewee, but they also underpin the very context within which the interview itself takes place” (Herod 1993: 306). Since my case studies were conducted during the potato harvest season when most men were busily engaged in the builds, the majority of FGD participants in Paro and Gangtey were female. This may have created a non-participant bias which I attempted to eliminate by triangulating responses across genders whenever possible, although the effect is likely to be very low given the relative gender parity of Bhutanese society. A significant barrier to information was my role as a “well-educated” foreigner. This sometimes created timidity which I would attempt to overcome by explaining that I was interested in personal perspectives – and that there was no right or wrong answer – in the introduction of each FGD. I occasionally faced mistrust as a Caucasian outsider, but being an
unaccompanied foreigner more often than not made me the subject of curiosity. Moreover, being a foreigner I was often told by informants that they saw me as an “objective observer” which may in some cases have contributed to a higher level of trust. The positionality of my informants thus tended to be of lesser concern than my own biases.

Data Analysis

All interview notes and transcriptions were typed and backed-up using the computer program Evernote. Roughly half of all interviews and FGDs were transcribed while in the field, and the other half completed upon my return to Oxford, which was completed before data analysis began. The analysis was done manually in order to maximize linguistic flexibility, as analytical software often overlooks themes if interviewees used disparate vocabulary to discuss similar topics. When writing up interviews, I highlighted key points and quotes and added my own summaries and take-home points. This enabled me to categorize the data and identify key themes, develop a conceptual model dialectically informed by relevant literature, and give a more complete sense of the research findings.

Given that this investigation focused on the hospitality sector in Paro and Gangtey, care was taken not to make undue generalizations across Bhutan or other sectors. Moreover, data analysis must be considered in light of the subjectivity of the researcher and the investigation as a reflexive process (e.g. selecting leads to follow up on, privileging certain interviews and selecting recurring themes). This research therefore has limited replicability and does not constitute a definitive exploration of the relationship between FDI and GNH in Bhutan. Nevertheless, the investigation sheds light on the sector that has received the largest amount of FDI in Bhutan, and may therefore offer insight into valuable lessons in the country’s development.

4.4 Conclusion

This chapter presented an overview of my research methodology including its epistemological framework, how I approached the main research question, what data collected and how, as well as relevant ethical issues and how my data was analysed. Above all, this research project used a
grounded theory approach within an interpretivist paradigm which continuously sought to analyse methods, data and positionality through a reflexive process.

The contingent and subjective nature of this investigation precludes generalizations for other countries. Nevertheless, this investigation intended to address several gaps in the existing literature on Bhutan, GNH and sustainable FDI through a case study approach, thus hopefully opening up new avenues of investigation into these topics. The findings presented in the ensuing two chapters leave plenty of space for further research, such as a quantitative cost-benefit analysis of FDI hotels’ economic contribution, case studies of FDI in Bhutan’s mineral extraction sector, or an environmental assessment of Paro valley’s freshwater resources. These opportunities, together with research limitations, are discussed later in section 7.4.
5. Impacts of FDI in Bhutan’s Hospitality Sector

The purpose of this chapter is to discuss my findings concerning the socioeconomic impacts of foreign investment in Bhutan’s hospitality sector, based primarily on case studies in Paro and Gangtey but complemented by interviews with hotel managers and informants from the public and private sector in Thimphu. Out of a total of 51 individual interviews, 14 were conducted in Paro and 11 in Gangtey, in addition to four focus groups in each valley respectively, while the rest took place in Thimphu. I interviewed representatives from a total of sixteen different hotels, foreign as well as domestically-owned, which are listed in table 5.1 below.

I present my findings thematically rather than geographically (which would have described each site through its associated interviews). While both approaches have distinctive merits, I chose the former since I had access to interviews and data on cross-cutting themes, and with informants not narrowly tied to one particular case study site. Using these, I propose to weave a narrative around observed commonalities between my three field sites. This may have certain drawbacks, such as presenting narratives that appear generalizable when in fact they are based on a small sample. Although I have taken great care to only offer exploratory lessons based on my research, it is important to emphasize here that my findings are anecdotal and do not represent all of Bhutan. The views and quotes presented here are personal and do not represent any official stances of their respective institutions. Care has been taken to cross-verify direct quotes and attributions to seek approval from my informants, for roughly half of them, whenever views appeared to be of a sensitive nature.

Based on my context interviews in Thimphu, this chapter begins by situating the role of FDI in achieving Bhutan’s GNH goals. These interviews uncovered several recurring themes which I further explored during my case studies, namely: FDI as a source of capital and employment generation, positive spillovers through managerial knowledge and technological transfer, procurement from local farmers, and infrastructure development. The chapter then presents my case study findings (primarily from Paro and Gangtey) which explored those themes and other potential linkages between FDI and GNH in Bhutan’s hospitality sector, broken down at the local and national level in order to unveil
diverging trends. I then conclude by summarizing key lessons based on GNH linkages unearthed in this chapter.

*Table 5.1: Hotels interviewed in Thimphu City and Paro and Gangtey valleys (five main case study hotels - all four or five-star - highlighted in bold).*

<table>
<thead>
<tr>
<th></th>
<th>Thimphu</th>
<th>Paro</th>
<th>Gangtey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FDI Hotels:</strong></td>
<td>Hotel Le Meridien, Hotel Dhensa, Amankora (Thimphu), Dragon Spirit Hotel.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Haven Resort, Naksel Boutique Hotel &amp; Spa</td>
<td>Amankora (Gangtey), Gangtey Goenpa Palace</td>
<td></td>
</tr>
<tr>
<td><strong>Domestic Hotels:</strong></td>
<td>Hotel Jumolhari, Hotel Migmar, Terma Linca, Hotel Druk.</td>
<td>Zhiwa Ling Hotel</td>
<td>Padma Sambawa, Dewachen Hotel, Hotel Gakheeling</td>
</tr>
</tbody>
</table>

1 Dhensa is located in Punakha but the Bhutanese owner and manager is based in Thimphu. He also owns a domestic 4-star property, Hotel Jumolhari.
2 Dragon Spirit Hotel is an upcoming 5-star FDI hotel in Paro which has been approved for construction. I interviewed the Bhutanese partner, Mr. Rinzin N. Dorji, in Thimphu.
3 Three-star hotels, with the exception of Padma Sambawa which is yet to be accredited but accepting international guests.

5.1 The “Bhutan Story” and the role of FDI

As highlighted in the context chapter, Bhutan is not only culturally unique but also faces very particular political and economic challenges. Gross National Happiness provides a philosophical direction and policy framework to guide the Bhutan’s development, which places immense priority on the country’s natural beauty, cultural heritage and holistic well-being of its citizens, even if it requires a moderate rate of economic growth. This, in the words of Lyonpo Norbu Wangchuk, the former Minister of Economic Affairs, is “the Bhutan story.”17 And according to His Excellency,

This exactly where FDI should come in. We are a little ‘choosy’ with FDIs, in the sense that FDI must promote this story of Bhutan… we must have FDIs which are meaningful to our future and meaningful to our aspirations. The question is, what are these FDIs, and this is where we need to be more creative and innovative – not just us, but also the FDIs that would

17 Interview, Thimphu, [Aug. 31, 2015].
come into Bhutan. And they must see the jewels and gems that are in the country, they must
discover it for themselves.\textsuperscript{18}

According to Lyonpo, the purpose of allowing FDI into Bhutan is therefore to play an instrumental
role in achieving the development goals of GNH. His Excellency the Minister recognizes that “FDI is
important and perhaps a critical part of Bhutan’s story,” in terms of achieving its socioeconomic
goals, but that this cannot come at the cost of Bhutan’s development path which “is an economic
model informed by GNH principles.”\textsuperscript{19} FDI can help achieve Bhutan’s development goals – “at its
own pace” – by providing capital, technology and entrepreneurial expertise.\textsuperscript{20}

One possible reason for why Bhutan has turned to FDI to support GNH is that FDI is required for
building up-scale hotels and resorts since they are capital-intensive ventures. However, foreign-owned
businesses undertake profit repatriation, which – keeping all other factors constant – could make it a
suboptimal source of capital investment compared to domestic investment. This is because domestic
dividends are more likely to be spent or reinvested locally, particularly since capital controls limit
outgoing foreign investment by Bhutanese citizens. As Mr. Kinley Wangdi of the Tourism Council of
Bhutan notes, “why are we promoting FDI hotels right now? It is because we don’t have the capacity.
It is not because we find FDI hotels the best way of promoting GNH. The moment we find our own
resources capable enough to handle 5-star hotels, then I think we would prefer that.”\textsuperscript{21} As with the
overall FDI policy then, foreign investment was allowed to fill a particular need in the hospitality
sector, namely the lack of financial and managerial capital. This is why for example the national FDI
policy allows for foreign investment in 4-star properties and above but not in 3-star hotels, as the
domestic market already had a demonstrated capacity to invest and manage them.

Scholars such as Dasho Karma Ura, President of the Centre of Bhutan studies (CBS), nevertheless
seek empirical confirmation as to whether FDI has created significant high-tech transfers and whether

\textsuperscript{18} Ibid.
\textsuperscript{19} Ibid.
\textsuperscript{20} Personal Communication, Norbu Wangchuk, Thimphu, [Jul. 6, 2015].
\textsuperscript{21} Interview, Thimphu, [Jul. 21, 2015].
it has succeeded in generating a high level of employment and benefits for local communities. Dasho Karma Ura observes that so far, “FDI [in Bhutan] has included extremely profit-minded businesses, like banks” and that the hotel sector in particular is marked by very low employment elasticity. While some of these issues are further discussed in the next chapter, this chapter explores FDI specifically in the hospitality sector, at both the local and then national level.

5.2 Positive Views Surrounding FDI Themes

During the course of my fieldwork I encountered a strong positive discourse surrounding FDI in Bhutan. This was evident from interviews conducted with public servants and private elites who managed or owned businesses in Thimphu. Similarly, community members and local government officials in Paro and Gangtey were often highly optimistic about current or expected benefits derived from FDI hotels. As mentioned above, the most common themes voiced were that FDI has brought capital, managerial knowledge, employment, technology transfer and local supply-linkages. Based on my research in Thimphu, Paro, and Gangtey however, it appears that besides foreign capital (the majority of which drains out of the country) and modest employment generation, the only indirect spillover has been managerial knowledge through labour mobility.

The findings presented in this chapter emphasize these themes and are linked to GNH by identifying the relevant pillars and domains. Since the nine domains of GNH are more precisely defined than the four pillars and have become more prevalent in policy implementation, as seen in for example the GNH Commission’s GNH screening tool and the GNH survey carried out by CBS, my analysis in section 5.2 relies on identifying relevant domains. However, my macroeconomic findings throughout the rest of this chapter and the wider social issues considered in the next chapter relate more closely to the first pillar of GNH, namely equitable socioeconomic development. In those sections I have therefore chosen to refer to said pillar instead of the domains because although it is defined more broadly it is more analytically relevant to my findings.

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22 Interview, Thimphu [Aug. 7, 2015].
5.3 Limited Socioeconomic Impact at Local Level

Since the linkages between FDI and GNH have hitherto been underexplored, my case studies sought to establish the impacts of foreign-owned hotels on local communities. This was done by interviewing local leaders and focus group participants to confirm the common themes established in Thimphu while also asking open-ended questions about whether the FDI hotels had any relations with or impacts on the local community. In line with the positive discourse surrounding FDI, many public and local stakeholders hold a belief that foreign-owned hotels have a significant positive impact on local communities. My exploration of the hypothesized avenues of positive FDI impact found instead that, at least in these case studies, FDI hotels engaged in community volunteering but hired few to no employees from local communities, did not (except in one case) engage in infrastructure development, were poor procurers of local produce, and (in Paro) were putting a large strain on local water resources. The FDI hotels investigated maintained positive relations with their communities although (as with volunteering and donations) although this was not distinct from domestically-owned hotels.

As indicated in chapter 4 and at the beginning of this chapter, this study is a qualitative exploration and the themes explored in this section are thus grounded in evidence from my case studies in Paro and Gangtey and may not hold true for other locations in Bhutan.

Job Creation

There is a common perception that resorts create jobs for their local communities, sometimes based on their own promises. According to four of my informants, including three FDI managers, land registration procedures require that businesses consult with and acquire the approval of the chiwog (village cluster) affected before they can begin property development. This occurs through public community meetings where the managers present their business model and the potential advantages to the villagers, including employment opportunities, which are usually well received. Indeed, as the Tshogpa23 of one of my focus study villages commented, “the villagers are generally quite naïve and

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23 A gewog (subdistrict or group of villages) is administered by a council (tshogde) which consists of a Gup (headman), Mangmi / Mangup (deputy headman) and seven to ten democratically elected Tshogpas (village cluster representatives). Tshogpas are the lowest rung in Bhutanese local government and directly represent
positive, they like to believe what [businesses] tell them.”

All of the focus groups I conducted showed that community members expected hotels to generate jobs for the village youth, and in at least one case (Haven Resort in Paro) the resort had explicitly promised this, although only two community members had previously been hired and no local persons were currently employed (According to Jeshingang’s Tshogpha, Thinley Thsering, two young local men had in the past been given work at the hotel, but only through their deceased mother’s second husband, a Thai national working at the hotel).

Only one hotel, Gangtey Goenpa Lodge, deliberately recruited locals during the construction phase and kept them as service staff. The three other foreign-owned resorts studied in Paro and Gangtey hired virtually none from their locality. Gangtey Goenpa Lodge had 45 staff members at the time of interview, of which five were expatriates and 20 were locals from Gangtey valley. In comparison, the nearby Amankora lodge had only hired three employees from their chiwog, and Nak-Sel in Paro had hired two local youths and a third person who hailed from the wider Paro district (out of a total staff of 85). Domestically-owned luxury resorts similarly do not attempt to hire from their local community, as for example Zhiwa Ling in Paro only had one corroborated local employee from Jagathang village (whose job offer came through a personal connection). Of the three non-FDI hotels in Gangtey valley, Dewachen Hotel had a staff structure of 20% (4 out of 20) from their chiwog, which raises a possibility worth further study as to whether smaller three-star hotels are better at job creation for local employees.

This contradicts the positive discourse that surrounds FDI hotels, and neglects what informants consistently identify as the biggest opportunity for creating socioeconomic benefit for their chiwogs. In the words of Mr. Cheda, a resident of Ngoba village for ten years, “If the hotel [Nak-Sel] could actually give jobs to our children – we don't want very high salary though – that would really...”

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the interests of their constituents, and while there is no precise limit to a chiwog electorate the largest I have come across consisted of 85 households. Source: Local Government Act of 2009.

24 Anonymous interview.

25 Since the focus was on socioeconomic impacts compared to before the entry of FDI hotels, this figure does not count hotel staff members who originate from outside a chiwog.
contribute in the happiness of the local people.”

This indicates that local job creation would promote both the domain of living standards as well as the overall goal of GNH, namely the happiness (wellbeing) of the population. The five upscale hotels I studied, however, all hired staff (competitively) from across the country, often from Eastern and Southern districts. Although this might be an economic benefit at the national level, only one of them (Gangtey Goenpa Lodge) created significant employment opportunities for their localities.

**Local Procurement**

The second most common theme mentioned by stakeholders in relation to the potential benefits of upscale resorts is the procurement of local agricultural produce. The procurement of locally available food products – most commonly red rice, potatoes, chillies, leafy greens and dairy products – has the potential to raise the living standards (one of the GNH domains) for farming communities. Both my case study areas relied on potatoes as their main cash crop, typically sold at the Indian border in Phuentsholing, and produced smaller quantities of cereal, apples and leafy greens, primarily for consumption purposes. Except for Tokha village in Gangtey valley which has very small land holdings, all of my interviewed focus group participants expressed a strong preference for selling their food surplus to local hotels as it would save them time and money on transporting goods to market places.

The managers of Nak-Sel, Zhiwa Ling and Gangtey Goenpa lodge all expressed a strong willingness to procure as much as possible through local farmers as Bhutanese produce is considered tastier and of higher quality. Each of those three resorts made some attempts to buy locally, while Haven Resort and Amankora bought all their food supplies from markets that sell imports from India (in the case of

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26 Focus Group Discussion, Cheda, Paro, [Aug. 21, 2015].
27 This is of course a reflection of the hotels’ human resource policy which may have been set for strategic reasons. Without going into a broader discussion that is beyond the scope of this thesis, I believe it suffices to note that Gangtey Goenpa Lodge had found their hiring strategy very successful as their staff show great loyalty, confidence and dedication in their work which has made it a “super smooth” training process.
28 The Gup of Lango gewog in Paro, Mr. Phub Tshering, commented that it was a good thing that Nak-Sel did not hire locals from Ngoba chiwog since discrimination is illegal. However, the 2008 constitution of Bhutan (article 7, paragraph 15) only explicitly bans negative forms of discrimination “on the grounds of race, sex, language, religion, politics or other status.”
the latter, all of their five lodges are supplied via their Paro property). When asking follow-up questions and cross-referencing with community members however, the procurement claims by Nak-Sel and Zhiwa Ling appeared to be exaggerated. This was caused by local supply chains being inadequate or non-existent, and the scale of production too small for individual farmers to supply large hotels. As Jamyang Khentse, Managing Director of Nak-Sel hotel commented, “if they [Ngoba residents] could form cooperatives and sell in bulk, we would buy almost everything from them.”

However, neither of the three willing hotels nor their local communities have taken initiative to create supply-chains, and in Ngoba several of my focus group participants (almost half) seemed unaware of Nak-Sel’s readiness. In contrast, my interviews with smaller domestic three-star hotels in Gangtey indicated that they were able to source the majority of their food supplies locally during harvest season because they had smaller needs and better connections. In spite of a common interest in supporting local communities economically, my five main case study hotels (domestic as well as FDI) seem unable or unwilling to develop the necessary supply chains.

**Local Infrastructure Development**

Another common assumption among government officials in Bhutan is that luxury resorts promote local infrastructure development. Improved infrastructure would constitute a positive spillover that promotes the ‘living standard’ domain of GNH. Nevertheless, as the UNCTAD (2007: xiv) case study notes, “despite the expectations of some host governments, [Tourism FDIs] are not likely to assist in

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29 Nak-Sel and Gangtey Goenpa Lodge both buy minute quantities of locally-produced food such as rice, potatoes and (in Paro) organic lettuce. Hotel Zhiwa Ling, a domestically-owned 5-star resort in Paro, claims to maximize their procurement of local vegetables in the annual harvest season by stopping at the nearby Lango bazaar before buying imported staples from Paro town while relying almost entirely in imports the rest of the year. These findings are consistent with the UNCTAD (2007: 79-80) comment that “the quantities required are often too large to be met by local production capacity,” although paradoxically the report proceeds to note that “a single foreign hotel in Paro, Bhutan, spends $10,000 a month on food alone, of which the majority is reported to be sourced from domestic suppliers.” As anyone familiar with the rural economy of Bhutan will know, such quantities are completely unfeasible to source locally since most farmers are largely self-sufficient and only produce a small surplus of cash crops like potatoes, apples and spices. If going through an intermediary, like Gangtey Goenpa Lodge does, food products are typically only available in bulk at the nearest district market (like Wangdi town) of which most would be imports from India even during harvest season.

30 Interview, Ngoba, [Sep. 9, 2015].

31 Participants in both Ngoba focus groups mentioned that the owner of Nak-Sel, Mrs. Wangmo, had promised during a village meeting that the hotel would buy local produce, although they added that neither she nor the villagers had since followed up on it.
the development of infrastructure.” An oft-cited example of FDI-led infrastructure development by my informants is Nak-Sek hotel which – exceptionally – has asphalted a 2.4km stretch of farm road leading up to the hotel. Although the road has made transportation easier for all members of Ngoba village, for example shortening the walk for school children getting picked up by bus, it has not been economically transformative since the community was already relatively well-connected to nearby Paro town (and the thin layer of asphalt has given way to numerous potholes less than ten years after its completion). Otherwise, farms roads are primarily maintained by local government through contracting and community volunteering, to which hotels and other local businesses occasionally donate materials or cash. Similarly, according to my Thoka focus group in Gangtey, a promise by Amankora that they would bring electrical lines to their local village cluster (Thoka village) did not materialize and was later supplied by the government (although it should be noted that this might be due legal complications given that the valley is a protected reserve for the black-necked crane). The notion that FDI leads to infrastructure development is therefore not consistent with the implemented hotel projects that I studied.

Community Service and Donations

Bhutan’s tourist hotels often participate in social development through communal volunteering or cash donations to local causes and events. In my case studies, the most common causes include religious festivals, sports events or the repair of chortens (shrines). According to Meyer (2007: 575), the tourism sector undertakes corporate philanthropy for the sake of their reputation and marketing efforts, and also because “tourism is highly dependent on the goodwill from its neighbours.” The Amankora chain in particular has implemented a company policy of committing staff labour to community service during lean months as a way of giving back to their local communities, helping with everything from clean-ups and health awareness campaigns to assisting in the annual crane

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32 Interview, Sangay Khandu, Paro [Aug. 17, 2015].
33 Focus group discussion, Kuenzang Wangdi, Gangtey, [Sep. 13, 2015].
34 The electricity lines were not discussed with either of my two informants at Amankora, although the lodge host, Mr Banu, told that they had upgraded the road leading to Thoka chiwog where the hotel is located. However, my FGD participants in Thoka claimed that they had done most of the manual labour involved and that Amankora’s contribution had been to cement the short dozen-or-so metre long section where it branched away from the main road.
survey in Gangtey and helping impoverished families with their potato harvest.\textsuperscript{35,36} As the Lodge Manager of Amankora (Gangtey), Mr. Banu comments, “we [Amankora] try our best to fit into [local needs] where we can, helping in little ways.”

All medium and large hotels that I spoke with undertook community service to some extent. Amankora nevertheless appears to have surpassed the norm, and throughout 2014 committed an average of 5,378 staff-hours in each of their five lodges. In Gangtey, several focus groups recognized that volunteering initiatives by Amankora has led to a qualitative improvement in their community environment – which corresponds to the ‘community vitality’ domain – although it was considered a minor benefit. It is highly noteworthy, however, that FDI hotels are qualitatively not distinguishable from locally-owned businesses in these practices since Medhei Zhabtog (community service) and Zhendep (donations) are culturally ingrained practices among Bhutanese businesses.\textsuperscript{37} The amount of work and money contributed by domestic versus foreign-owned hotels is a useful topic for further study which I did not fully explore, although my interviews in Gangtey indicated that all hotels make similar financial contributions to social projects at their monthly hotel association meeting. In conclusion, volunteerism is possibly the most significant way in which FDI hotels interact with and directly influence their local communities.

\textbf{Other Domains}

In addition to socioeconomic impacts, I also used open-ended questions to investigate whether foreign-owned hotels had any impacts on other domains of GNH. When probed about cultural impacts, the Tshogpas of both Ngoba and Gangtey chiwogs and several participants in two of my focus groups (in Gangtey and Gella chiwog) voiced a concern for modern cultural influences reducing the use of traditional clothing amongst their youths, namely gho for men and kira for women, although this could not be directly attested to the establishment of tourist resorts in their communities. The lack of cultural or visible environmental impacts is not surprising: the marketization of Bhutan’s

\textsuperscript{35} Interview, John Reed, Thimphu, [Aug. 1\textsuperscript{st}, 2015].
\textsuperscript{36} Interview, Bhanu Kharka, Gangtey, [Sep. 9, 2015].
\textsuperscript{37} Personal communication, Loknath Chapagai, Thimphu, [Sep. 28, 2015].
“unspoilt” nature and culture by upscale resorts makes it is in their economic interest to disturb their locality as little as possible. Similarly, my case studies did not reveal any impacts on transparency or local government (the ‘good governance’ domain), in spite of corruption being seen as one of the potential side-effects of FDI. I did however uncover a significant strain on Paro’s water resources – discussed in context of market saturation in the next section below – which undermines the environmental domain of GNH.

**Overall Community Welfare**

Putting these findings together paints an ambiguous picture of the impacts that foreign-owned hotels in Bhutan have had on their local communities. As the Gup Mr. Dophu summarizes for Gangtey valley, the arrival of Amankora and Gangtey Goenpa Lodge have had “no major positive impacts, just small ones.” Indeed, most local government officials and all but two of my focus groups conducted in Paro and Gangtey highlight that the main impact from both domestic and foreign-owned resorts is derived from the money spent on accommodation and food by their employees (a benefit derived regardless of investment source). In light of how all rural tourist hotels donate time and money to community service, and assuming the staff to room ratio is identical, there is therefore no discernible difference in the socioeconomic benefits that trickle down to local communities between domestic, FDI and mixed upscale hotel investments. Mr. Tshewang Rinzin – a 65-year-old resident of Gella village in Gangtey – concluded that in general he “doubt[s] if the [FDI] hotels have really contributed towards the happiness of the village,” except for those few who have gained a job or rent their house to hotel staff. If foreign direct investment in the upscale hospitality sector in Bhutan has not created any considerable benefits for local communities in terms of GNH, this raises the question of whether it has been accompanied by any macroeconomic impacts.

**5.3 Economic and Environmental Impacts at National Level**

The previous section explored direct impacts of FDI hotels on local communities. This section explores other significant impacts at the national level, which may not immediately and directly affect
local communities but may describe channels whereby FDI hotels contribute to GNH now or in the future.

**Raised Industry Standards**

It is commonly accepted in Bhutan’s tourism industry that the introduction of FDI hotels has set higher industry standards and promoted Bhutan to a broader international market. Several hotel managers I interviewed discussed this, explaining that the foreign hotels have introduced higher standards (a competition which has forced some domestic hotels to upgrade) and moreover increased international arrivals by promoting Bhutan through their international properties. "If the standards in Bhutan have increased in hospitality and services, to a large extent I would attribute that to FDI hotels coming into Bhutan," notes Ugen Wangchuk, owner of a domestic 4-star property in Thimphu and partner in a new FDI resort in Punakha. Even a small, independent FDI hotel like Gangtey Goenpa Lodge claimed to be “aggressively promoting” their property to potential customers in the US and Germany. The entrance of foreign hotel brands in Bhutan’s hospitality sector has therefore been instrumental in increasing the number of international arrivals. However, it would be conjectural to claim (as the UNCTAD case study did) that multinational hotels “have been responsible for more than doubling the number of tourist arrivals” (UNCTAD 2007: 53, emphasis added), as this has happened alongside promotion activities by TCB and the country’s numerous tour operators who have capitalized on Bhutan’s increasing renown (Dorji 2001: 101).

FDI resorts in of themselves have enticed more high-end tourist arrivals but have also had an instrumental impact on the hospitality sector as a whole through managerial knowledge spillover. This is evidenced by the high prevalence of domestic managers in luxury resorts, such as Terma Linca, a domestically owned 4-star hotel which has had 100% Bhutanese management since its inception in 2008. While FDI brands like Amankora initially relied heavily on expatriate staff, training has

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39 Interview, Yeshey Tshogay, Thimphu, [Jul. 15, 2015].
40 Interview, Thimphu, [Jul. 27, 2015].
41 Interview, Ateep Shrestha, Gangtey, [Sep. 9, 2015].
enabled them to promote domestic staff to high positions such as Lodge Manager. In addition to creating large wage savings for hotels, trained Bhutanese staff are able to take up management positions at other hotels (domestic or foreign) which thus creates a positive spillover effect. The General Manager of Nak-Sel hotel, Jamyang Khentse, had for example received training at Haven Resort (also in Paro) before being hired as marketing manager at Nak-Sel; today, he only employs two expatriate managers out of a staff of 85. Foreign investment in Bhutan’s hospitality sector has therefore had a significant spillover impact in terms of raising the overall standards of hotel offerings and increasing managerial capacity.

This spillover appears to have enabled Bhutanese entrepreneurs to successfully start several comparable luxury resorts. Nak-Sel (Paro), Dhensa (Punakha) and Hotel Le Meridien (Thimphu) are all 4-star properties with partial foreign ownership – 21%, 50% and 50% respectively – but initiated and managed by Bhutanese investors. The Taj Tashi – domestically owned but managed by the Taj group of hotels – became the country’s first domestic 5-star property, and opened in 2008. Even more significant, Terma Linca Resort & Spa was constructed and maintained without any foreign involvement whatsoever “to show that it was possible to manage a property at the international level by a local team,” and is currently in the process of upgrading to 5-star status. Although local interest rates are relatively high, resorts like Dhensa, Nak-Sel and Zhiwa Ling have all been largely or fully funded through domestic bank loans. This indicates that Bhutan’s hospitality sector has reached a level of maturity where local investors are fully capable of investing, constructing and managing luxury resorts at the international level.

**Lack of Other Economic Benefits**

As discussed in the context chapter on page 32, increases in international arrivals have had strategic macroeconomic benefits for Bhutan in tackling the current account deficit and increasing economic self-sufficiency. FDI has thus had an important role in increasing direct revenues from tourism (reaching USD 73.2 million in 2014). However, I could not ascertain any other positive spillovers.

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42 Personal communication, Ugyen, Drugyel, [Aug. 12, 2015; Sep. 12, 2015].
43 Interview, Yeshey Tshogay, Thimphu, [Jul. 15, 2015].
Hospitality is not a technology-intensive sector but rather an upscale service industry which requires large capital investments, and has therefore not been accompanied by any significant technology spillover. Significantly, FDI in Bhutan’s hospitality sector defies conventional economic logic concerning the multiplier effect as the initial capital investment largely “bleeds out” of the country, and therefore does not create significant economic growth.

FDI potentially generates economic growth through the trickle down of capital spending (see page 13). In Bhutan, however, the dependency on Indian imports for everything from primary goods and building materials to food and labour means that large capital projects spend very little money on domestic supplies. This is primarily due to the country’s small manufacturing sector and low population. Bhutan is particularly reliant on Indian labourers in the construction and hydropower sectors, which made up almost the entirety of the 45,000 annual foreign worker quota in 2015 (Ministry of Labour and Human Resources 2015: 15-16). Even domestically available materials such as lumber, sand and granite are often imported due to lower prices in the Indian market. As such, large construction projects like upscale hotels rarely dispense more than a little money in the local economy beyond overhead costs such as building contractors, architects and artisans; an estimated 60% to 100% of all material and labour for commercial building projects in Bhutan are imported from India. In the case of Haven Resort (Paro), the foreign investor used his construction company in Thailand for all aspects of the building process from engineers to imported construction machinery (according to the current manager, the only component sourced locally was lumber for wood panels and flooring).

Regardless of intent, the vast majority of capital investments from FDI hotels ‘bleed out’ through imported material and labour which means that a minimal amount reaches the domestic economy. Worse, it increases Bhutan’s current account deficit and thus undermines the economic self-reliance of the country.

An UNCTAD (2007: xiv) report on FDI in tourism surmised that foreign hotel chains in Bhutan “often pay higher wages and offer a better package to employees than local firms.” The report

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44 Personal communication, Chering Tsheki (civil engineer), e-mail [Mar. 22, 2016].
however goes on to later note that the claims could not be verified (Ibid.: 67). Based on my case studies, both domestic and upscale resorts pay full-time employees the same starting salary of Nu. 4,500/month (ca. USD 65 at the time of writing). The only exception was Nak-Sel, which pays Nu. 6,000/month to their lowest salary earners, although it is not a representative FDI hotel given that the foreign investor is a passive partner with a 21% equity stake. Salary earnings in the service sector are by law complemented by an equal share of the hotel’s collected service tax (10% of guests’ total bill), regardless of the employee’s position, which I found to vary from as little as Nu. 3,000/month per employee (at Nak-Sel during lean months) and up to Nu. 33,000/month (at Amankora during high season). I did not collect data on mid- or high-level salaries. My case studies revealed no significant difference in the wage structures for low-level employees between domestic and foreign-owned resorts.

Another typical benefit of FDI is that even if they repatriate most or all of their capital gains, newly-formed companies provide government revenue from taxes. Repatriation depends on several factors including how much capital is reinvested and the cash reserves held back, but can potentially be as high as the foreign ownership stake in the company (in Bhutan, up to 74% for 4-star hotels and up to 100% for 5-star hotels and above). However, the effective tax paid by large companies is often lower than the official rate due to fiscal incentives. Section 5.2 of the 2014 FDI policy of Bhutan states that “the FDI companies shall be entitled to the incentives and exemptions as provided by the Royal Government to similar domestic investments, unless specified otherwise in this Policy.” This includes a variety of fiscal incentives introduced under the Economic Development Policy (2010: 30-38) to “promote growth in the economy and increase employment opportunity.” In addition to broad incentives on customs duty and sporadic sales tax exemptions, new tourist hotels established between 2010 and 2015 can also avail themselves to a ten-year income tax holiday. I found precious little publicly available data, but according to figures in RMA’s National Revenue Report for the fiscal year 2014-15, hotels (both domestic and FDI) generated Nu. 308.2 million (USD 4.65 million) in sales taxes and received Nu. 96.8 million in indirect tax exemptions (sales tax and import duties). According to MoEA’s FDI Report 2015, no FDI hotels paid corporate income tax in the year 2013-
14. Overall, this indicates that out of direct and indirect taxes (i.e. import duties and sales taxes), FDI hotels currently make only a modest tax contribution through the indirect sales tax, although further research is needed to quantify this.

**Intensified Competition**

The recent growth in both domestic and FDI hotels in Western Bhutan is making the sector increasingly competitive, indicating that hospitality is approaching regional market saturation. There are currently 57 tourist hotels (3 star and above) in Paro and Thimphu, which means that nearly two-thirds of Bhutan’s 101 registered tourist hotels are concentrated in those two districts.\(^{46}\) Although some stakeholders argue that there is a lack of accommodation during the peak-of-peak times, this claim is based on hotels in Paro and Thimphu being fully booked for about a week each during the annual *tshechu* (religious festivals) of either city. Moreover, some argue this is almost entirely caused by the practice of block-booking by larger tour operators.\(^{47}\) “There is sufficient inventory, at least for the tourism levels that are here right now,” notes John Reed.\(^{48}\) This is reflected in the low average room occupancy: out of fourteen hotels interviewed, the highest year-on-average occupancy rate was 41% for the year 2014 (at Nak-Sel)\(^{49}\) whereas nationally it averaged 25-32% (depending on the source). Mr. Kinley Wangdi, Head of the Plans and Programmes Division at TCB explained that “as of now, we [Bhutan] have a very comfortable number of FDI hotels, and I think that itself is making our market already saturated for 5-star hotels [in relation to the number of clients].”\(^{50}\) Mr. Wangdi continued to add that the hospitality market also currently does not require more FDI in the 4-star sector, as they often aim for the same category of clientele as the 5-star properties; from a policy

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\(^{46}\) These figures are based on a list of accredited hotels provided by the Hotel and Restaurant Association of Bhutan (HRAB) on Feb. 15, 2016. Although recently updated, the document is by no means exhaustive as some touristor hotels operate without having yet been rated by TCB, and there are numerous new hotels currently under construction or recently completed such as Le Meridien in Paro which had a soft opening in December 2015. My informants frequently cited an excess of 60 tourist hotels currently operating in Thimphu and Paro.

\(^{47}\) Interview, Kinley Wangdi, Thimphu, [Jul. 21, 2015].

\(^{48}\) Interview, Thimphu, [Aug. 1\(^{st}\), 2015].

\(^{49}\) Interview, Jamyang Khentse, Ngoba, [Sep. 9, 2015].

\(^{50}\) Interview, Thimphu, [Jul. 21, 2015].
In spite of this competitiveness, my research indicates that the hospitality in Bhutan is still a profitable sector. Amankora, for example, “never anticipated doing huge gang-busting business” when they entered the market but is still experiencing “healthy revenues and healthy operating margins;”\textsuperscript{52,53} similarly, both Haven Resort and Nak-Sel are on course to clearing their capital debt within the next five years. The Royal Government of Bhutan has a clear economic interest in incentivising investment and to moreover support infant industries (if nothing else but to safeguard the jobs that have been created), but the hospitality sector’s profitability raises questions of whether the generous tax holidays extended towards foreign-owned by the government (explained in the next section below) are fully justifiable.

**Environmental Concerns**

A troubling issue is that the high concentration of hotels in Paro (which has 32 out of the 57 registered hotels in the West) is putting a heavy strain on the valley’s vital water resources. Although not attributable to FDI, increased investment in the hotel sector has had a detrimental impact on the environmental domain of GNH in Paro valley. Luxury hotels are particularly water-intensive, using immense amounts of water to for example wash linens and vehicles and to water their gardens. Water resources were a consistent concern across all three *chivogs* studied in Paro. Ngoba in particular has 12 hotels of varying sizes including Nak-Sel, and although the village relies heavily on irrigation farming to grow rice they are already facing intermittent water shortages.\textsuperscript{54,55} Jeshingang village had already ceased crop irrigation due to a decreasing flow of spring water before the arrival of Haven

\begin{footnotes}
\item[51] Ibid.
\item[52] Interview. John Reed, Thimphu, [Aug. 1, 2015].
\item[53] The Aman group invested approximately USD 26 million in their five lodges in Bhutan, including a USD 10 million IFC loan. At the time of my interview with Amankora’s Regional Manager, John Reed, the company had generated nearly USD 80 million in revenues which had enabled them to repay the IFC loan in full, and although the Aman Group is yet to be paid their capital investment it has been receiving an annual management fee.
\item[54] Interview, Phuba Tshering, Ngoba, [Sep. 9, 2015].
\item[55] Interview, Sangay Khandu, Ngoba, [Sep. 9, 2015].
\end{footnotes}
Resort with which they now share their water source. In Jeshingang, Ngoba and Jagathang, all local government officials and focus groups expressed a concern that the construction of more hotels would put a serious constrain on their water resources (for both consumption and irrigation use). According to the Lango gup, Mr. Phuba Tshering, “it is really hampering, you know, the [lack of] access of water to people,” adding that the area could not handle more hotels at this point.

The strain on water in Paro not only undermines GNH but is potentially unlawful. According to The Water Act of Bhutan 2011, the country’s water resources are owned by the state while each citizen has an equal right to these resources. The water act recognizes “the seasonal and local scarcity of water for drinking and agricultural purposes, despite the country being endowed with abundant water resources” (The Water Act of Bhutan 2011: 1), and has set out a priority list for water usage. While “water for drinking and sanitation” and “water for agriculture” are ordered as first and second priorities (respectively), “water for industry” comes fourth (Ibid.: 20). According to the interpretation of the Lango gup, this means that it is unlawful for commercial water usage to encroach on the ability of the local communities relying on a given water source to irrigate their farmland. However, the permission to use a given spring for a non-manufacturing enterprise is not part of the business registration process and is instead negotiated directly with the relevant community. Although the water act (2011: 20) states that “an Environmental Clearance shall not be construed as a guarantee, expressed or implied, of supply of water,” I was told on two separate occasions that community members felt they would be pressured to accept new hotel projects even if they already faced water shortages. In 2015, in response to a request to share water with the nearly-completed Paro branch of the Six Senses luxury chain, the Jeshingang community commissioned a study by a water engineer which showed that their spring water (already shared with Haven Resort) is only barely sufficient for current usage levels and cannot sustainably supply another hotel. This is another strong indication that the hospitality sector in Western Bhutan – or at least Paro district – has reached a point of unsustainable market saturation, as it has become detrimental to the ‘environmental’ domain of GNH.

56 Interview, Thinley Tshering, Jeshingang, [Aug. 18, 2015].
It moreover demonstrates a need for an in-depth study of Paro district’s water resource management for both subsistence and commercial use.

**Limitations on Social Gains**

As mentioned above, the positive spillover in managerial knowledge is considered key in expanding the number of tourists visiting Bhutan. This has increased the tourist royalty which goes to the government, set to USD 65/day for each international tourist arrival, and potentially increased other forms of social benefits derived from the hospitality sector through taxation and corporate dividends. However, it should be kept in mind that foreign-owned hotels repatriate dividend earnings to their parent company abroad unlike domestically owned hotels. Figure 5.1 below shows a model of the social gains associated with the increase in number and quality of hotels in Bhutan, which are assumed to be directly proportional to the number of international tourist arrivals.

*Figure 5.1: Flow chart of potential social benefits of an increase in quality and quantity of tourist hotels.*
Relatively new hotels, including Amankora which began in 2002, spend parts of their profits on repaying capital loans. They may also reinvest into the business, and in the case of international brands like Amankora and Le Meridien pay a management fee (usually as a set percentage of net profits). The remaining dividend is then either repatriated (FDIs) or held within the country with the potential to be spent or reinvested locally. Another social benefit are wages (which include a 10% service tax on all bills) paid to staff members, but as noted in section 5.3 there is no significant wage differences between FDI and domestic hotels. Similarly, no FDI hotel has begun paying corporate income tax; sales taxes and incentives are equal for both FDI and domestic hotels, and the vast majority of the capital invested is spent on imports from India (also section 5.3). Domestic supply chains have likewise been excluded from the model due to extremely low procurement among upscale hotels (section 5.2). The primary difference between the social benefit derived from FDI and domestic hotels of the same size and standard therefore lies in the dividends and how much is forsaken from using foreign capital instead of domestic capital. Accordingly, the big question is whether the increase in tourist fees – which in 2014 hit USD 73.2 million – is worth the loss of dividends being repatriated by foreign-owned hotels (and would have remained in the country through domestic investment). This is an important issue for further research, as I was unable to obtain enough data to make a qualified estimate for this thesis.

Upscale hotels moreover have a poor rate of employment generation rate for the equity invested relative to FDI in IT. Based on data collected from Nak-Sel, a 4-star hotel and Amankora, a chain of five 5-star lodges, an average of 0.067 jobs are created per USD 1,000 invested in upscale tourist hotels. Comparatively, for FDI in the IT sector (based on data provided by Scan Cafe and SouthTech, both FDI companies located in Thimphu TechPark) the figure is 2.52 jobs for each USD 1,000 invested. This supports the view of Dasho Karma Ura (section 5.1 above) and indicates that Bhutan may be able to generate considerably more jobs by encouraging foreign investments in IT instead of hospitality even with lower absolute equity. It is also noteworthy that Zhiwa Ling in Paro employs roughly as few expatriate workers as the upscale resorts I studied, which indicates that domestic job creation is unaffected \textit{(ceteris paribus)} by the source of capital.
5.5 Summary

The preceding chapter has highlighted a series of empirical findings regarding the impacts of FDI in Bhutan’s hospitality sector at the local and national level, which leads to three broad lessons. First, FDI has had a positive spillover effect in terms of raising the standards of the tourism sector as a whole which has been instrumental in increasing the number of international arrivals. This occurred from competition with local firms, which forced them to upgrade, plus managerial knowledge transfer through labour mobility. However, Western Bhutan (Paro and Thimphu dzongkhags) is facing potential saturation of the hospitality market at current levels of demand and the recent rise in hotels in and around Paro has led to a heavy strain on the valley’s water resources, which begs the question of whether further FDI is needed in the region.

Second, within the current policy regime, the economic benefits of further FDI in the hospitality industry are best judged according to the number of jobs it creates. Existing FDI hotels have had negligible socioeconomic benefits in their local communities due to the lack of local procurement and low levels of local employment generation. With the exception of Gangtey Goenpa Palace, none of the 4- and 5-star resorts investigated in this study had hired above 5% of their workforce from their local chiwog. Although Gangtey does not yet face water shortages, in Paro (where jobs are needed if the local economy is to shift away from relying on irrigation farming) the highest rate of local employment generation was three out of 85 at Nak-Sel in Ngoba (which drops to two when counting members of Ngoba chiwog). At the macroeconomic level, the vast majority of capital injections from FDI resorts ‘bleed out’ and royalty gains from an upsurge in international arrivals is offset by the ‘loss’ of profit repatriation (relative to domestic investments). Excluding the already-achieved spillovers in Bhutan’s overall tourist industry, the primary benefit of further FDI projects in the hospitality sector is thus the absolute number of jobs created unless other GNH linkages are developed.

Third, in terms of other domains of GNH, FDI in the hospitality sector has had mixed results. At the local level, foreign-owned hotels have for the most part had a negligible impact on the standards of
living of their local communities but – together with domestic hotels – negatively impacted the
environmental pillar of GNH in Paro. Nationally, FDI has been instrumental in improving government
revenue from attracting more international tourists, thus expanding public service provisions, but
social benefits are muted due to lost profit repatriations which would have otherwise stayed in Bhutan
via domestic investment. These facts point towards limited expansion of the socioeconomic domain of
GNH. In light of the hospitality sector’s low employment elasticity, GNH may be better served from
further FDI in IT or other sectors.

The evidence presented above should moreover be considered in relation to my broader findings,
discussed in the next chapter. Based primarily on interviews and observations in Thimphu, it explores
the motivations of foreign investors, FDI’s implications for Bhutan’s socio-political climate (including
growing concerns over inequality), and its potential for undermining the principles of GNH.
6. Compatibility with GNH Principles

While chapter 5 primarily discussed the limited socioeconomic impacts of FDI in the hospitality sector, this chapter details my broader findings concerning FDI and its potential (in)compatibility with GNH. I demonstrate how FDI in Bhutan is not yet significantly aligned with the goals of the GNH framework beyond mere economic growth, and how there is a push for increased FDI driven by the interests of Bhutan’s private elite. FDI typically requires well-connected local business partners and is thus likely to further concentrate economic wealth in the hands of the private elite. Moreover, FDI has occurred alongside increased lobbying efforts in the tourism sector by Bhutan’s private sector federation (BCCI), a trend which appears to have introduced a pro-business discourse which undermines the principles of GNH.

It appears then that the concentration of economic and political wealth among Bhutan’s private elite is essentially exacerbated by FDI. The notion of equity is not only embedded in one of the GNH pillars (i.e. ‘equitable and inclusive socioeconomic development’), but also an essential feature of the GNH framework (Ura et al. 2012: 7). The chapter therefore concludes that current trends in FDI contradict the principles of GNH.

6.1 Investor Motivations

Bhutan does not appear an easy country to invest or do business in. Although it has open borders with India for both goods and people, a stable democracy, and a well-educated workforce, Bhutan is also known for its capital restrictions, stringent visa regulations, and rugged geography with limited infrastructure. Nevertheless, Bhutan is known for a positive investment climate (UNCTAD 2013: xi) and its Ease of Doing Business rank improved sharply in 2014 to 70 out of 189 countries, which places it highest in South Asia and has been claimed by the current government of Lyonchhen (Prime

57 Similar to Kohli (2006), I use ‘pro-business’ as opposed to ‘pro-market’ to refer to policies and attitudes which are supportive of certain businesses without favouring fully competitive markets. This designation was adopted to reflect how representatives of BCCI expressed a desire for external and internal deregulation in collaboration with a supportive government, an approach which often supports already-established firms (Rodrik and Subramanian 2004, cited in Kohli 2006: 1252). This contrasts with a ‘pro-market’ orientation which promotes fully competitive markets with limited state intervention. It should be noted that by using these terms, I am not taking a normative stance or claim an ideological commitment on the part of my informants but seeking to effectively characterize a discursive phenomenon.
Minister) Tshering Tobgay to demonstrate the efficiency of their reforms (Subba 2015; World Bank Group 2016). Although the procedure for establishing an FDI business – including business registration, environmental clearance, and construction permits among others – readily takes a year or longer, all but one of the twelve FDI businesses I questioned were generally satisfied with the bureaucratic process. In spite of the relative ease of investment in Bhutan with respect to its neighbours, only 26 FDI projects had begun commercial operations in 2014 with another 20 under construction (Ministry of Economic Affairs, forthcoming). Bhutan’s image of being a difficult country to penetrate for foreign businesses therefore seems unfairly persistent.

This raises the question of why FDIs are motivated to enter Bhutan. As discussed at the beginning of the previous chapter, Bhutan seeks to promote foreign investments that fit into the “Bhutan story” of development along the principles of GNH. This does not exclude long-term profitability, but does mean that an investment project should ideally involve significant technology or managerial spillovers that promote sustainable or “green” businesses (taken loosely to mean businesses which strive to mitigate or reverse impacts on both the environment and local community, which is analogous to the triple bottom line), or generate other benefits for their community or employees.

The Royal Government of Bhutan also has a long-term goal of the private-sector incorporating GNH values. According to Karma Tshering, Senior Programme Officer at the NEC’s Policy and Planning Services division, the government has already developed the capacity to incorporate the principles of GNH at the policy and project levels, evidenced by the 2008 constitution and the environmental assessments that are required for most private and public projects. “Mainstreaming” of GNH is lacking, according to Mr. Tshering, at the planning stage that he describes as an intermediary phase between policy and project level. This echoes the work of Kent Schroeder (2014) who finds that development outcomes in Bhutan often reflect the intentionality of GNH policies in spite of the fractured nature of the governance framework. An example of integrated GNH planning could be how

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58 As a 2015 Kuensel by Tshering Dorji article points out, there are difficulties with the data collected by the World Bank on Bhutan which makes it somewhat unreliable. There are moreover normative issues with such statistical estimates which I have chosen not to discuss here for the sake of brevity.
a dzongkhag administration might set certain socioeconomic goals for the year, but develop implementation processes through public-private partnerships in such a way as to simultaneously improve another domain of GNH such as environmental conservation – say through supporting sustainable practices of cottage industries in the district. Because holistically planning mindful of the GNH principles requires the inclusion of all relevant stakeholders – public and private sector, the monastic body, civil society, and local communities – and the considerations of some or all GNH dimensions, this is also the hardest level to implement GNH values.\textsuperscript{59} However, it provides ample scope for expanding the role of private businesses – including FDI – in fulfilling Bhutan’s development goals.

One possible model for corporate harmonization of GNH principles is seen in Rüdiger Fox’s (2014) concept of Gross Corporate Happiness (GCH), which maps the nine domains of GNH unto a corporate context. GCH has been empirically shown to boost employee satisfaction and, as a result, worker productivity. However, GCH not only transforms human motivations and corporate organisation, it also includes corporate sustainability as one of its nine domains which is a strategy that “embraces full responsibility for the entire supply chain” to create benefits for both the company and the environment (Fox 2015). Even without adopting a formal organisation framework like GCH, Fox’s work demonstrates that businesses can incorporate the values of GNH in numerous ways to give back to their employees as well as their local community.

Nevertheless, my research shows that foreign investors mainly enter the Bhutanese market because they view it as a good business opportunity. According to interviewed managers, the arrival of some FDI companies such as G4S (now JSS), Dragon Spirit Hotel (upcoming), and ScanCafe originate in the personal interest of their owners or CEO, typically after a holiday trip to the country, but their decision to invest is only made after careful profit assessment. G4S for example was one of the first foreign firms to invest in Bhutan in 2006, and the former Chairman Jörgen Philip-Sörensen “was particularly fond of Bhutan on a personal level” who visited the country several times. However, as

\textsuperscript{59} Interview, Thimphu [Jul. 27, 2015].
the local partner and present-day owner for JSS Palden Dorji explains, in spite of this personal interest “it had to make commercial sense … [and] the regional managing director in India was instructed to look at the feasibility of setting up a company in Bhutan.” G4S’s investment was therefore “totally a commercial venture. They are not a charity organisation, they didn’t come here to boost the economy or help train the locals. So it was totally a commercially-driven investment.”

Similarly, none of the FDI hotels that I investigated had a direct interest in or connection to the GNH framework. Amankora felt that Bhutan’s “low volume, high value” tourist policy was a good fit with the company’s profile as an exclusive high-end destination and that some of the GNH pillars like cultural preservation fit their business model, but when asked whether the GNH framework otherwise had any influence on their business activities the answer was “no, not at all.” One FDI manager even surmised that his foreign business partners were probably not even aware of the GNH philosophy. Although GNH is clearly “a part of the space” in which tourist hotels operate in since it is one of the main cultural attractions of Bhutan, hotels and other FDI companies are not motivated by GNH but rather because they identify Bhutan as a profitable investment opportunity.

The foreign-owned IT companies I interviewed see Bhutan as an attractive destination relative to neighbouring India and Bangladesh. FDI companies SouthTech and Scan Cafe both identified the quality of IT graduates in Bhutan as an incentive to invest, notably as they are proficient in English and highly motivated. Scan Cafe further highlighted that the general artistic talent of the populace is beneficial for their work in retouching scanned photographs, and found that the high gender parity of Bhutanese society increased productivity since the women in their workforce, numbering two-thirds, “give 100% effort” 90% of the time. Other advantages identified by Scan Cafe’s Operations Manager, Diparnab Ghosh, included the government’s ten-year tax holidays, the free national healthcare for their employees, and that office rent in Thimphu TechPark (TTP) is cheaper compared to all Tier I and most Tier II cities in India. Regarding disincentives, the two companies mentioned the FDI

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60 Interview, Thimphu, [Jul. 29, 2015].
61 Interview, John Reed, Thimphu, [Aug. 1st, 2015].
application process was somewhat lengthy and bothersome (although they felt MoEA provided great support), the cost of internet in Bhutan being nearly three times that of India and Bangladesh, and that it is often difficult to process visas for dependants or non-managerial expatriate staff. Nevertheless, my informants emphasized that there is a comparative advantage for Bhutan as an FDI destination for IT companies.

When asked about whether and how they contributed to GNH during interviews, companies and private-sector representatives tended to elucidate it in terms of economic growth, employment generation or (implicitly) in some form of CSR engagement. Three hotels (two of them FDIs) discussed how their activities create jobs and economic activity, of which Terma Linca tied the latter to their in-house arts and craft shop which sold products on behalf of the Tarayana Foundation. Mr. Ugyen Dhendup of AdrukA furniture manufacturer for example explains his belief that through economic growth and employment generation, their company “in our own way is contributing to the wealth of our nation.” Three other companies did not situate their activities within GNH at all, and one of them (an anonymous domestic hotel owner) explicitly dismissed it with the comment that “we [Bhutan] are overdoing it” in reference to the GNH philosophy. A further five companies either dismissed GNH or did not bring it up at all but identified some form of CSR activity or goal as part of their operations. Overall, none of the companies I interviewed had adopted GNH as an explicit frame of reference for any of their activities.

The emphasis on economic impacts by some firms is not incompatible with the values of GNH. Progress in the ‘standard of living’ domain can for example be achieved through the creation of salaried employment. Similarly, economic growth and increased exports are part and parcel of making Bhutan economically self-reliant, a key development goal (enshrined in the government’s Vision 2020 document, the 2010 Economic Development Plan, and the 11th five-year plan). Exports and other earnings in foreign currency (especially tourist fees) are vital in funding Bhutan’s current account deficit, and overall economic growth is necessary to fund governance expenditure. However, for

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63 Interview, Ugyen Dhendup, Thimphu, [Jul. 22, 2015].
economic development to be truly aligned with the ‘sustainable development’ pillar, income growth must be ‘inclusive’ as opposed to concentrated in the hands of the wealthy. As shown in the previous chapter, FDI in the hospitality sector has improved the number of tourist arrivals but created very little positive spillover at the local level. This issue of rising income inequality in context of FDI is discussed in the next section below.

Somewhat exceptionally, Amankora and Gangtey Goenpa Lodge in Gangtey Valley stood out by actively trying to engage with their local community. Amankora, as noted in the previous chapter, did frequent volunteer work. The lodge was prominent in that the manager, Mr. Ateep Shrestha, had personally attempted to build closer community connections between the tourist hotels and the local community, including the valley’s monastic institutions i.e. the Gangtey goenpa (monastery) and the Do-ngag Tösam Rabgayling shedra (monastic college). His main intent was to foster closer relations to enable more meaningful exchanges for tourists wishing to attend ceremonies or dharma teachings, which in turn would facilitate more donations by hotels guests, but according to Mr. Shrestha there has been a lack of commitment from the other hotels in the valley (although monks at the shedra in 2015 began attempts to document and formalise relations with the valley’s five tourist hotels with similar intentions of regularizing donations from hotels and create more regular events for visiting tourists). Gangtey Goenpa Lodge’s initiative can be seen as an attempt to integrate business planning to derive increased benefits for both business and community. Although nascent, this initiative is commensurable with other (non-economic) domains of GNH like community vitality.

Another possible exception is Mountain Hazelnut Venture (MHV), a triple bottom line venture that aims to organize hazelnut cultivation, collection and processing amongst thousands of small-holder farmers in Bhutan. A new company, MHV has the potential to introduce a stable cash-crop among rural Bhutanese farmers which can improve their standards of living and reduce rural-urban migration. As the managing director Dr. Sean Watson explains, "a triple-bottom line company is a GNH company in a certain sense," and MHV’s website proclaims that the company “aims to

64 Interview, Sean Watson, Thimphu, [Jul. 17, 2015].
embody the nation’s principle of Gross National Happiness.\textsuperscript{65} Although the company is focused on developing and promoting their own triple bottom line framework, its compatibility with GNH has been analysed by hired consultants which led them to incorporate some GNH indicators in how they assess their work (according to Dr. Watson). It would appear then that MHV is the first company of its kind to share the values of GNH at the core of their business practices. Significantly, the company aims to complement their environmentally sustainable business activities with a trust fund which will invest 20% of the company’s profits into community projects in hazelnut-growing areas.

However, two separate sources interviewed during my research raised significant doubt over the motivations of MHV’s activities. First, that it is a speculative company which is using the ‘triple bottom line’ concept as a marketing tool to increase institutional and multilateral investment. Second, that their model is problematic and unsustainable in practice since hazelnut cultivation is supplanting the use of prime wetland for food production (in spite of MHV agreeing to only use fallow land in their agreement with the government) thus exacerbating Bhutan’s dependency on food imports. Third, that the project is turning large parts of Bhutan into a monocultural economy with enormous dependency on global price fluctuations, which places severe risk on the farmers (who already dedicated three-to-five seasons’ worth of labour to the trees before receiving any benefit from it).\textsuperscript{66} These allegations come from well-placed individuals with insider knowledge, and even if partially true severely challenges the GNH-friendly narrative of MHV.

Therefore, with the unlikely exception of MHV, the domestic nor foreign-owned companies I interviewed have not harmonized their business processes with the development goals of GNH nor with the GCH model proposed by Fox. A holistic GNH-orientation can conceivably encompass a wide range of processes to promote sustainable supply-chains, active community engagement and the mental welfare of employees (among others), and FDI companies either do not explicitly identify with GNH or discuss their linkages in terms of economic factors and/or some form of CSR activities. This is perhaps not surprising, given that the government (as noted above) is still working on improving

\textsuperscript{65} \url{http://www.mountainhazelnuts.com/} acc. Feb. 29, 2016.
\textsuperscript{66} From two anonymous sources (an interview with follow-up e-mails and an informal conversation).
GNH implementation processes at the planning stage. Intriguingly, these findings about business motives echo the results discussed in the previous chapter which showed that FDI hotels have little or no socioeconomic impact on their local communities and primarily contribute through employment generation. Foreign direct investment projects in Bhutan are first and foremost profit-oriented when investing in the country, and in light of the lack of high-tech or green technology transfer, it can surmised that FDI in Bhutan is not yet significantly aligned with the GNH framework.

6.2 Private Elite Power, FDI and Concentration of Wealth

The private elite of Bhutan is both small and well-connected, and therefore positioned to attain the most benefit from foreign investments. Social networks within Bhutan’s small population are very dense. Any one member of Thimphu’s economic or political elites are likely to know the rest of the upperclass sphere directly or indirectly through kinship or association. As explained in the literature review (section 2.2), alliances with MNCs may skew the political and economic impacts of FDI in favour of local elites. One of my informants, an insider who previously worked in the upper echelons of the monarchy and requested anonymity, explained to me that what the private elite in Bhutan lack in economic capital they make up for in social capital: “The private sector is very small yet very powerful. [This is] because of political connections... not economic capital.” In other words, the private elite possess a high capacity for influencing public policy. By extension, the benefits of Bhutan’s economic growth and external liberalisation may be concentrated in the hands of the economic elite.

Although the majority of revenues generated by large FDI ventures may be repatriated abroad, even a small equity stake by a domestic partner in a 4- or 5-star venture is likely to generate revenue streams that are relatively high by Bhutanese standards.67 The lucrativeness of even a minor stake in a multi-million dollar FDI venture is further accentuated in the case of the domestic partner putting up land or labour instead of capital for their equity share, as was the case with Dragon Spirit Hotel. The private

67 Ceteris paribus, it can be assumed that for example a 26% equity stake by a Bhutanese business partner (or group of partners) in a 4-star hotel, the legal minimum, will result in a 26% share of net profits. Although relatively low compared to the 74% repatriated portion, but is likely to represent a significant cash stream for domestic investors relative to local investment opportunities and income levels.
sector in Bhutan is therefore not surprisingly among the biggest proponents of attracting more FDI to the country.

The institutional representative of the interest of the private-sector is the Bhutan Chamber of Commerce and Industry (BCCI). BCCI is a private-sector umbrella organisation which creates networking opportunities and lobbies the government on behalf of its ten member associations. The former includes official events such as the annual Bhutan International IT and Training event (Gyalsten 2015), held for the second time in 2015 to promote investment opportunities in the country,68 as well as more informal networking with visiting business delegates. It was clear from my interviews that there is a strong interest in foreign capital among executive members of BCCI. In addition to positive spillovers, a strong reason for this is that foreign investors seek out domestic business partners to set up FDI ventures, whether required to by law (as most sectors have a maximum foreign ownership of 74%) or for strategic purposes. Due to information barriers and lack of international market exposure, BCCI executives act as a natural gatekeepers and facilitators between foreign investors and Bhutanese business owners from amongst its member base. Indeed, the board members and highest ranking representatives of the BCCI are themselves business owners who network with potential foreign investors. Thinley Palden Dorji, one of my informants and the former Vice President of BCCI (2013-14), is an example of how embedded and interconnected the private elite is: Mr. Palden is simultaneously the current President of the Hotel and Restaurant Association of Bhutan (and thus an executive board member of BCCI), the owner of his own 4-star hotel, and also Managing Director of the now-privatised Bhutan Tourism Corporation Ltd. (BTCL) which is the domestic stakeholder in the Amankora FDI hotel venture. BCCI is therefore to a large extent facilitating further FDI as a representative of the interests of Bhutan’s private elite.

The way elite interests can influence FDI outcomes is evident in how a new luxury resort chain was recently enticed to invest in Bhutan. As mentioned in the previous chapter, Six Senses is a new chain of 5-star hotels nearing completion in Paro, Thimphu, Bumthang, Gangtey and Punakha (as in

68 Interview, Kiran Parajuli, Thimphu, [Aug. 6, 2015].
discussed in the previous chapter their Paro lodge, and presumably the rest as well, was initiated without assessing the carrying capacity of nearby water sources). An anonymous source within the tourism sector of Bhutan explained to me that Six Senses were wooed into investing by their Bhutanese business partners in part by being fed exaggerated occupancy and profit rates for Amankora, their closest competitor which relies on the same niche market. The Six Senses management team had been provided with figures of 45 – 50% year on year occupancy whereas Amankora’s actual rate had been 26 – 32%, with similar exaggerations of both average occupancy rate and annual revenues. Six Senses likely invested in excess of USD 26 million (the amount invested by Amankora more than a decade ago), which makes it a very lucrative deal for the project’s domestic partners regardless of the intense competition in the hospitality sector.

In light of this and the limitations on socioeconomic benefits described in the previous chapter, it can be concluded that at least some of FDI in Bhutan’s hospitality sector has primarily served the interest of the domestic private elite. This is likely to exasperate wealth inequality. Although domestic profit streams derived from FDI projects potentially have a multiplier effect on the economy, that depends entirely upon spending patterns\textsuperscript{69} which may not cancel out the concentration of wealth in the hands of the private elite. Predicting the cumulative effect of wealth concentration is scope for further research, and may not be an entirely negative. As another anonymous informant explains, inequality is a double-edged sword in the Bhutanese context: “because of the small connections, Bhutan's wealth inequality is worse and better at the same time - worse in that you have people living close that have big economic divide and therefore cause great stress on the lower classes. And better because usually the community takes care of each other.”\textsuperscript{70}

Indeed, Bhutan is already facing a somewhat undeterminable rise in income inequality. Little data is available, with the most recent figures in the World Bank world development indicators being based

\textsuperscript{69} Virtually all manufactured goods in Bhutan are imported from India and Thailand, leaving only essential food products (which typically make up a minute fraction of elite spending) and services to be sourced locally. It should therefore be kept in mind that consumption spending is of insignificant benefit, whereas dividends spent on new business ventures carry greater potential through for example exports and job creation.

\textsuperscript{70} Personal communication, anonymous, e-mail [Mar. 7, 2016].
on the household surveys carried out by the National Statistics Bureau together with the African Development Bank in 2007 and 2012. Bhutan’s GINI index score saw a nominal increase from 38.1 to 38.7 (indicating a slight rise in inequality) while the income share held by the richest 10% of the population rose from 29.4 to 30.6%. However, these figures are inconclusive due to lack of data and may readily mask underlying inequality since they are based on self-reported income; this is evidenced by a political and popular concern over the growing gap between rich and poor in Bhutan (Dorji 2013).

As explained earlier in this chapter, the principle of equity is deeply embedded in the GNH framework and furthermore a characteristic of the socioeconomic development pillar. Given the impending market saturation in the hospitality sector in Western Bhutan, and indeed its limited socioeconomic benefits at the local level, continued FDI in that area under the current policy regime is likely to exasperate the concentration of wealth in Bhutan. Inequality however counteracts the both the socioeconomic goals of GNH, as well as the fundamental nature of GNH-led development. This therefore raises serious concerns about the long-term trajectory of FDI in Bhutan.

6.3 FDIs Indirect Threat to GNH

A further concern is the possibility that the conjunction of elite interests and the introduction of FDI are undermining the goals of GNH by influencing public opinion. As Dasho Karma Ura (2015b: 2) has noted, political pressures have the potential to “override or subvert GNH.” The BCCI has adopted a strong pro-business orientation, evidenced by my personal interviews as well as their intense lobbying for tourist policy liberalization on behalf of the hotel industry, which coincides with a shift in popular and intellectual opinion regarding FDI. Given that FDI is (or rather, should be) situated within ‘the Bhutan story’ described in the previous chapter, this turn to an uncritical attitude towards FDI is folly and indeed may indicate a larger process currently taking place in the country.

My interviews conducted with the Secretary General of BCCI and the secretary generals of two member associations revealed a distinct pro-business discourse. The two association heads, Mr. Sangay Gyeltshen and Mr. Kiran Parajuli, both gave testimonies which were often inconsistent in
their rejection of the potential for negative spillover effects from FDIs. They each argued (initially) that FDIs would not compete with local firms because they occupy different market segments for higher quality products or international customers. However, both contradicted this claim when questioned about the long-run potential for competition as domestic firms upgrade: Mr. Gyeltshen argued that domestic wood-based industries could compete on price due to lower entry costs while Mr. Parajuli claimed competition would likely lead to specialization based on the comparative advantage of individual IT firms (domestic as well as FDI). The contradictory nature of the interviews and consistent pro-FDI opinion that rejected negative spillovers indicates a strong bias in favour of maximizing foreign investment.

The interview with Mr. Gyeltshen seemed particularly skewed towards a free-market narrative which he kept returning to. For example: "in business, competition is very good. If you are so lenient and the market is protected, I think it is not good, because they will never develop their product. Business is all about competition." He moreover added that "FDI is no threat to [domestic] wood-based industries." Similarly, while discussing how he felt that domestic IT firms would compete based on separate value propositions ("brand"), Mr. Parajuli echoed a general sentiment amongst my BCCI interviewees: "I think we need to see everything positively."

An example of the pro-business sentiment of BCCI is visible in their heavy lobbying efforts in favour of liberalizing Bhutan’s tourist tariff. Removal of the minimum daily tourist tariff, the hallmark of Bhutan’s “high value, low impact” strategy, was first proposed in 2010 by the international consultancy firm McKinsey and Company which had been hired by the government in 2009 to assist with policy implementation (Schroeder 2015: 16623). In an effort to place greater emphasis on economic growth by rapidly boosting tourist arrivals, McKinsey proposed a complete liberalization of the tourist tariff such that tour operators could set their own rate with a targeted ten-fold increase in arrivals. However, the proposal was strongly resisted by many private-sector actors “because it was perceived as accelerating the economic pillar of GNH at the expense of sustainability” (Schroeder

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2015: 16623). The issue arose again in 2015, and among other things underwent a year-long review by the National Council’s Economic Affairs Committee (Palden T. 2015).

These revitalized lobbying efforts are being spearheaded by BCCI which in during my fieldwork in mid-2015 submitted a proposal to fully liberalize the tariff (while keeping the USD 65 daily royalty fee) to TCB (Lamsang 2015). This initiative is widely known to be driven by the interest of domestic hotel owners, to a large extent due to the increased competition in the hospitality sector (as discussed in the previous chapter). The tariff issue was raised by three out of four domestic hotel owners I interviewed in Thimphu, and in at least one instance an owner attempted to manipulate my interview towards a pro-liberalization agenda. “Liberalization is being driven by the hotels, more than anyone else, because they are sitting on these negligible occupancies” according to Amankora’s Regional Director, John Reed, who also sits on the board of the Hotel and Restaurant Association of Bhutan (HRAB). This corresponds with Nyaupane and Timothy (2010: 980), who found that some tour operators and hotel operators in particular are pushing for tariff liberalization in the face of increased competition. In short, the hospitality sector’s market saturation in Western Bhutan is creating agenda-driven political pressures to liberalize the country’s tourist tariff, primarily through the country’s private-sector umbrella organisation BCCI (Bhutan Chamber of Commerce and Industry), even though these lobbying efforts may primarily serve the interests of the hotel sector.

I informally spoke with at least half a dozen tour operators, the majority of whom opposed the BCCI move. In spite of representing the entirety of Bhutan’s private sector, including the Association of Bhutanese Tour Operators (ABTO), BCCI never consulted ABTO for their proposal (Lamsang 2015).

An article published in The Bhutanese on 18 June 2015 notes that BCCI felt that the government “needs to take a strong decision on liberalizing tariff rates” as it is expected to increase the number of tourists, offer them better choices in where they stay, travel and eat, and that the BCCI policy proposal would include plans to increase return visits by offering more variety in tour packages (Lamsang 2015). The competitive market discourse of BCCI appears to have seeped into popular opinion, as expressed for example in the social media comments to the above-cited article: “it will
help standard restaurants, transport system and local employment” ... “thousands of new jobs will be available”... “Visa be charged USD 65 a day... Leave rest for ‘free market’”. The BCCI’s lobbying efforts in favour of tourist tariff liberalization – primarily at the behest of domestic hotel owners – thus appears to be promoting a pro-market mentality in popular discourse.

Furthermore, the BCCI lobbying efforts are taking place in spite of concerns over Bhutan’s cultural and environmental carrying capacity, which have been expressed since at least 2001 (Brunet et. al. 2001) and is today an increasing concern due to the boom in regional tourist arrivals. Regional tourists, who are not subject to the royalty or minimum daily tariff, bloomed to over 65,000 in 2014 and roughly equalled the number of international arrivals in 2014. This has greatly contributed towards the country approaching its current carrying capacity. Kinley Wangdi explained to me that this is notably caused by the strong concentration of tourism in Western Bhutan, and thus "during peak season, we are already getting saturated, bringing lots of challenges... like management of [tourist] sites.” A move to liberalize the tourism policy would likely place severe stress on the structural and environmental carrying capacity of Bhutan, with large cultural events already considered overcrowded and an increase in littering. In the words of Dasho Karma Ura, even partial tariff liberalization “will lead to a race to the bottom,” harming the tourist industry by bringing in more low-paying tourists that crowd out high payers from monuments and festivals.

Significantly, these lobbying efforts are also parallel to an apparent change in attitudes towards FDI among public intellectuals. As mentioned in the previous chapter, during my fieldwork I met a consistently positive stance towards FDI, particular along the themes of capital, managerial knowledge, technology transfer and employment generation. This however appears to represent a shift in attitude compared to just a few years ago. According to Dr. Kent Schroeder, who undertook fieldwork in Bhutan between May and October 2011 for his doctoral thesis (Schroeder 2014), in his experience many stakeholders and public intellectuals in Bhutan mentioned “that they were concerned

73 Interview, Thimphu [Jul. 21, 2015].
about increased FDI being accompanied by greater visibility and promotion of consumption-based values” and that “these values were viewed as antithetical to GNH.” In other words, there has been a marked shift away from the prevailing FDI scepticism from barely five years prior to my own fieldwork. This is perhaps not surprising given that there has also been an increase in the number of FDI ventures coming to Bhutan (eight or nine projects were approved annually since 2012, compared to an average of four from 2007 to 2011; FDI Report 2015), which until now have not had any negative media coverage. Although FDI in the hospitality sector has had a positive spillover in industry standards, the relatively sudden change in popular attitude from scepticism to optimism is not a logical implication of this or a slight increase in FDI projects, which begs the question of what factors or processes have caused this change and whether private-sector lobbying efforts bear any relation to it.

This phenomenon is a worrisome trend given that a natural scepticism towards FDI is required if it is to fit in with ‘the Bhutan story’ of cautious, sustainable and inclusive development. As earlier noted, Bhutan prioritizes the expansion of GNH and not GDP, and is therefore ‘choosy’ towards FDI to ensure the growth of sustainable, green businesses. Empirically, my own research has demonstrated that that scepticism is necessary to ensure positive FDI outcomes in line with GNH (thus echoing the literature which calls for policy mechanisms to ensure long-term sustainability of FDI and the generation of positive spillovers). The present pervasiveness of a positive bias towards FDI, the lobbying efforts of the BCCI and their ostensible pro-business attitude all add up to a subtle shift in popular perspective more in favour of prioritizing economic growth; and there is a significant risk that this is a slippery slope towards promoting more and more economically-driven policies at the cost of GNH.

A pro-market discourse that prioritizes economic growth ahead of the other GNH goals is incompatible with the philosophy of GNH. So is unequal growth. In memoriam, equitable and sustainable socioeconomic development is one of the four pillars of GNH, but one that is equally

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74 Personal communication, e-mail [Dec. 2. 2015].
important to the three other pillars; promoting growth (even if it is inclusive) at the cost of the other pillars undermines GNH. Although there is no direct link between the introduction of FDI and the market-oriented trends outlined in this chapter, the shift in attitude towards FDI and its conjunction with the vested interests of the private elite (which, as seen for BCCI, are strongly in favour of expanded FDI and are lobbying for liberalization of the tourist tariff) indicates that FDI has helped opening Bhutan up to a more market friendly logic that is incompatible with the development goals of GNH. Worse, since the private elite in Bhutan is strongly positioned to influence public policy, there is enormous space for these processes to snowball into stronger pro-market sentiments. One of my informants – a highly-placed public intellectual who requested anonymity – even went so far as to call the current changes in Bhutan a process of neoliberalization.

6.4 Summary

This chapter has explored the motivations of FDI companies entering Bhutan and how they are yet to be fully aligned with the principles of GNH. It also described how the private elite of Bhutan has a vested interest in expanding FDI, which has already led to market distortions in the case of Six Senses entering the country and (furthermore) poses the risk of accelerating income inequality. More significantly, it appears that the conjunction of increased FDI and the pro-business stance of the private sector (as represented by BCCI) has promoted a free-market narrative that prioritizes economic growth which undermines the principles of the GNH framework. Taken together, the current FDI policy in Bhutan is partially uncoupled from the goals of GNH which poses significant concerns about the long-term sustainability of foreign investments entering Bhutan.

75 Broadly speaking, neoliberalization refers to the restructuring of political and economic spaces along market principles. See Brenner and Theodore (2002).
7. Conclusion

7.1 Summary of Findings

Guided by the development philosophy of Gross National Happiness, Bhutan has been gradually opening up to the global economy since modernisation first began in the 1960s. Notable, the country first accepted Foreign Direct Investment in 2002. This thesis sought to tackle the question of what linkages (if any) FDI has had with GNH in Bhutan. Based on interviews in Thimphu and case studies in Paro and Gangtey valley, chapter 5 assessed the impacts of FDI in the hospitality sector – the largest recipient of FDI in Bhutan till date – at both the local and national level. My findings paint an ambiguous picture, with FDI being linked to a rise in hotel standards (due to competition and labour mobility) and therefore the recent increase in tourist arrivals, although the associated macroeconomic benefits have been muted due to profit repatriation, over-reliance on Indian imports, and generous fiscal incentives. At the local level, the foreign-owned hotels studied have largely had a negligible impact on the standards of living in their local communities and have negatively impacted the environment of Paro valley by increasing the strain on freshwater resources.

Chapter 6 however paints a far more worrisome picture of current trends related to GNH and FDI in Bhutan. It first discussed investor motivations and showed that the companies I interviewed are not motivated by GNH. Although in of itself not problematic, this contextualizes the broader trends uncovered in the chapter plus the lack of GNH-friendly impacts discussed in chapter five. The chapter goes on to discuss private elite power in Bhutan and their vested interests in promoting FDI, which risks accelerating economic inequality. Furthermore, the chapter unearths how the conjunction of increased FDI, the pro-business stance of the private-sector and the lobbying activities of Bhutan’s private-sector umbrella organisation, BCCI, appear to have promoted a free-market narrative that is undermining the principles of GNH. In conclusion, the long-run prospects of FDI in Bhutan are incompatible with GNH under the existing policy regime.

This study focused on Bhutan, its unique development challenges, and its indigenous development framework of GNH. The results are therefore specific to a Bhutanese context and may not readily be
generalizable for other countries. However, it does potentially make a modest contribution to the literature on FDI and development while pointing to the need for further research (see below). In general, it supports an emerging consensus that the potential benefits of FDI are never guaranteed and require government regulation to induce positive welfare impacts (see section 2.2). More specifically, this thesis has highlighted the difficulty of ensuring sustainability and that apparent social and economic benefits of FDI, even in a country guided by a holistic development framework such as GNH, can readily prove illusory under critical scrutiny.

7.2 Policy Considerations

My findings support the general view that positive impacts by FDI are by no means guaranteed, and that “there is considerable scope for active policies that discriminate in favour of foreign investments that have positive effects on total investment,” such as introducing new technologies (Agosin and Machado 2005: 160). Specific to hospitality, Kusluvan and Karamustafa (2001) suggest that governments should implement policies to regulate the scale of hotel development, support local linkages, and support local employment and/or training in order to increase the benefits derived from foreign-owned hotels. This could potentially strengthen FDIs linkages with GNH at both the local and national level.

One possible avenue is to redesign government incentive structures to have tax breaks tied to spending within local communities – on labour, local procurement or general CSR spending – which would improve socioeconomic development while still supporting infant industries. Another would be to educate FDI actors on GNH and relevant expectations of GNH-promoting businesses, or initiate public-private partnerships towards expanding ‘Brand Bhutan’ in a manner that is mutually beneficial and consistent with GNH principles. Steps should also be taken to increase redistributive mechanism to reduce the latent inequality of foreign investments in Bhutan, such as through the use of performance requirements (e.g. China).

The managerial capacity of local entrepreneurs, low efficacy of encouraging FDI in the hospitality sector relative to the IT sector (which has created significantly more jobs relative to investment), and
the impending market saturation of the hospitality sector in Western Bhutan indicates the need for a regionally-differentiated FDI policy. Such a move, which Lyonpo Norbu Wangchuk called “the logical next step” for FDI in Bhutan, would help support the heterogeneous investment needs of each individual district. If for example Thimphu and Paro dzongkhags decide to block further FDI in their regional hospitality sectors, it would reduce pressure on Paro’s water resources, create more opportunities for domestic investment, and encourage development of the tourism industry in other districts which have until now remained largely neglected. However, the needs of the tourism industry may change (see page 71) as may the needs of each dzongkhag, which is why a geographically differentiated policy framework should be continuously re-assessed and updated.

As Bhutan continues to strengthen its linkages with the global economy, it will also become more prone to regional and global economic downturns. The FDI policy may there need to be insulated against fire-sale acquisitions. As Aguiar and Gopinath (2005) show, during the late 1990s East Asian financial crisis foreign mergers and acquisitions drastically increased; without protective policy mechanisms, there is a risk of whole-sale acquisition of Bhutanese businesses at extreme discounts through FDI.

7.3 Limitations and Further Research

Although I sought to carefully triangulate my findings, this study was limited by its scope and timeframe. It would have been beneficial to study more FDI hotels and to conduct more interviews with hospitality employees as I only spoke with non-management staff at three of my five main case-study hotels. My research was also hampered by language barriers, as some of my interviewees were not native English speakers and I had to rely on a translator in Gangtey and Paro. Possibly the biggest handicap to my study was the lack of financial data from individual business and public bodies, which would otherwise have enabled me to better study profitability in the hospitality sector, government incentives, and overall social gains from FDIs.

There is therefore plenty of scope for further research. This study would be greatly complemented by quantitative modelling of the macroeconomic benefits derived from FDI hotels, comparing the tourist
revenues that have been attracted with how much is lost from fiscal incentives and profit repatriation. Another case study exploring the linkages between GNH and foreign investment in mineral extraction, the second-largest FDI recipient, would be a logical next-step for research on FDI in Bhutan. The findings from section 5.3 moreover highlight the need for an in-depth study of water scarcity in Paro valley.

7.4 Final Remarks
Economic growth is a core component of GNH, but cannot come at the cost of socioeconomic equity or the other pillars and domains of GNH. The findings in this thesis raise questions about the role of FDI in Bhutan’s development story up until now, in terms of whether the costs have outweighed the benefits, but also – crucially – whether the long-term trajectory of these investments are compatible with the principles of GNH. Possibly, “the long-term challenge facing Bhutan,” in the words of Stanford historian Mark Mancall, “is whether Bhutan decides to define economic development on the basis of a concept of modesty or on the basis of Western consumption standards; if the former, local resources may be enough to sustain a modest and gradual development process, but if the latter, FDI becomes necessary to generate sufficient economic growth.” FDI has the potential to help Bhutan achieve its development objectives as enshrined in GNH, but would first need to be radically realigned.

76 Interview, Thimphu [Aug. 11, 2015].
8. Bibliography


LAMSANG, T., 2015. BCCI to put up proposal on liberalizing tourism tariff.


## Appendix: List of Interviews

*(Ordered chronologically)*

<table>
<thead>
<tr>
<th>Date</th>
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<th>Category</th>
<th>Name and Position</th>
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<td>FDI Company</td>
<td>Pema Tashi (CEO) Khan R. Salam (Sr. Consultant)</td>
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<td>FDI Company</td>
<td>Diparnab Ghosh (Operations Manager)</td>
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<td>Tshering Cigay Dorji (CEO of Thimphu TechPark)</td>
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<td>Domestic Hotel</td>
<td>Kezang Dorji, owner of Shantideva (3*) and Hotel Migmar (4*)</td>
</tr>
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<td>Thinley Palden (HRAB Chairman, Managing Director of BTCL, former BCCI Vice President)</td>
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<td>Yeshey Tshogay (Managing Director/investor)</td>
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<td>Government Agency</td>
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<td>FDI Company</td>
<td>Sean Watson (M.D. of Mountain Hazelnut Venture) Dasho Lhatu Wangchuk (Director of MHV, former MP)</td>
</tr>
<tr>
<td>21/7/2015</td>
<td>Tourism Council of Bhutan</td>
<td>Government Agency</td>
<td>Kinley Wangdi (Head of Plans &amp; Programmes)</td>
</tr>
<tr>
<td>22/7/2015</td>
<td>AdrukA furniture, Thimphu</td>
<td>FDI Company</td>
<td>Ugyen Dendu (Managing Director/investor)</td>
</tr>
<tr>
<td>24/7/2015</td>
<td>National Environment Commission</td>
<td>Government Agency</td>
<td>Thenzin Khorlo (Environmental Services Division)</td>
</tr>
<tr>
<td>Date</td>
<td>Location</td>
<td>Category</td>
<td>Name and Position</td>
</tr>
<tr>
<td>------------</td>
<td>----------------------------------------------------</td>
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<td>-------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>25/7/2015</td>
<td>Terma Linca (5* hotel)</td>
<td>Domestic Hotel</td>
<td>Kunzang Wangmo (General Manager)</td>
</tr>
<tr>
<td>27/7/2015</td>
<td>National Environment Commission, Thimphu</td>
<td>Government Agency</td>
<td>Karma Tshering (Sr. Programme officer, Policy and Planning Services) Karma Nyedrup (Sr. Specialist)</td>
</tr>
<tr>
<td>27/7/2015</td>
<td>Thimphu</td>
<td>Domestic Hotel/FDI Hotel</td>
<td>Ugyen Wangchuk (owner of Hotel Jumolhari, 4* and Hotel Dhensa, 5*)</td>
</tr>
<tr>
<td>27/7/2015</td>
<td>Ministry of Economic Affairs</td>
<td>Government Agency</td>
<td>Tandim Tshering (Director of Industry)</td>
</tr>
<tr>
<td>27/7/2015</td>
<td>Hotel Druk, Thimphu</td>
<td>Domestic Hotel</td>
<td>Dilu Giri (owner &amp; Vice Chairman of Hotel association)</td>
</tr>
<tr>
<td>29/7/2015</td>
<td>JSS (formerly G4S)</td>
<td>Domestic Company</td>
<td>Palden Dorji (CEO)</td>
</tr>
<tr>
<td>1/8/2015</td>
<td>Amankora, Thimphu (5* hotel)</td>
<td>FDI Hotel</td>
<td>John Reed (Regional Director)</td>
</tr>
<tr>
<td>4/8/2015</td>
<td>Thimphu</td>
<td>FDI Company</td>
<td>Rinzin N. Dorji (Managing Director, Dragon Spirit Hotel)</td>
</tr>
<tr>
<td>5/8/2015</td>
<td>Bhutan Chamber of Commerce, Thimphu</td>
<td>Private Sector</td>
<td>Sangay Gyeltshen (Sec. General of Wood-Based Industries)</td>
</tr>
<tr>
<td>6/8/2015</td>
<td>Bhutan Chamber of Commerce, Thimphu</td>
<td>Private Sector</td>
<td>Kiran Parajuli (Sec. General of ICT and Training Association)</td>
</tr>
<tr>
<td>7/8/2015</td>
<td>Thimphu</td>
<td>Public Intellectual</td>
<td>Dasho Karma Ura (President of Centre for Bhutan Studies)</td>
</tr>
<tr>
<td>10/8/2015</td>
<td>Haven Resort Hotel, Paro (4* hotel)</td>
<td>FDI Hotel</td>
<td>Santi Srimahachota (RM Manager) Nongyao Kosicharoen (Assistant)</td>
</tr>
<tr>
<td>10/8/2015</td>
<td>Nak-Sel Boutique and Spa Hotel (4* hotel), Paro</td>
<td>FDI Hotel</td>
<td>Jamyang Khentse (General Manager)</td>
</tr>
<tr>
<td>10/8/2015</td>
<td>Nak-Sel</td>
<td>Individual</td>
<td>Kuenzang Palden (employee from Ngoba village)</td>
</tr>
<tr>
<td>11/8/2015</td>
<td>Nak-Sel</td>
<td>Individual</td>
<td>Chen Tshering (employee from Ngoba village)</td>
</tr>
<tr>
<td>Date</td>
<td>Location</td>
<td>Category</td>
<td>Name and Position</td>
</tr>
<tr>
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</tr>
<tr>
<td>11/8/2015</td>
<td>Thimphu</td>
<td>Public Intellectual</td>
<td>Mark Mancall (Prof. at Stanford, formerly royal advisor)</td>
</tr>
<tr>
<td>13/8/2015</td>
<td>Rainbow Tours and Treks, Thimphu</td>
<td>Domestic Company/FDI Company (Nak-Sel)</td>
<td>Sonam Wangmo (CEO) Karma Choden (Finance Manager)</td>
</tr>
<tr>
<td>14/8/2015</td>
<td>Raven’s Nest, Paro</td>
<td>Government Agency</td>
<td>Nyingtob Pema Norbu (GNHC) Sonam Dorji (MoEA)</td>
</tr>
<tr>
<td>14/8/2015</td>
<td>Shari Gewog office, Paro</td>
<td>Local Government</td>
<td>Thinley Tshering (Tsogpha of Jeshingang village)</td>
</tr>
<tr>
<td>17/8/2015</td>
<td>Lango, Paro</td>
<td>Local Government</td>
<td>Phub Tshering, Lango Gub</td>
</tr>
<tr>
<td>17/8/2015</td>
<td>Ngoba, Paro</td>
<td>Local Government</td>
<td>Sangay Khandu (Tsogpha of Ngoba village)</td>
</tr>
<tr>
<td>18/8/2015</td>
<td>Jeshingang, Paro</td>
<td>Local Government</td>
<td>Thinley Tshering (Tsogpha of Jeshingang village) Richen Norbu (water caretaker)</td>
</tr>
<tr>
<td>18/8/2015</td>
<td>Haven Resort Hotel, Paro</td>
<td>FDI Hotel</td>
<td>Nongyao (assistant manager) + 6 staff members</td>
</tr>
<tr>
<td>21/8/2015</td>
<td>Ngoba, Paro</td>
<td>Focus Group Discussion</td>
<td>Focus Group 1 (6 participants)</td>
</tr>
<tr>
<td>21/8/2015</td>
<td>Ngoba, Paro</td>
<td>Focus Group Discussion</td>
<td>Focus Group 2 (5 participants)</td>
</tr>
<tr>
<td>22/8/2015</td>
<td>Jagathang, Paro</td>
<td>Local Government</td>
<td>Gyem Dorji (Tsogpha of Jagathang village)</td>
</tr>
<tr>
<td>26/8/2015</td>
<td>Upper Jagathang village, Paro</td>
<td>Focus Group Discussion</td>
<td>Focus Group 1 (7 participants)</td>
</tr>
<tr>
<td>26/8/2015</td>
<td>Lower Jagathang village, Paro</td>
<td>Focus Group Discussion</td>
<td>Focus Group 2 (5 participants)</td>
</tr>
<tr>
<td>27/8/2015</td>
<td>Tsentso gewog, Paro</td>
<td>Local government</td>
<td>Chencho (gub of Tsentso gewog)</td>
</tr>
<tr>
<td>28/8/2015</td>
<td>Zhiwaling Hotel (5*), Jagathang</td>
<td>Domestic Hotel</td>
<td>Kuenzang Thinley (Marketing Manager)</td>
</tr>
<tr>
<td>31/8/2015</td>
<td>Ministry of Economic Affairs</td>
<td>Government Agency</td>
<td>Lyonpo Norbu Wangchuk (Minister)</td>
</tr>
<tr>
<td>Date</td>
<td>Location</td>
<td>Category</td>
<td>Name and Position</td>
</tr>
<tr>
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</tr>
<tr>
<td>9/9/2015</td>
<td>Gangtey</td>
<td>Local Government</td>
<td>Gyem Phub (Mangub of Gangtey Gewog)</td>
</tr>
<tr>
<td>9/9/2015</td>
<td>Gangtey Goenpa Lodge (4* hotel)</td>
<td>FDI Hotel</td>
<td>Ateep Shrestha (Managing Director)</td>
</tr>
<tr>
<td>9/9/2015</td>
<td>Amankora, Gangtey (5* hotel)</td>
<td>FDI Hotel</td>
<td>Bhanu Kharka (Lodge Manager)</td>
</tr>
<tr>
<td>10/9/2015</td>
<td>Gangtey Gewog Office</td>
<td>Local Government</td>
<td>Dophu (Gangtey Gub)</td>
</tr>
<tr>
<td>10/9/2015</td>
<td>Gangtey</td>
<td>Local Government</td>
<td>Wangchuk Namgay (Tsogpha for Gangtey, Gella and Tokha villages)</td>
</tr>
<tr>
<td>10/9/2015</td>
<td>Gella village (near Amankora)</td>
<td>Focus Group Discussion</td>
<td>Gella village group (7 participants)</td>
</tr>
<tr>
<td>11/9/2015</td>
<td>Gangtey Goenpa</td>
<td>Individual</td>
<td>Pelber (teacher at the goenpa)</td>
</tr>
<tr>
<td>11/9/2015</td>
<td>Do-ngag Tösam Rabgayling shedra, Gangtey</td>
<td>Public Intellectual</td>
<td>Kenpo Singay Dorji (Head of the college)</td>
</tr>
<tr>
<td>12/9/2015</td>
<td>Gangtey village</td>
<td>Focus Group Discussion</td>
<td>Gangtey Village Group 1 (5 participants)</td>
</tr>
<tr>
<td>12/9/2015</td>
<td>Gangtey village</td>
<td>Focus Group Discussion</td>
<td>Gangtey Village Group 2 (8 participants)</td>
</tr>
<tr>
<td>13/9/2015</td>
<td>Tokha village</td>
<td>Focus Group Discussion</td>
<td>Tokha Village Group (6 participants)</td>
</tr>
<tr>
<td>14/9/2015</td>
<td>Padma Sambawa Hotel (no stars yet, accepts tourists)</td>
<td>Domestic Hotel</td>
<td>Tshewang Rinzin (owner)</td>
</tr>
<tr>
<td>15/9/2015</td>
<td>Dewachen Hotel (3*)</td>
<td>Domestic Hotel</td>
<td>Kezang Phuentsho (owner, semi-retired)</td>
</tr>
<tr>
<td>15/9/2015</td>
<td>Hotel Gakheling (3*)</td>
<td>Domestic Hotel</td>
<td>Dolay (owner)</td>
</tr>
<tr>
<td>15/9/2015</td>
<td>Do-ngag Tösam Rabgayling Shedra, Gangtey</td>
<td>Individual</td>
<td>Ari (monk)</td>
</tr>
</tbody>
</table>