# *"To change or not to change?": The way forward for the GNH Tourism Model"*

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## Executive summary

Bhutan's GNH tourism model began in 1974, with the notion of *'high value, low volume'* through the mechanism of the tariff system, which has functioned well. In 2009, the model changed into *'high value, low impact'*. This change saw huge increases in tourist arrivals, under the Accelerating Bhutan's Socio-economic Development (ABSD), through the McKinsey Report (2010). The McKinsey Report prioritises one of the 4 GNH Pillars: equitable and sustainable socio-economic development. In 2012, tourist arrivals exceeded the proposed 100,000 visitors target, causing widespread impacts on the limited tourism resources and capacity.

The aim of this report is to address some tourism challenges that continue to confront the GNH tourism model. The three objectives of this report are: first, to identify some of the tourism challenges; second, to provide strategies to manage these challenges, and third, to recommend changes in policy directions for GNH tourism to achieve its goal of 'happiness'. The methodology used is a qualitative semi-structured interview of 36 tourism stakeholders. The data was analysed using the NVivo10 qualitative analysis program.

The key finding reveals that Bhutan's tourism remains controlled by a small minority of tour operators. Apart from structural recurring tourism challenges, three other significant challenges are identified that requires change: an uneven playing field; bad debts, and poor tour guides' remuneration. Two key strategies to manage these challenges are: education and tariff liberalisation. Four policy direction changes are recommended to: educate the wider public about tourism review the tariff system, reduce bad debts and induce foreign direct investment, in order to achieve the GNH goal of 'happiness'. If left to its status quo, the GNH tourism model faces danger as the notion of 'high value, low impact' remains elusive. 2014 marks the 40th anniversary of the GNH tourism model, and this provides the opportunity to review the tariff system in order to achieve equitable and sustainable tourism.

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## Acknowledgement

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## Abbreviations

| Anonyms | Long description |
|---|---|
| ABSD | Accelerating Bhutan's Socio-economic Development |
| ABTO | Association of Bhutanese Tour Operators |
| DSA | Daily Sustenance Allowance |
| FDI | Foreign Direct Investment |
| GAB | Guides Association of Bhutan |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| GNH | Gross National Happiness |
| HRAB | Hotels and Restaurants Association of Bhutan |
| LAC | Limits to acceptable change |
| MICE | Meetings Incentives Conferencing & Exhibitions |
| NPD | New Development Paradigm |
| NGO | Non-government Organisation |
| PPP | Public-private-partnership |
| RCSC | Royal Civil Service Commission |
| RGoB | Royal Government of Bhutan |
| SAARC | South Asian Association for Regional Cooperation |
| TSA | Tourism Satellite Account |
| TCB | Tourism Council of Bhutan |
| WTO | World Tourism Organisation |

# 1. Introduction

Bhutan's unique GNH tourism model began 40 years ago, with a modest *'high value, low volume'* until around 2009, when the model was changed to *'high value, low impact'*. This model is centered on the four principles of *Gross National Happiness* (GNH), and has attracted unprecedented world attention in recent times. The GNH development philosophy calls for a *'slow-paced'* development that focuses on values. The four GNH pillars are: conservation and preservation of the natural environment, promotion and cultivation of culture, good governance and sustainable and equitable socio-economic development. However, the recent tourism development policy to increase tourists arrival numbers to 100,000 by 2012 by The McKinsey Report (2010), has led to increasing socio-cultural and environmental impacts.

This aim of this report is to share the findings of a wider PhD study into understanding some of the socio-cultural realities of achieving GNH, using the GNH tourism model as a case study. In particular, the challenges and impacts of the McKinsey Report. The objective is to gather perspectives from Bhutanese tourism stakeholders. The aim is to address three research questions. First, what are some of the tourism challenges in achieving the GNH goals? Second, what are some of the strategies to manage these challenges? Third, what changes policy direction changes is required for the GNH tourism model to help achieve happiness? The scope of this report is limited to the three key questions. The outcome of this inquiry is to provide effective tourism management and policy initiatives to achieve the GNH goals.

The fundamental GNH goal is to achieve happiness through the four GNH Pillars. The three key significant findings of the wider PhD study are: firstly, the notion of GNH is still elusive throughout the Bhutanese society – 'happiness' means different things to different people, although a significant majority indicated that happiness is to do with 'non-materialism', second, that tourism as a means of alleviating poverty happens only to selected areas, and third, that tourism in Bhutan is still very much 'controlled' by certain tourism stakeholders. It is the third key finding that this report focuses on because of the significant impacts and implications arising from such a control.

## 1.1. Background

This report is the outcome of the author's romantic view of Bhutan as a GNH tourism destination. He was fascinated with the notion of the GNH *'high value, low volume'* tourism model, and agreed with the emphasis on controlled tourist numbers for low impacts through the tariff system. However, the notion of 'high value, low volume' was changed to *'high value, low impact'*. During the author's first visit to Bhutan, his romantic view of Bhutan's GNH tourist destination was somewhat shattered. For example, he was confronted with tourist overcrowding and disappointed at the overall poor service quality, poor road conditions (winding roads with pot holes), lack of public amenities (such as clean and functioning toilet facilities), lack of hot water supply, litter along the Taktsang Monastery trek, sights of opened clogged drains, doma (areca nut) spits all over the city (on walls and on the ground), and the howling stray dogs in the night. Thus, for him the notion of *'high value'* remains slippery and the notion of *'low impact'* is problematic. Nevertheless, he was equally amazed at the beauty of the natural environment, the cultural richness and heritage, and the friendliness of the people in general. Yet, such views stem from an outsider's perspectives. The author's interest in and disappointment at Bhutan's tourism industry, has led to this investigation into the socio-cultural realities of the GNH tourism model.

The value and significance of this report, is that it represents an insider perspective of the views of Bhutanese tourism stakeholders. As such, the credibility, validity and trustworthiness of this report, is arguably representative of the current issues facing the GNH tourism model. Thus, this report is valuable because the identified challenges and strategies to manage key tourism issues, and the recommended policy directions are from agency within, giving currency to the issues at hand. Finally, this report is timely, as it is in line with the UN Post-2015 New Development Paradigm (NDP) goals. It is time to review the current GNH tourism model that began 40 years ago in 1974, as Bhutan has yet to maximize its tourism potentials.

## 1.2. Report outline

The report is divided into the following eight sections. Following the introduction in section one, section two situates the GNH tourism model. It describes the features, functions of the GNH Tourism Model, and highlights the strength and weakness of the model, pointing out the structural recurring challenges inherent in the GNH tourism model.

Section three describes the methodology used. It explains how data was collected and provides an overview of the population sample representation, size, gender, and age spread. It explains how the interviews were recorded and transcribed, and how the data was analysed using NVivo10, a qualitative software program.

Section four describes three key tourism challenges identified that has the most significant impacts. Section five provides strategies to manage these challenges. Section six discusses recommendation for changes in policy directions that can help achieve 'happiness' in the GNH tourism model. Section seven discusses the impacts and implications of the report findings and provides recommendations for the way forward. The report concludes in section eight, with suggestions for the way forward on the GNH tourism model.

## 2. The GNH Tourism Model

The GNH tourism model is guided by the principle of *'high value, low impact".* Based on the development philosophy of GNH, tourism development is '*valued-led'*. This means that tourism development seeks to 'add value' for Bhutan, that is, to use tourism for its own purpose. According to an informant at TCB, "we intend to use tourism and not be used by it", and the GNH tourism model is defined as,

> the basic premises of our tourism development is to ensure that the number of tourists admitted to Bhutan is well within the capacity of our socio-cultural and natural environment to absorb visitors without negative impacts, while ensuring that the experience we provide to the visitors are of high quality. This way, we target our markets based on the principle of 'high value, low impact (Tourism Council of Bhutan, 2013).

Hence, the definition of Bhutan's GNH tourism model is enacted on the basis of tourist control, within the carrying capacity of its socio-cultural and natural environment. This has produced 'low impacts', whilst ensuring high quality experience. In theory it sounds remarkable, however in reality, there are some challenges.

A review of the following documents provided the basis in understanding the GNH tourism model.

1. Bhutan's tourism tariff review and recommendations for change, Paul Rogers, (2002),
2. Bhutan's Tourism Potential, Research and Recommendations for Marketing, Loes van Beek and Ruud Klep (2002),
3. Sustainable Tourism Development Strategy (Royal Government of Bhutan . 2005),
4. Tourism's role and mandate, Draft Tourism Bill (Tourism Council of Bhutan., 2011c),
5. Concise Draft Tourism Policy Paper (Tourism Council of Bhutan., 2011b), and
6. Tourism Strategy and Development plans, 2013-2018, (Tourism Council of Bhutan., 2012b).

From the above documents, the researcher observed a pattern of similar issues that clearly stood out, such as: tariff undercutting, seasonality and the lack of innovative tourism products. The scope of this report however, will address tariff undercutting as it has the largest significant impact. The two other issues (seasonality and lack of innovative tourism products) are not addressed in this report, even though they appear in the current study's data collection. For example, seasonality continues to be an issue (extreme cold in winter and the summer monsoon, rains roadblocks during the monsoon period, flight cancellations due to the seasonal winds). Structurally, the geographic location of Bhutan does little to change seasonality. However, more indoor tourism products such as Meetings Incentives Conferencing & Exhibitions (MICE) and

Wellness Tourism can help to mitigate the seasonality issue. Nevertheless, TCB has addressed some of the off peak seasonality issue with new innovative tourism products such as the Haa Festival and the Ura Matsutake Festival in summer, and the Nomads Festival in Bumthang and the Druk Wangyal Festival at Dochula Pass in the winter. Being planned is also tourist activities that include the opening of ecotourism in the Royal Manas National Park (Tourism Council of Bhutan., 2011a).

### 2.1. Structural recurring tourism challenges

Some of the recurring tourism issues and challenges have been identified in the Bhutan Tourism Monitor Annual Reports (2008-2012). It has been widely reported in the press that some of the major complaints from a survey of 8,607 international tourists in 2011 were: poor road conditions (narrow, winding, potholes, lack of proper drainage), and waste management issues (open drains, doma (areca nut) spit and litter along trekking rails). Additionally, there are also concerns of the lack of diversity of food and restaurants (Dema, 2013a, p.3), poor hotel standards, lack of public amenities (toilets and restrooms along the highways), unregulated souvenir pricing, the stray dog population especially in Thimphu and Paro, and a lack of credit card and ATM facilities (G. K. Dorji, 2012, p.5). The Bank of Bhutan has since introduced credit card facilities and ATMs. The identified recurring challenges, which for the purpose of this report shall be termed as *'structural recurring tourism challenges'* provide fuel for management strategies to mitigate the notion that 'low impacts' remain elusive whilst 'high value' experiences remain slippery.

### 2.2. Tariff system

The tariff system is regarded as strength in the GNH tourism model. It applies only to international US dollar paying tourists. Regional tourists from India, Bangladesh and The Maldives are exempted. It was designed to protect tourism interests and has successfully been implemented (Rogers, 2002, p.15). It features a daily minimum price of US$250 per person per night during the peak season (March to May, September to November), and US$200 in the off-season period (December to February, June to August). The daily tariff includes hotel accommodation (3-star category), transportation, all meals and non-alcoholic beverages, entry fees to major tourist attractions (e.g. National Museum, Dance performances), and the provision of a tour guide. The same tariff structure applies for cultural and trekking tours. Tariff surcharge applies for smaller groups of less than four, with discounts for longer stays (for more detailed information see Rogers, 2002), and included in the tariff is a portion called the Royalty Fee. Tariff paying tourists are required to pre-book and prepay their tour itinerary. The entry visa is issued upon receipt of tour payments. The tariff system provides sufficient profit to the tour operator. According to one respondent,

> I know that the government has devised such a tariff system, where there are enough profit margins for the tour operator, if he operates as per the tariff that is set by the government (TO4).

### 2.2.1. Royalty Fee from international tourists

Another strength of the tariff system is the Royalty Fee. The Royalty Fee is derived from the international dollar paying tourists. The regional tourists are exempted from the Royalty Fee. The Royalty Fee, which is around 30% of the tariff system, goes into the government's exchequer to provide universal health and education to its people. The Royalty Fee during the peak season is 28% (US$65 of net US$225), and off peak 30% (US$55 of net US$180). From 2012, it was changed revised to US$65 per person per night all year round.

One respondent feels that the Royalty Fee is a positive thing,

> the money is not put in developing nuclear weapons or supporting huge army to invade our neighbors. That royalty [fee]……the money that they contribute goes towards free education and free health (TO6).

The Royalty Fee is a noble outcome for the 'common good' of the people in terms of universal free health and education.

Tourism receipts in Bhutan, is the biggest foreign income earner. In 2012, tourism revenue earned was US$62.8 million and the Royalty Fee was US$16.63 million (see table 3). Therefore, it remains a priority for the government to ensure that tourism continues to maximize its potential. According to one respondent,

> tourism actually is one sector which goes much beyond….hydropower…it gives you power, it gives you money; tourism is much beyond money (G3).

It appears that there is a perception that tourism is power. Tourism brings in money and with money power ensues. And this power is good if it is used for altruistic goals. However, this power is dangerous if tourism receipts are concentrated in the hands of a few tourism stakeholders, namely the tour operators, and not used for the noble outcome of the 'common good'. However, despite the strengths of the tariff system, prevalent tariff undercutting remains a key resultant weakness.

### 2.2.2. Tariff undercutting

The tariff system has resulted in tariff undercutting, a weakness that undermines the GNH tourism model. This weakness has given great powers to the tour operators, as they control where the tourists stay. The hoteliers on the other hand are restricted, as they are not allowed to accept direct bookings from tourists. In this way, the tour operators control the hotel bookings, which results in an uneven playing field. The means that the tariff paying tourists are controlled by tour operators. And as such, tour operators have the power to dictate terms and conditions to hoteliers. This has led to 'bullying', 'power' and the 'monopoly' of tour operators in the tourist industry.

According to the tariff system, tourists should be accommodated at the minimum of a 3 star hotel. Often tour operators provide a lower class of hotel due to the lack of 3 star hotels, especially during the peak season. There were 132 TCB registered hotels reported in 2008, of these, 103 hotels were accredited to cater to dollar paying tourists (Tourism Council of Bhutan., 2009, p.38). In 2012, the number of registered hotels decreased to 123, of these, 62 were '3-stars' and above that caters to the dollar paying tourists (Tourism Council of Bhutan., 2013, p.33). This implies that there was a decrease of -39.8% in the number of registered hotels for dollar paying tourists. The total dollar paying tourist arrivals were 27,636 in 2008, and in 2012, this totaled 54,685, representing a +97.8% increase. The analysis clearly shows that the tariff paying tourists has increased 9 times whereas the registered hotels that should cater to tariff paying tourists decreased nearly 4 times. This is clearly a case of exceeding the tourist carrying capacity or ignoring the limits of acceptable change (LAC), which will be further discussed in section 2.5.1.

In this way, tour operators can manipulate and undercut the tariff system by not providing the minimum standard of a 3 star hotel accommodation. Tour operators choose which hotel to place the tourists into, since they are in control of all tariff paying tourist bookings. This is powerful tool as tour operators can control the market and because of the volume, they can dictate terms and conditions to the hoteliers. This will be further discussed in section 4.1.1. The following section discusses the emerging regional tourists.

## 2.3. Regional tourists

Regional tourists originating from India, Bangladesh and the Maldives are not subjected to the Royalty Fee. These tourists do not require a visa due to the 'open boarder' policy with India, and the reciprocal visa agreements between Bhutan and Bangladesh and the Maldives. Bhutan has strong geo-political ties with these countries because of a common bond established for mutual benefits through the South Asian Association for Regional Cooperation (SAARC). The historical and geopolitical links to India, and the proximity of Bangladesh provide an easy access market for Bhutan's produce. Tourism is one sector in promoting friendly relations between Bhutan and these countries. As such, regional tourists are not subjected to the conditions of the tariff system mentioned above.

The regional tourist segment is arguably a weakness of the GNH tourism model. It is a weakness because there is no control on the numbers and no necessity for minimum spending. In short, arguably, the regional tourist segment does not uphold the notion of 'high value, low impact'. Respondent P6 observes that regional tourists are treated differently:

> it's unfortunate that on one hand we stress so much on high quality tourists internationally, but regionally we are not even bothered. Just because they [the regionals] don't pay as much as the international tourists does not mean you will give them cheaper quality or undesirable quality services. They are also paying, may [be] not pay as much as the international tourists, but as long as they pay based on their payment, services should be rendered (P6).

Regional tourists enjoy a special status within the GNH tourism model, and are an emerging force. In 2008, there were 32,285 Indian tourists arrivals (Tourism Council of Bhutan., 2009, p.19). These regional tourists totaled 50,722 in 2012. A regional survey of 2,892 regional tourists showed that they were mainly from India (86.1%), Bangladesh (12%) and The Maldives (1.9%). The purpose of these visits were mainly leisure (71.4%), business (11%), visiting friends and relatives (VFR) 4.1% and Meetings, Incentives, Conferences and Exhibitions (MICE) 3.4% (Tourism Council of Bhutan., 2013, p.71). The increasing regional tourist numbers, whilst bringing in increasing tourism revenue adds considerable impacts on the already constrained capacity, especially during the peak season.

## Definition of tourist

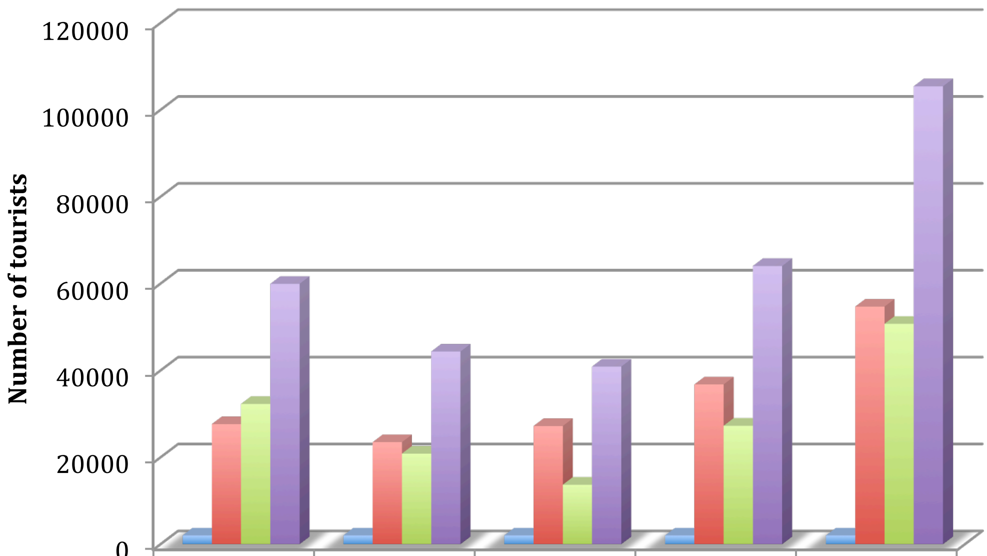
One significant change in the GNH tourism model is the definition of 'tourist'. Until 2012, there was a distinct definition between international dollar paying tourists with visa requirements and the regional tourists. However in 2012, both categories were 'regrouped' into a standard definition of 'international tourist'. According to World Tourism Organisation (WTO), an 'international tourist' is defined as,

> Any person who travels to a country other than that in which s/he has his/her usual residence, but outside his/her usual environment for a period not exceeding twelve months and whose main purpose of visit is other than the exercise of an activity remunerated from within the country (WTO 1997, p24 cited in Pearce, Rutledge, & Morrison, 1998, p.7).

The 'regrouping' of regional and international tourists is thus correct according to the WTO definition given above. Table 1 below provides an overview of tourist arrivals from 2008 to 2012. There was a drop in total tourist arrivals in 2009 and 2010. The total tourist arrival growth was 65% in 2012, against 57% in 2011.

**Table 1. Tourist arrivals (2008-2012)**

## Tourist arrivals (2008-2012)




| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Year | 2008 | 2009 | 2010 | 2011 | 2012 |
| Tariff paying | 27636 | 23480 | 27196 | 36765 | 54685 |
| Regionals | 32285 | 20847 | 13677 | 27263 | 50722 |
| Total | 59921 | 44327 | 40873 | 64028 | 105407 |

**Regional vs. dollar paying tourists**

**Source: Bhutan Tourism Monitor (2008-2012)**

However, the shift in ‘regrouping’ regional and international tourists into one figure, has led to some unclear information in terms of establishing regional tourists revenue earnings. Whilst the revenue earnings of international dollar paying tourists’ contribution to GDP can clearly be obtained (due to the tariff system), the figures for regional tourists revenue earnings are less clear. This is because currently, the Tourism Satellite Accounts (TSA) has not been set up in Bhutan. Divisekera (2012) and Teoh (2012) have done some preliminary groundwork on TSA and currently UNWTO is providing assistance in setting up TSA in Bhutan. The function of TSA is to measure, “the economic assessment of tourism within the national accounting framework, allowing it to be compared with other industries” (Richardson & Fluker, 2004, p.99). The purpose of TSA according to UNWTO is to,

> analyse in detail all the aspects of demand for goods and services associated with the activity of visitors; to observe the operational interface with the supply of such goods and services within the economy; and to describe how this supply interacts with other economic activities (World Tourism Organization., 2010, p.iii).

In other words, TSA provides detailed direct tourism revenue contributions to Gross Domestic Product (GDP). Apart from the lengthy and expensive process, the TSA may take up to three years before a reliable figure can be produced, although estimates can be made using economic modeling once the first set of figures are established (Richardson & Fluker, 2004, p.100).

The 'regrouping' of regional and tariff paying tourists together, has camouflaged the significant growth of the regional tourists. Table 2 shows a comparison between regional and tariff paying growth numbers from 2008 to 2012. The analysis noted that there was a significant increase of 41,379 in the overall tourist arrivals reported, from 64,028 in 2011 to 105,407 in 2012, showing a growth of +64.62% (Tourism Council of Bhutan., 2013). But in reality, the tariff paying tourists increased by 17,920 from 36,765 in 2011 to 54,685 in 2012, representing a growth of +48,74%.

The growth of regional tourists has surpassed that of the tariff paying tourists. As noted in table 2, the regional tourists increased by 13,586 in 2011, representing a growth of +99.33% from the previous year and 23,459 in 2012, representing a growth of +86.04%. This huge increase in regional tourists has surpassed the tariff paying tourists and is remarkable and yet alarming. It is remarkable because of the sudden and huge potential growth in regional tourists arrivals. It is alarming because this huge increase in numbers most likely further impacts on the current limited tourists carrying capacity. As one respondent says, "more numbers mean there is definitely going to be wear and tear in the environment" (TG3). Thus, this huge increase impacts significantly on the GNH tourism model that aims for 'low impacts'.

**Table 2. Regional and Tariff paying tourists growth numbers (2008-2012)**

| Year/Tourists | Regional | Growth in % | Tariff paying | Growth in % |
|---|---|---|---|---|
| **2008** | 32285 | -6.36% | 27636 | +31.01% |
| **2009** | 20847 | -35.42% | 23480 | -15.03% |
| **2010** | 13677 | -34.39% | 27196 | +15.82% |
| **2011** | 27263 | **+99.33%** | 36765 | **+35.18%** |
| **2012** | 50722 | **+86.04%** | 54685 | **+48.74%** |

**Source: Bhutan Tourism Monitor (2008-2012)**

In terms of revenue, the tariff paying international tourists generated US$62.8 million in 2012, compared to US$47.68 in 2011. This represents a growth of +31.71%. Table 3 shows the gross earning of tariff paying international tourists between 2008 and 2012. Currently there are no available figures on direct revenue from regional tourists. However, the overall tourism revenue given for 2012 under the 'regrouped' tourist definition was US$227 million (Bhutan Tourism Monitor, 2013, p.11). The US227 million represents receipts from Drukair, regional tourism, out-of-pocket visitor spending of visitors on other additional goods and services (Bhutan Tourism Monitor, 2012, p.37).

**Table 3. Gross earnings of Tariff paying tourist (2008 -2012)**

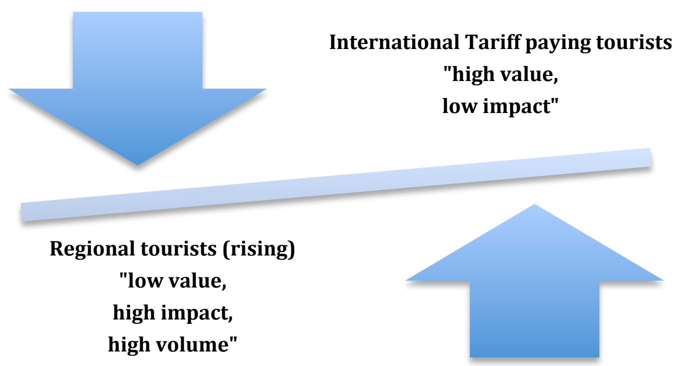
| Year | Arrivals | Gross Earnings in USD (mio) | Royal Fee in USD (mio) | Growth Earnings in % |
|---|---|---|---|---|
| **2008** | 27,636 | 38.83 | 13.3 | +30.10% |
| **2009** | 23,480 | 31.88 | 10.66 | -17.90% |
| **2010** | 27,196 | 35.98 | 11.43 | +12.86% |
| **2011** | 36,765 | 47.68 | 14.89 | +32.53% |
| **2012** | 54,685 | 62.8 | 16.63 | +31.71% |

**Source: Bhutan Tourism Monitor (2008-2012)**

## 2.4. The irony of the GNH tourism model

Bhutan's tourism model is arguably 'controlled' in nature through its tariff system. But this is an irony. Prior to the shift in the GNH tourism model in 2009 to '*high value, low impact'*, the model operated since 1974 as *'high value, low volume'.* Nyanpaune & Timothy's (2010), study on the concept of Bhutan's *'low volume, high yield'* tourism policy revealed that power and politics has tended to favor regional tourists. This irony has created two levels of tourists. At one level, international tourists (dollar paying) are controlled and subjected to the tariff system. And at another more relaxed level, regional tourists (special status) are uncontrolled as they have easy access into Bhutan, without being subjected to visa requirements and the tariff system. The study concludes that tourist numbers has been controlled by, "a daily minimum tariff, a required guided tour, certain spatial restrictions, and the general perception of inconvenience associated with the process of getting a visa" (Nyaupane & Timothy, 2010, p.976). Figure 1 below illustrates the two categories of tourists within the GNH tourism model, suggesting the irony of the model.

**Figure 1. GNH tourism model**




However, the irony in the controlled tourism policy is that it is applicable only to 'international dollar paying tourists' or referred to locally as 'tariff paying tourists' (largely westerners from the US, Western Europe and Australia and

New Zealand, but of late including Asians from Thailand, Singapore, Japan and China), as there is 'regional favoritism' accorded to its immediate neighbors. Regional tourists are not subjected to the conditions outlined above, making them 'uncontrolled' (Tourism Council of Bhutan., 2013). In this sense, the treatment of international dollar paying and regional tourists differ substantially. Nevertheless, when taken into the context of Bhutan's immediate southern neighbors, with the decades long strong and stable geo-politics of the Indo-Bhutanese and the Bangladeshi-Bhutanese relationships, such 'regional favoritism' remains understandable.

The implication of 'regional favoritism' (that is, 'uncontrolled' regional tourists) is the likelihood, that the regional tourists might eventually overtake the controlled international dollar paying tourists. There is evidence to show that the international tariff paying tourist segment appears not to be growing as substantially compared to the regional tourists (refer to table 3). Although a study has been undertaken to monitor and study the regional tourists (P. Dorji, 2012), the features of regional tourists behavior is most likely to add to *'low value, high volume, and high impacts',* such as the influx of backpackers, over crowding, road brawl (reported in Bhutan Observer 09th November 2012), and the Merbatsho drowning incident (Dema, 2013b), will only exacerbate the irony of the 'controlled' tourism model. Clearly, as shown in figure 1, the GNH tourism model is arguably in threat, with the notion of *'high value, low impact'* in decline on the one hand, whilst the 'uncontrolled' regional tourists is on the rise. This trend is predicted to continue as Indian visitors increases due to the strength of the Indian Rupee. The next section examines the McKinsey Report.

## 2.5. The McKinsey Report

The first democratically elected Bhutanese government exercised political and economic rationality in focusing on its socio-economic development. The 10th Five Year Plan (FYP) 2008-2013, stressed on 'Accelerating Bhutan's Socio-economic Development' (ABSD), which is in line with one of the four GNH pillars. The mandate of the 10th FYP for the tourism sector is to create 25,000 jobs and a set target for tourism revenue to reach 15% of GDP.

The Royal Government of Bhutan (RGoB) commissioned a team of consultants from the McKinsey & Company, an American Global Management Consultancy firm to design its ABSD program called 'The McKinsey Report' that cost USD 9 million or Nu 430 million. This sum amounted to 3% of GDP.

The McKinsey Report was seen as a general direction in accelerating the socio-economic development of Bhutan. One sector specifically targeted is tourism. Tourism receipts generates around US$76 million, contributing 6% of GDP, creating around 53,000 jobs or 2% of employment (Dorji, 2010). The McKinsey Report made several specific overall initiatives, amongst them it proposes to create 90,000 jobs.

Amongst the initiatives proposed in tourism were increased tariff, hotel accommodation star rating system, establishment of benchmarks, and others as reflected in table 4. Many of these initiatives have been adopted but due to the lack of monitoring, and the slow progress in implementation, questions were raised as to whether these initiatives are effective (TCB official, 2013).

**Table 4. The McKinsey Report Initiatives**

| **Price and channel proposals** |
|---|
| 1. Mandate specific package elements by tour operators: accommodation rating, meal plan, vehicle type, level of guide |
| 2. Promote digital intermediaries to capture the growing trend of consumers buying online |
| 3. Allowing hoteliers to also sell packages |
| 4. Roll-out the start rating system for hotels and build an analogous systems for other classes of accommodation starting March 2010 |
| 5. Allow only 3-star and above and equivalent for other categories of certified accommodation (lodges, farm stays) to host tourists, to be applicable from January 2012 |
| 6. Ensure all tourist vehicles are of minimum safety and service standards |
| 7. Ensure a mechanism for monitoring standards, processes and capacity for tourists. Establish minimum benchmarks |
| 8. Roll-out guide certification program with standard guidelines and policies |
| 9. Develop tour operator recognition program based on customer feedback and other metrics |
| 10. Incentives/investment subsidies and soft motivators for hotels and other classes of accommodation to upgrade |
| 11. Remove royalty for children less than 12 years old |
| 12. Review other pricing components as royalty for long stays, mandatory commission to international travel retail, etc. |

### 2.5.1 Impacts of the McKinsey Report

The McKinsey Report may have been premature in its attempt to accelerate Bhutan’s socio-economic development through tourism. It failed to address the issue of capacity management and the limits to acceptable change (LAC). LAC is defined as, “a tool designed to identify appropriate or desirable resource and social environmental conditions in a given area, and to guide the development of management techniques to achieve and protect those conditions” (Lew & Hall, 1998, p.9). In other words, LAC identifies the change to the environment that is acceptable and tolerated. Instead the McKinsey Report called for increased tourist capacity without proper understanding of the limitations of the current infra and superstructures. Infrastructure refers to the externalities such as public works such as roads, electricity, water, and health services, emergency rescue services. For example, the roads in Bhutan are narrow and winding, there are landslides resulting in roadblocks during the monsoon period, there are electricity power cuts in the winter, and there is no emergency helicopter rescue service available in the event of a high altitude trekking accident. Superstructure refers to tourist accommodations (hotels, apartments, guest house), restaurants, and recreational facilities. For example, there is a lack of tourist accommodation especially in the peak season. Such limitations suggest the myopic view of the

McKinsey Report, in its premature rush to accelerate tourism development, without first understanding the LAC and tourist capacity management, which causes significant impacts.

The Bhutan 9th FYP (2002-2007) highlighted tourism as a potential growth market. The 9th FYP targeted 15,000 tariff paying tourists by 2007, increasing to 20,000 in 2012. According to van Beek and Klep (2002), higher tourist numbers will adversely lead to a downfall in tourist arrivals on a long term. They suggest that,

> [tourist] arrivals should be more equally spread in time as well as in space as the existing Tschechu festival are already stretched to their maximum logistic capacity and their cultural and social carry capacity" (2002, p.14).

This caution however, appeared to have been overlooked, since the McKinsey Report (2010) suggested that the tourist industry could accommodate 100,000 tourists. The total tourists arrivals in 2012 was 105,407.

Increasing tourist numbers implies impacts on its carrying capacity. Carrying capacity, having its foundation in wildlife ecology, is defined as, "the maximal population size of a given species that an area can support without reducing its ability to support the same species in the future" (Daily and Ehrlich, 1993, p.762 cited in Lew & Hall, 1998, p.77). Ignoring the carrying capacity can have detrimental effects. As mentioned earlier, increasing tourist numbers will result in the 'wear and tear' of the environment. One respondent suggest that,

> The biggest impact of course, most tremendous and more recent that I see, is the impact on the environment. Bhutan is not able to cope with its own garbage. There is a lack of proper planning and infrastructure for waste management in most if not all valleys. And certainly, you have no proper system for ensuring that what goes in and out of the city, and trekking in smaller villages, come back for proper disposal and management. And until that is addressed, the impact is going to be devastating (H3).

This perspective suggests increasing tourist numbers is most likely to impact significantly on the natural environment. However, one respondent suggests that,

> the [tourist] number is growing together [with this growth] the infrastructure is also growing in Bhutan. Which means the job creation…the unemployment issue will definitely be resolved in the country (H4).

There appears to be a different perspective suggesting that the increase in tourist numbers will help stimulate job creation and employment. In this sense, there appears to be some mixed perspectives. There are respondents who regard the McKinsey Report as stimulating the economy. However, one respondent says that,

> I feel that Bhutan don't need to deserve to do this way [dynamic way]. Bhutan has to be [developed]...in a very slow process... I feel that Bhutan has not come to that stage [dynamic way] and Bhutan is opening tourism in a very slow pace.... I feel that it has to be in that way...not in the dynamic way (TO3).

The above perspective suggests contradictions the ‘slow-paced development’ implicit in the GNH development philosophy. It highlights the rhetoric of the GNH development philosophy, in light of the McKinsey Report. According to a civil servant,

> The government’s decision to hire a global consultancy firm McKinsey and Company was wrong. It was wrong for two main reasons. One, we do not need to pace up growth any faster than we already are doing it. Such wanton development as envisioned by the government predominantly could cost us dearly. The government still has a mammoth task ahead of it on achieving balanced and equitable growth first (Karma Phuntsho cited in Dorji, 2010).

The above perspective does suggest that Bhutan’s socio-economic development acceleration in tourism appears to be at odds with the GNH pillar of sustainable and equitable socio-economic development.

There are also questions regarding the legitimacy of The McKinsey Report. Despite claims that the McKinsey consultants provided expertise in implementation, an audit report showed that there was clearly a lack of monitoring and implementation as the consultants left the country after the report was delivered. Subsequent follow up were minimal at the very least and the recent report showed that much of its promises had not been delivered. For a small kingdom, an expenditure of 3% of GDP (the cost of the McKinsey Report) could have been more useful when reinvested into its struggling domestic economy, instead of it used as payment to an external multinational company. The McKinsey legacy left behind has been plagued with general unpopular views of the government (Dorji, 2013).

### 2.5.2. Tariff increase

One of the recommendations made by the McKinsey Report is to increase the tariff system. The tariff system has not been changed since 1989, when it was increased to US$200 for the peak season. In 2012, the tariff was increased to US$250, which represents a 25% increase. However, the Royalty Fee component remained. As for changing the fixed tariff system, one respondent opines that,

> I would say at least 80% of the tour operators were united against this move. I think if I were the our operator I would be most embarrassed for wanting to charge 250 dollars and not even providing a basic necessity like a toilet (TO4).

This perspective suggests that the increase in tariff was unjustified given the lack of basic necessity. Additionally,

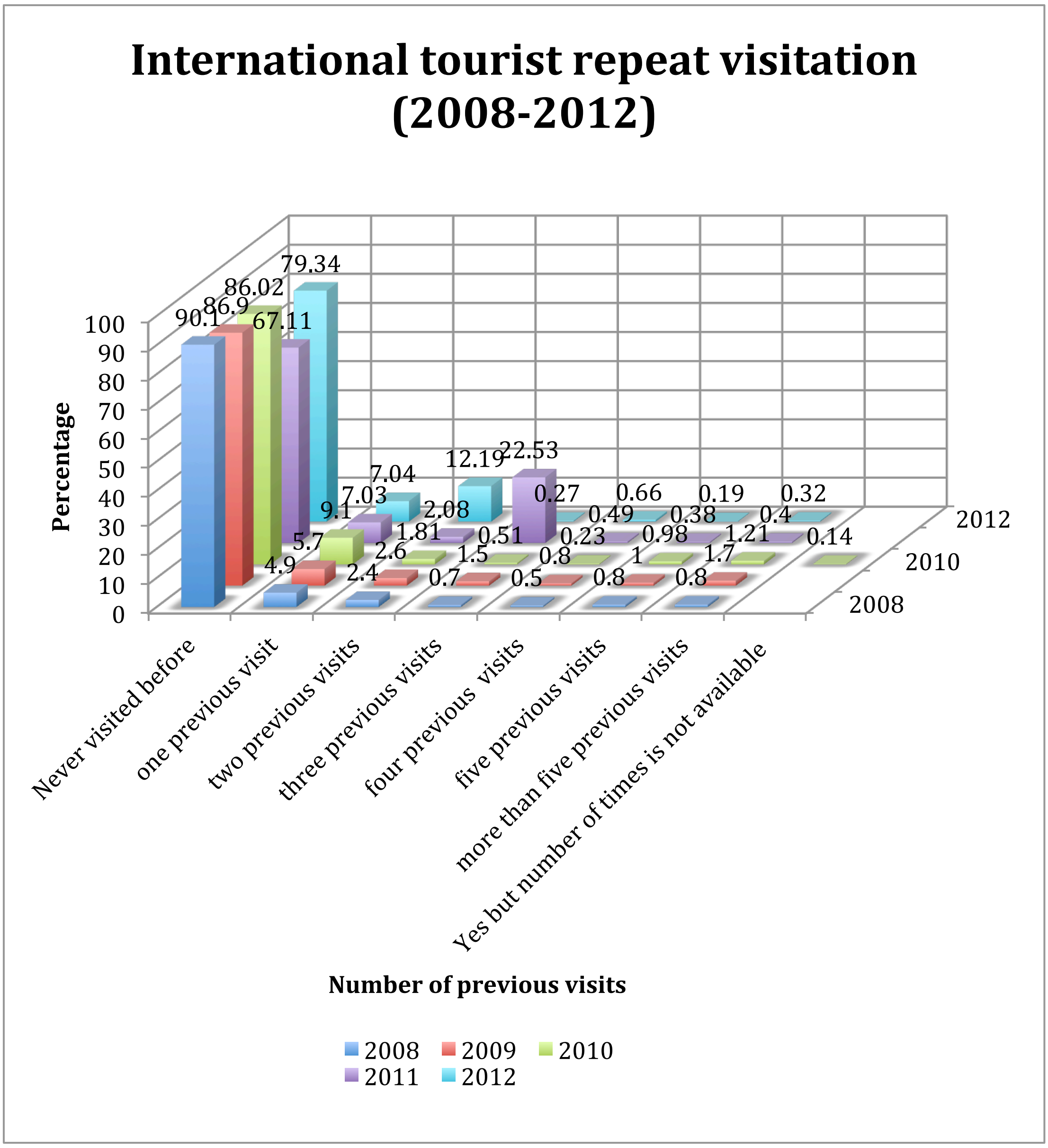
> I feel that when we have all our roads in good shape, when we have proper restaurants and everything...then only we should increase [the tariff]. Because right now there is no basis to increase. They just increase it from 200 to 250 dollars just because we had not increased [the tariff] for a long time. That to me is not how it should be done. When you have added the value, then you increase (TO4).

Respondent TO4's perspective further reflects a view that the increase in tariff does not correspond with added value. And this might have resulted in low repeat visitations.

### 2.5.3. Low repeat visitations

That the increase in tariff without any added value might hold true, as the repeat visitation is traditionally significantly low. The McKinsey report (2010) states that repeat visitation trend is 9.9%. Figure 2 shows the average percentage for 'one previous visit' between 2008 and 2012 is 6.75%, 'two previous visits' is 4.21%, 'three previous visits' is 5.1%, 'four previous visits' is 0.53% and 'five previous visits' is 0.67%.  The average for 'never visited before' for the same period is 81.89%. This analysis strongly suggests that Bhutan may be best considered as a 'once a lifetime visit'. And this could be due to the perception that Bhutan is a highly priced destination. However, more concerning is the fact that a significant small number of tourists revisit Bhutan. But alarmingly, the low repeat visitation is not a concern. According to an Association of Bhutanese Tour Operators (ABTO) representative, "Bhutan does not depend on return business" (Personal communications, October 5th, 2012). This view may be myopic because repeat visitors contribute towards sustaining tourism. The fact remains that the repeat visitation is low, although the reasons for this remains unclear. Further investigation into the causes would be useful and is recommended for the industry's future.

**Figure 2. International tourist repeat visitation (2008-2012)**




**Source: Bhutan Tourism Monitor (2008-2012)**

The GNH Tourism model is restrictive as tour itineraries must be pre-booked and pre-paid. Although this might offer some certainty, there is a large untapped scope for markets that have a relatively shorter booking time. The spontaneous market segment, such as the 'on the spur' type of tourists (just getting up and going or last minute bookings, or promotional offers due to low hotel occupancy), may augment the off-peak seasons, if there were less restriction made on bookings. There is a growing market of savvy tourists who book online for their complete tour arrangements (Hitz, Sigala, & Murphy, 2006). Hence, booking channels need to be made more accessible to a wider market, and less restricted to only tour operators.

In conclusion, to sum the discussions in this section, it appears that the GNH tourism model has its strengths through the tariff system imposed on international dollar paying tourists on the one hand, but on the other hand, it has its weakness inherent in the tariff system of undercutting, as well as in the visa and tariff-free regional tourists who remain uncontrollable. This gives rise to the irony of the GNH tourism model. And the model faces fatigue. Like an old car whose parts are rusty and requires a major overhaul, forty years ago when the tariff system was implemented in 1974, the tourism industry and market were quiet small and controlled by the government. Many changes have occurred since the privatization of tourism in 1991. With privatization, tourism stakeholders were able to take advantage of the weakness of the tariff system. The winners appear to be only a small handful, namely, the tour operators. As such, Bhutan's GNH tourism appears to be controlled by a small minority. This means that tourism benefit is not an equitable and sustainable form of socio-economic development as outlined in one of the GNH pillars. The GNH tourism model arguably appears to be 'obsolete'. Therefore, achieving the GNH goals through tourism may remain elusive. The following section discusses the methodology used in this study.

# 3. Methodology

## 3.1. Qualitative approach method

The last section dealt with the GNH tourism model. This section discusses the methodology. The most appropriate methodology to capture the perceptions of respondents is through a qualitative approach. A semi-structured interview method was used. Interviews were held with 36 Bhutanese tourism stakeholders, as discussed in section 3.2. More significantly, this method represents an 'emic' perspective or 'insider's view', rather than from an 'etic' perspective or an 'outsider's view'. 'Emic' refers to the truths that are culture specific, whereas 'etic' refer to universal or pan-cultural truths (Matsumoto & Juang, 2004, p.20). The data process collection and analysis is discussed in section 3.3. and 3.4. The interview findings and strategies given in this report (sections 4 to 6) are respondent's direct responses. The purpose is to present respondent's perceptions and opinions 'in vivo' or 'as it was said'.

## 3.2. Respondent sample population

The respondent sample population consists of 36 tourism stakeholders. These include tour guides, tour operators, hoteliers, Tourism Council of Bhutan (TCB) staff, Government officials, Non-government Organisation (NGO) staff and the public.

### 3.2.1. Respondent recruitment

Respondent recruitment in any study can be a challenge. 50 potential participants were approached for the study, with 36 interviews carried out, representing a participation rate of 72%. Table 5 lists the number of respective respondents that represent tourism agency. This is key to gaining an insider's knowledge or 'etic' view of the tourism industry. These actors represent 9 Hoteliers, 7 tour operators, 4 TCB staff, 4 tour guides, 3 Non-government organizations (NGO), 3 government officials and 6 public persons. These participants were recruited based on the researcher's previous fieldwork contacts, as well as recommendations.

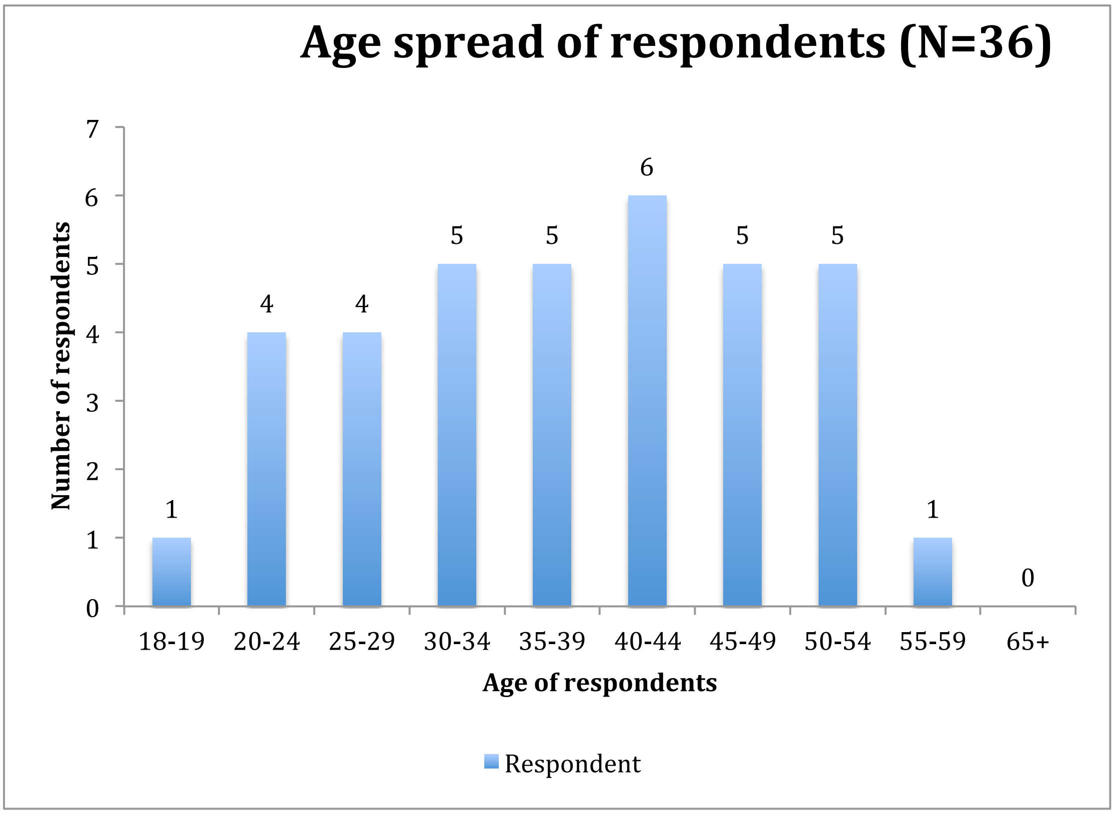
**Table 5. Number of interviewees**

| Legend | Agency (Participants – total 36) |
|---|---|
| **G** | Government officials (3) |
| **H** | Hoteliers (9) |
| **NGO** | Non-government organization (3) |
| **P** | Public (6) |
| **TCB** | Tourism Council of Bhutan (4) |
| **TG** | Tour guides (4) |
| **TO** | Tour Operators (7) |

### 3.2.2. Age spread

The age demographics of a sample population are important in any study. Figure 3 shows the age spread of interview respondents. This sample population has a mean age around the 30-39 and 45-54 years old group, that shows a skewed age distribution to the left between those 20-39 years old group, with the highest number of participants in the 40-44 years old group. This is especially instructive, as the age demographic range represents those in employment.

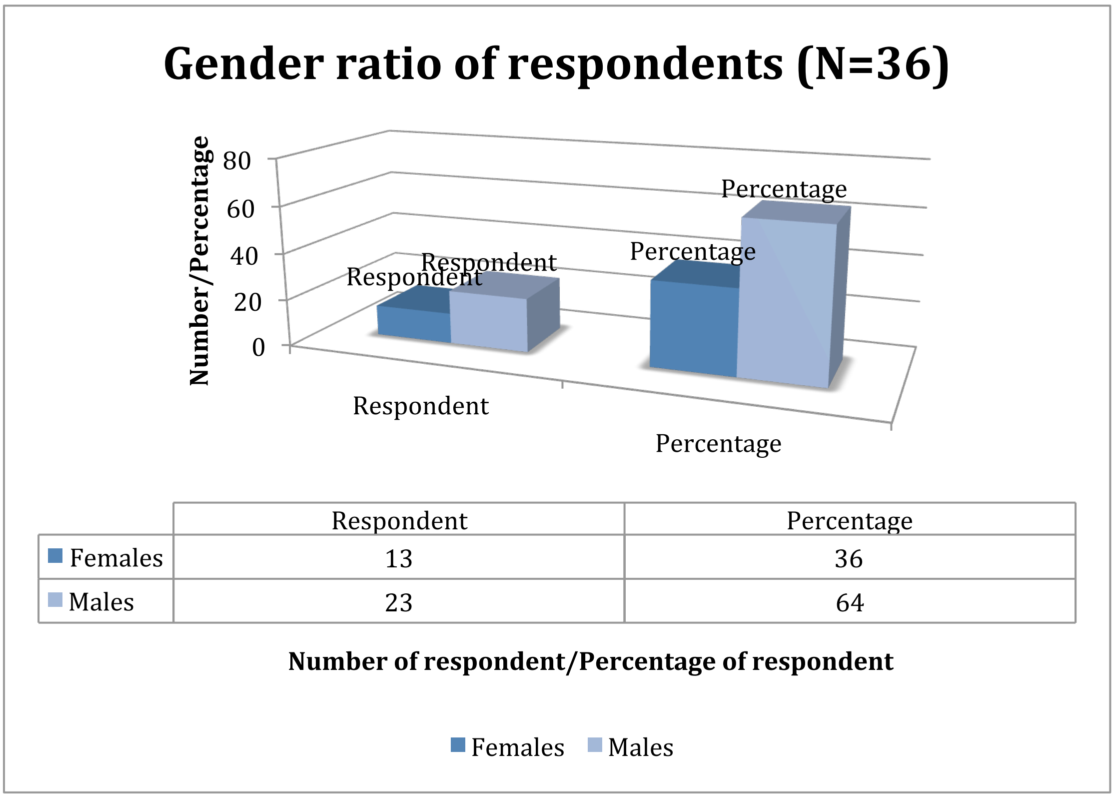
**Figure 3. Age spread of sample population**




### 3.2.3. Gender

The gender ratio should be close to the national gender ratio average. Figure 4 shows respondents' gender ratio of 13 females (36%) to 23 males (64%). This ratio is within the national gender ratio of women workers in the civil service, which is the largest employer. The women workforce is 7,745 representing 32% of all workers in the public service (Kuensel, September 05, 2012). Therefore, this sample population size is close to the Bhutanese national average in terms of gender employment ratio.

**Figure 4. Respondent gender ratio**




## 3.3. Data collection

The process of data collection is described here. The interviews were held between September to November 2012. The data was recorded with the consent of all respondents both verbally and through written consent. Interviews were conducted either at respondent's offices, homes or at an agreed convenient place (e.g. at a restaurant with a private room). The interviews were recorded alongside some written notes. The recordings were transcribed with the assistance of a paid local transcriber per verbatim, that is, 'word for word'. The researcher then verified the transcriptions by listening to the interview recordings in 'in vivo' to ensure accuracy. Because the transcripts were transcribed per verbatim, often sentence structures appeared incoherent. The interview transcriptions were then sent to all respondents for verification. Respondents were asked to make changes they deemed necessary. This allowed changes to be made in the context of what was said. The final transcript is the returned version from respondents. However, for the purpose of this report, the researcher has at times included parenthesis [...] by adding words, in order to bring coherence to respondents' direct quotations into context, without changing its meaning.

## 3.4. Data analysis

The data was analysed using NVivo10, which is a leading qualitative software program. An open coding method allowed the researcher to code the data line by line, looking for significant themes. The focus here is not on the frequency or repetition on how many times a theme appeared, but on the quality or significance of that theme. This is specifically done, in order to emphasise the significant impact that particular theme has on GNH tourism model. In other words, if that significant theme remains unchanged, the impact and implication may further exacerbate the current situation.

To sum up this section on methodology, various factors were taken into consideration when designing the study. Most notable is the qualitative approach that represents perspectives of Bhutanese tourism stakeholders. As perspectives are from within the tourism community or 'emic' ("voices from within"), rather than from an outsider's point of view (tourists) or 'etic', it makes the study credible, valid and noteworthy. More importantly, the respondents represent a spread of age groups representative of the workforce, with a gender ratio that is close to the national civil service ratio. The following section discusses the findings in tourism challenges that significantly impact the GNH tourism model.

## 4. Tourism challenges

The previous section discussed the methodology used in the study. This section describes respondents' perspectives or "voices from within" of some of the tourism challenges in achieving the GNH goals. Apart from the 'structural recurring tourism challenges' discussed in section 2.1, a general discussion of tourism issues such as overcrowding, environmental degradation, accommodation shortage, accessibility, and poor public toilet facilities have been identified in the interview data.

However, for the purpose of this report, three key tourism challenges are identified as having the most significant impacts on the GNH tourism model in achieving the GNH goals. These are the uneven playing field, bad debts, and the tour guide issue. These three key themes are crucial and if left to its status quo, could potentially threaten the tourism industry.

**Tourism issues**

In general, interview respondents identified three key tourism issues as a direct increase in tourist numbers through the McKinsey Report. These issues have resulted in social impact issues such as overcrowding, environmental degradation and the shortage of accommodation. For example, firstly there was tourist overcrowding especially during the peak Tschechu festivals. The second tourism issue is environmental degradation (e.g. littering on treks and campsites), however, littering is not only restricted to tourists but also to the Bhutanese. And third, there is a shortage of accommodation especially during the peak season, although TCB has approved 63 new hotels since 2012 (Dema, 2014b, p.5).

Based on the interview findings, there is also a general consensus amongst respondents that the tourism industry faces regional imbalance of tourism spread across the country. There is an urgent need for a more equitable share of the tourist revenue, to spread out to other areas in the East and South. Currently, tourism revenue distribution is significantly concentrated to the western triangle towns of Paro, Thimphu and Punakha, Bumthang in the central, and a small nomadic community at Merak-Sakten in Trashigang in the east. Figure 5 shows a map of Bhutan and the marked predominant areas (in orange circles and triangle) where tourism activities mainly occur.

**Figure 5 Map of Bhutan**


**Source: Adapted from Tourism Council of Bhutan**

## Accessibility issue

The physical terrain of Bhutan makes it a challenge as a tourist destination. As previously alluded to, in section 2.1, the 'structural recurring tourism challenges', with its poor road conditions (long, narrow and winding roads with potholes), and the lack of public amenities such as public toilet facilities along the way, further compounds the issues of accessibility. Respondent TCB3 confirms that,

> roads, toilets are of course the problems (TCB3).

There is a need to improve road conditions, in order to make tourism more accessible throughout the country. Respondent TO3 suggests,

> tourism and whatever developments happen only in the city and where there is a road access (TO3).

Improvements in road condition are therefore vital for tourism development.

## Poor public toilet facilities

It has been acknowledge and known that there is a lack of toilet facility around the country. In the rural areas, there is no hot water (geyser) and attached toilet especially where there is community-based tourism. Toilet maintenance is a big cultural issue that continues to plague the GNH tourism model. Respondent P5 confirms that there is a lack of toilets for tourists,

> Although we are encouraging tourists to come in… we have not been able to provide the services…because we take so much money from the tourists, actually we should be able to provide them with at least the basic services. And as you are aware that [we] don't have toilets (P5).

And in the rural areas, according to one respondent,

> tourists they are complaining there is no geysers and toilet attached (TCB1)

Maintenance of toilet appears to be a major concern. Three respondents suggest that,

> We can build the toilets but maintenance is an issue (TCB3)

> And maintaining the toilets is a major issue. Firstly, the local people have to be educated on how to use the public toilets, if we have modern public toilets. So what I had proposed is let's not build public toilets along the highway. It will be used when it is new, then it will be blocked, then it is worse than actually having a toilet (TO4).

> Maintaining the toilet is a cultural thing, you have to encourage some one to maintain these things [toilets]. If only the western people use it, then it will be clean...when the local people use it, they urinate outside on the door and somewhere and leave, it is more like a management problem (H5)

Culturally, keeping the toilets clean appears to be an issue. The issue of the lack of toilets, which is a basic necessity, needs first and foremost be dealt with, before the increase in tourists numbers can be justified.

The above-mentioned tourism challenges are not new. These challenges are ongoing and the TCB is addressing these issues. This report provides a critical review of the GNH tourism model and makes recommendations for policy changes following strategic management suggestions from respondents. Three most significant issues stand out: first, the uneven playing field between tour operators and hoteliers, second, the bad debt issue resulting from tariff undercutting and third, the tour guide issue of inadequate training, unsustainable employment due to seasonality, low remuneration and loan issue. These 3 key issues are discussed below.

## 4.1. Uneven playing field

The most significant issue facing the GNH tourism model is the uneven playing field between tourism stakeholders. The uneven playing field results in the 'inconvenient truth' of tariff undercutting and bad debts.

### 4.1.1. Power of tour operators

One of the key findings is the evidence is that the tour operators hold the key to the tourism industry in Bhutan. Two respondents opined that,

> The operator [is] obviously the one who steers the ship here and is in control of the money also. So....the policy has put the hoteliers actually second, which is why we are having trouble getting out of it (H9)

> They [tour operators] can dictate in that fashion, when it comes to the general populous of the hotel, there is no question, they are really monopolising and driving who they are going to use. And it is not about quality, it's only about price, it's all about price and who can give me the better deal (H3)

The perspectives that tour operators 'steer the ship' and are 'in control of the money', an as thus are 'monopolising' the industry. This has allegedly resulted in tariff undercutting discussed previously, with one respondent who says,

> But without that ability of a check and balance by the Tourism Council or by another body, to ensure that undercutting is not there and to ensure that there is bullying by the tour operators, it's not working (H3).

The above perspective suggests that tour operators have the power to 'bully' others through tariff undercutting.

### 4.1.2. Tariff undercutting issue

Tour operators can manipulate and undercut the tariff system in the market. They have the power to 'monopolise' the market. In 2008, there were 27,636 tariff paying tourists, with 12 tour operators who produced 14,866 tourists. This represents 53.8% share of the total number of tourists for that year (Bhutan Tourism Monitor, 2009). The dozen tour operators control the market because of their volume. And through this volume they are able to dictate terms and conditions to the hoteliers, resulting in an uneven playing field. This uneven playing field appears to compromise the quality of tourist's experience through tariff undercutting (see section 2.1.1). One respondent says that,

> tourism players have to have level playing field. The [tour] operator, [is] the one who steers the ship here and is in control of the money. So that itself....[meaning] the policy has put the hoteliers actually second, which is why we are having trouble getting out of it [debt] (H9).

The uneven playing field favors the one who 'steers the ship'. This has resulted in tourism benefit remaining in the hands of few, mainly tour operators, 'who is in control of the money' resulting in some hoteliers, 'having trouble getting out of [debt]'. One respondent suggests that,

> 70-80 [percent]… of the benefit that people get from tourism …goes into the pockets of operators only….guides…they don't benefit much…villagers…..they don't benefit much…the porter/pony…they don't benefit much (TG3).

One perception is that benefits form tourism 'goes into the pockets of tour operators'. This perspective may indicate why tourism is not regarded highly by the general population because tourism benefits does not trickle enough to the villagers. One respondent says that,

> I know a lot of my friends became filthy rich, it's through tourism. Lots of money has come through tourism (TG3).

Hence, there is a perception that tourism is seen as a 'cash cow' and as an attractive occupation, as this is one way to get rich. The above statements are instructive as they paint the reality that the tariff system has advantaged tour operators, resulting in an uneven playing field.

The tariff system was designed to safeguard tourism exploitation and to deliver benefits to the general population. It was implemented to protect earnings for the tourism industry, and to provide a fair and decent profit margin for the tour operator (Rogers, 2002). However, inevitably the tariff system has resulted in tariff undercutting. When the tariff was increased from US$200 to US$250 in 2012, one respondent says that it provided even more room for tariff undercutting,

> when they raised that [the tariff from] 200 [to]250 dollars, they didn't raised the royalty [fee].... they should have raised the royalty [fee]……that unnecessarily giving a lot of room for the operators to undercut (TG3)

The tariff increase resulted in certain tourism stakeholder benefitting largely at the expense of others, namely the tour operators. The tariff increase also provided increased opportunities to undercut the tariff. Tariff undercutting has lead to cheap hotels mushrooming. This eventually leads to more opportunities for tour operators to undercut the pricing system.

According to a report, tariff undercutting has left tour operators with a baseline of around US$8-US$10 dollars per meal for their tourists. Most tour operators negotiate for free food and accommodation for their tour guides and drivers from hoteliers. In order to accommodate such demands, hoteliers compromise on the quality of food (Dema, 2013a, p.3). This in turn impacts on the tourists.

Tariff undercutting impacts and threatens the tariff system. According to Rogers (Rogers, 2002, p.19), "undercutting is highly significant as it undermines the whole tariff system". Rogers suggests that the regional tour operators in India and Nepal, acting on behalf of international tour operators, are alleged to be mainly responsible for the tariff undercutting system. These regional tour operators undermine the tariff system through their sheer power of volume. They wrangle a lower price from domestic tour operators, who in turn, is most likely to cut corners by offering lower standards of hotel accommodation, food quality, and compromise in transportation and guide services, and is most likely to result in a low quality tourist experience. The impacts and threats resulting from tariff undercutting include the leakage of profits from Bhutan, compromised tourist products and services which most likely results in tourist dissatisfaction and the disrepute of the GNH tourism model (Rogers, 2002). Thus, it is timely for TCB to review the tariff undercutting issue as it impacts, threatens and discredits the GNH tourism model.

### 4.1.3. The Tashel Visa System

The Tashel Visa System, a visa processing, costing and payment system, is unable to solve the tariff undercutting system. According to one respondent,

> if the tourism council knows that say for example I am bringing in undercutting, and I am bringing in guests, they will not know that I am undercutting because of the payment system. Because as tour operators, our visas will not be entertained until we deposit the money n the TCB's accounting system, the Tashel system. The money has to be there. Now the balance is always there, as long as the balance is there, the big tour operators will always keep the balance there. So there is no mechanism to check (TO6).

The Tashel Visa System fails to uncover those tour operators who undercut the tariff system. According to an official, the Tashel Visa System is not designed to detect tariff undercutting. Those that do undercut are allegedly influential big tour operators,

> But by taking really strict measures, say for example tour operator 'A' did it [undercut the tariff], license should be cancelled and he shouldn't be allowed to run travel agency at all. Then it puts the fear in all the tour operators. At the same time that tour operator "A" can be one of influential people and he can be one of the bigger stakeholders. He is one of the policy makers there. This is the fear. That's why I always say we are very happy with the number of guests we receive because we work on the government approved rate (TO6).

In sum, the uneven playing field is an 'inconvenient truth' from within Bhutan's tourism stakeholders. It is alleged that tourism is controlled by a small handful of powerful and big tour operators, who can manipulate the tariff through volume trading by undercutting the tariff system. And the Tashel Visa System payment system fails to detect the tariff undercutting. This has impacted on the GNH tourism model. Therefore, it is time to review the tariff system, if a more leveled playing field is to be achieved.

## 4.2. Too many tour operators

There are too many tour operators in Bhutan. Table 6 shows the number of licensed tour operators and those who are operational. According to TCB, there are 1060 tour operators holding license, however only 513 are active in 2012. This means only 48% are active. Given that in 2012, there were 54,685 tariff paying tourists and 513 active tour operators; this translates into 1 tour operator for every 107 tariff paying tourist. One respondent says that,

> I feel that the number of tour operators right now is actually bit too much. People in Bhutan think that the travel agency is the easy money business. Half the people don't even know what the tourism business is all about. I personally feel that the government should first make sure that all the tour operators are educated. ……just blindly giving licenses to every body and then increasing the number of tour operators..... some of them do not even know what hospitality

> industry is. First thing they think it is the money, you know. That concept is wrong right now. They [the government] should be very strict about monitoring the licenses. That I feel is the first thing the government should do (TO6).

Furthermore, there is more evidence to suggest that tour operators lack professionalism. One tour operator was reported as saying that, "in Bhutan, it's so easy to become a tour operator, and some don't even have a proper office set up" (Dema, 2013c, p.12). Additionally, an ABTO representative was reported as saying that, "to be in line with the high value, low impact policy, it's wise to have a certain minimum criteria to join the tourism industry" (Dema, 2013c, p.12).

The above comments by respondent TO6, the tour operator and the ABTO representative are instructive for two reasons. First, that there should be a more stringent control in issuing tour operators license. Second, the government should step in to ensure the professional capacity of tour operators, in that tour operators must be adequately trained to have the industry skills and knowledge, in order to have a quality tourism industry. Thus, having too many tour operators is most likely to create competition for a share of the tourism pie.

**Active tour operators**

Despite large numbers of tour operators in Bhutan, only around half of the tour operators are active. Table 6 shows the percentage of active tour operators (row 3) between 2008-2012. Out of this percentage of active tour operators, the top 12 controls the market share (row 4), representing less than 5% of all total active tour operators.

**Table 6. Number of tour operators**

| Tour Operators (T/O)/Year | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| 1. Total Licensed T/O | 475 | 622 | 676 | 741 | 1060 |
| 2. Operational T/O | 254 | 267 | 318 | 318 | 513 |
| **3. Percentage of active T/O** | **53.47%** | **42.92%** | **47.04%** | **42.91%** | **48.39%** |
| **4. Percentage of top 12 T/O** | **4.7%** | **4.4%** | **3.7%** | **3.7%** | **2.3%** |

**Source: Tourism Council of Bhutan, 2013.**

The above analysis shows that it appears that less than 5% of tour operators control the market share. A study by van Beek and Klep (2002) reports that in 2001, the five largest tour operators handled 54% of all tariff paying tourist arrivals, with the top ten tour operators handling around 67% (p.4). Little has changed since. Rogers and TCB (2012) reports that in 2010, the top six tour operators handled almost 35% of all tariff paying tourist arrivals with the top twelve handling almost 50% (p.9), and suggesting that,

> the local tour operators are widely viewed to play a highly influential and decisive role in the retention of the tourism tariff (Rogers & Tourism Council of Bhutan., 2012, p.9)

The fact that less than 5% of tour operators control the market share raises questions regarding the equity and spread of tourism benefits.

**Market share of tour operators**

There is an imbalance of the spread of tourism benefits of the tariff paying tourist amongst tour operators. There is no data to show the regional tourist segment market share, as there is no requirements for tour or hotel arrangements to be booked through a Bhutanese tour operator. Table 7 shows the percentage of market share of the tariff paying tourist by the top 12 tour operators, between 2008-2012. Except for 2012, almost half the market share of the tariff paying tourist is controlled by 12 tour operators This means that less than 5% of the active tour operators holds almost half of the tariff paying tourist market share. The analysis reveals that there is inequity in the spread of tourism benefits in the current GNH tourism model.

**Table 7. Top 12 tour operators market share of tariff paying tourist**

| Tour Operators/Year | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| 12 top tour operators | 14,866 | 12,113 | 12,922 | 15,538 | 16,015 |
| Total dollar paying tourists | 27,636 | 23,480 | 27,196 | 36,765 | 54,685 |
| **Percentage of market share** | **53.8%** | **51.6%** | **47.5%** | **42.3%** | **29.3%** |

**Source: Tourism Council of Bhutan, 2013.**

In short, the current GNH tourism model reveals that there are too many tour operators in the market. The analysis above reveals that there is less than 5% of the tour operators, who control almost half the tariff paying tourist market share. This results in the likelihood of some tour operators undercutting the tariff in order to gain market share, and thus undermining the tariff system. Some of these tour operators are alleged to be unprofessional. Some tour operators take credit from hoteliers and other hospitality service providers, thereby creating bad debts. Hoteliers and other hospitality service providers are thus at the mercy of the tour operators, resulting in an uneven playing field. One of the resultant effects of having too many tour operators is tariff undercutting leading to bad debts, which will be discussed in the following section.

## 4.3. Bad debts

Bad debt is a major concern that is another 'inconvenient truth'. It is an 'inconvenient truth' because no one wants to deal with it. The current tariff system arranged through the Tashel Visa System, pays the tour operator 50% of the total tour package before the tourist arrives, with the remaining 50% after the tourist departs. Hence, all monies is held and controlled by the tour operator. The issue of bad debts arises when the tour operator fails to pay hoteliers and other hospitality service providers (e.g. restaurants, cafes, bars, transport companies, coach drivers, and tour guides). Although not verified, bad debts could most likely lead to tariff undercutting.

The Hoteliers and Restaurants Association of Bhutan (HRAB) still appears to be unable to solve the bad debt situation. One hotelier said in one incident, it took two years to recover payments from a tour operator (Personal communications, October 8$^{th}$, 2012). Bad debt leads to poor quality services and products and encourages ‘fly by night’ tour operators. This then leads to undercutting tariff as a competitive edge to attract more business, and the cycle remains unabated.

The uneven playing field discussed in the previous section, where the tour operators control the market has most likely lead to this situation. According to a respondent, the competitive edge to attract more business pressures tour operators to take credit from the hoteliers,

> but the travel agents are the ones putting on credit and some times they even not acknowledge the group [instead they] try to make some kind of issue regarding guest complaints or something. We should blacklist [them] but whenever we have this meeting, no one wants to be the person who comes out with such [suggestions] for they fear the agents will mark them and avoid using the hotel. This is the problem (H5).

It appears that some hoteliers fear a backlash from delinquent tour operators who fail to pay, despite payments already released through the Tashel Visa System. Additionally, one respondent suggests that blacklisting tour operators may assist in recovering payments,

> All the hoteliers should meet [and share information about who] we don’t give [rooms] to particular agent, those who don’t pay to this hotel or that hotel, then if we blacklist then [the tour operator] person will know that I think now this hotel knows [that I have been blacklisted], then I should better pay (H8).

When tour operators pay their creditors on time, it helps hoteliers and other hospitality service providers, to pay their staff and be able to provide and invest in better products and standards of service. The next section discusses the tour guide issue.

## 4.4. Tour guide issue

Tour guides are regarded as the ambassadors of the country in the context of tourism. This is because of the close contact they have with tourists and the information that they provide to the tourists. Tour guides act as the ‘socio-cultural bridge’ between international tourists and Bhutan. Given that the GNH tourism model stipulates that tariff paying international tourists must be accompanied by a tour guide throughout the duration of their stay in Bhutan, tour guides plays an extremely important and significant role for,

> guides are the focal person…they are the face of the country…they are the first and the last people [a tourist meets] (TG3).

However, respondents identified four key issues of tour guides that pose challenges to the Bhutan’s tourism industry. Firstly, the poor quality of tour guides, second, unsustainable employment, third, low remuneration, and fourth, tour guides having to take a loan to pay upfront to hoteliers.

### 4.4.1. Inadequate training

First, the quality of tourist guides is poor. Inadequate training has allegedly led to poor quality of tour guides. According to a respondent,

> we have poor qualities of guides… they are not trying [acting] professionally…[they receive]…only one month of training…I feel they should be trained at least three to six months (TG3).

It is alleged that the issue of the inadequate training (one month only) has resulted in poor quality of tour guides.

### 4.4.2. Unsustainable employment

Second, is the issue of unsustainable employment. The seasonal nature of guiding work makes it difficult for tour guides to sustain themselves. According to TCB, some tour guides are permanently employed but a greater majority of tour guides are freelancers. There is currently no data on employment status, or remuneration of tour guides. TCB is organizing a tour guide survey in 2014 for baseline information. The peak tourist season lasts for about 6 months (March to May and mid-September to November). The short tourist season makes it a challenge for tour guides to sustain oneself throughout the year. According to one respondent,

> Despite the fact that the TCB has trained about 2000 guides, we don't have that many guides because there are no groups [during off season] and then sometimes a guide gets only three groups in a year. How is he suppose to support [himself and others]? (TG3).

Implicit in the above respondent TG3's statement are two issues. First, it raises the issue of seasonality that affects unsustainable employment. Whilst the peak tourist season provides employment for tour guides, it could be between three to six groups in total, whereas during the off peak there is most likely to be little or no employment. As such, the nature of tour guiding work inherent in the GNH tourism model makes it difficult for tour guides to sustain themselves. Second, it confirms that there appears to be a large number of tour guides trained. Table 8 shows the number and category of tour guides from 2010 to 2012. There appears to be an increasing growth rate of tour guides. In 2012, there were a total of 1904 tour guides, representing a growth of +24.44 %.

**Table 8. Tour guides numbers 2010 - 2012**

| Tour guide category/Year | 2010 | 2011 | 2012 |
|---|---|---|---|
| Tour leader (manager) | 16 | 16 | 16 |
| Senior Cultural Guide | 17 | 17 | 17 |
| Senior Trekking Guide | 2 | 2 | 2 |
| Senior Trekking and Cultural Guide | 17 | 17 | 17 |
| Cultural Guide | 907 | 957 | 1268 |
| Trekking Guide | 6 | 67 | 67 |
| Trekking and Cultural Guide | 238 | 288 | 323 |
| Local Guide | 5 | 5 | 5 |
| Trekking Cook | 123 | 161 | 189 |
| **Total** | **1392** | **1530** | **1904** |
| **Growth in %** | **n/a** | **+9.91%** | **+24.44%** |

**Source: Tourism Council of Bhutan, 2013**

### 4.4.3. Low remuneration

Third, a tour guides' remuneration is relatively low. Roger's (2002) study showed that tour guides gets paid about US$10 for both the peak and off peak season (p.22). Table 9 shows a list of tour guide remunerations based on information from TCB, GAB and tour guides. A freelance tour guide is paid between NU800-Nu1,500 per day per group without daily sustenance allowance (DSA), irrespective of the number of tourists in the group. On average, a tour is about 7 days, which makes an average freelance tour guide's remuneration based on NU1,500 at Nu10,500 or around US$210 (1USD=50Nu). From this amount, the tour guide has to pay for their accommodation, but meals are usually provided for by the restaurant or hotel where the tour group has their meals. The tour guide also depends on tips from tourists, and sale commissions from retailers. A respondent suggests that,

> a guide should be getting 2000 [Nu per day] so that they at least have a comfortable life….and it's seasonal…..you know a guide may hardly work for one, two months, so even if he is receiving 2000 thousand [Nu] in a day, a guide has got only about 100,000 [Nu], that's hardly about 2,200 [US] dollars (TG3).

In comparison to other employment, where the unskilled minimum wage is Nu3,000 per month, the tour guide's remuneration appears to be well paid, as there are also the incentive of tips from tourists and sales commissions from souvenir retailers. However, given the seasonal employment and the long working hours (minimum 12-16 hours), the issue of relatively low remuneration would arguably make a tour guide's work less attractive. However, this assertion is contested, as according to an official, "there is strong interest amongst unemployed youth to become guides"(Personal communications, 19th February 2014).

**Table 9. Tour guide remuneration**

| Tour guide category | Remuneration | DSA* |
|---|---|---|
| Permanent senior guide | Nu8,000-13,000(monthly) | Nu250 – Nu350 |
| Permanent new guide | Nu6,000(monthly) | Nu250 - Nu350 |
| Freelance senior guide | Nu1,000 -3,000(daily) | none |
| Freelance new guide | Nu500 -800(daily) | none |
| Specialist** guide | US$100-$150(daily) | Nu250 – Nu350 |

*DSA=Daily sustenance allowance, **Specialist – language skills, bird-watching tours, media tours.

**Source: Tourism Council of Bhutan, Guides Association of Bhutan & Interviewees, (2013).**

### 4.4.4. Loans for upfront payments

Fourth, it is alleged that some tour guides are forced to take a loan to pay upfront to the hoteliers on behalf of the tour operator. According to a respondent, this is because,

> sometimes the tour operators don't give the salary up front….because of that, if you come from a poor background, you need one [the loan]. Even in some cases some tour operators don't give advances for the group. They say you use from your pocket and we will pay you back later (TG3).

The situation described by respondent TG3, alleges that a tour guide from a poor background has to take a loan in order to for tour advances upfront. According to one tour guide, there were instances where, "guides had to pay some restaurant bills on behalf of tour operator since they don't give enough advance for the group. We had some cases where they [guides] were promised high DSA and then later paid much lower" (Tour guide, personal communications, February 24, 2014). At times some guides take a loan from the tour company for personal expenditure such as having to pay their own lodging whilst on tour. According to the same respondent,

> some guides can't even pay back the loans they took from the office…they take about 10,000 [ngultrum]… and they can't even pay back [especially] sometimes the clients are stingy [they get] not good tip and then they don't get a room during the peak season, they have to stay in [another] hotel (TG3).

It is alleged that due to the low remunerations, some guides are unable to repay loans taken when they do not receive generous tips from clients and have to pay for their own lodging. It is further alleged that, "without our parents, relatives and sometimes friends support, guides would not be able to go out [work] as guides. All are hoping for good groups with good or fat tips which does not happen to all the guides (Tour guide, personal communications, February 24, 2014). Whether this situation is an isolated case remains unclear and requires further research. However, that such a situation exists should be alarming to the authorities concerned, as it is most likely a result of the powerful tour operators who control the tourist industry.

However, there are also occasions when the tour guide is very demanding. According to one respondent,

> [there are] stories of a guide walks into a hotel to check in the clients, and says where is my room and what food am I getting? When the hotelier says you are not getting this and this, they turn around and tell their guest and say sorry, there is a problem with this hotel and that we need to go to the next hotel. They turn around and walk out. They call their tour operator and parent company and say there's a problem, so we are taking the guests with us. So, the guides on the ground can be real 'Prima Donnas' as well and dictates what happens. And they can give feedback to their own tour company saying this hotel is like this and this. And[they are] not being factual, [they want] to be only able to accommodate themselves in the future. It is not about the guests. It's about what are you feeding me, why am I not getting a meal, why am I not getting the room (H3).

The above statement by respondent H3 suggests that some tour guides are putting their own interests ahead of their clients. Some tour guides are more concerned about getting free accommodation and food from the hotelier. This could be the result of tour guides being poorly remunerated. According to a respondent, "a majority of tour guides are living from hand to mouth" (TG3).

In conclusion, the analysis of the tour guide issues mentioned above is significant as they impact the GNH tourism model. Because of the uneven playing field, where tour operators control the industry, tour guides are at the mercy of those who 'steer the ship' and are in 'control of the money'. As ambassadors of the country, tour guides are the 'socio-cultural bridge' between the tourists and the Bhutanese people. Therefore, more attention should be made to address these tour guides issues, since tour guides play an extremely important and significant role in the tourism industry. The above four tour guide issues provide compelling reasons to ensure better remuneration for tour guides.

The GNH values of *'slow-paced'* and *'values-led'* development may arguably be compromised due to the ABSD. The GNH pillars are being compromised, in part because of an imbalanced focus on the socio-economic pillar. One respondent suggests that there might have been a misalignment in tourism policy development,

> if [the] tourism council would use screening tools for their policy development of where they want to develop new tourism activities or new festivals or new farm house stays...if all those ideas and policies were put through GNH screening tool, you would have a very much aligned decisions and development along the GNH guidelines and pillars to make sure that none of the nine domains gets priority over another, you know that they are weighted up, that the environmental concerns, and the social and cultural and the health and wellbeing concerns of people are all considered equally in making a decision about tourism (P3).

In general, the respondents seem to agree that there is a need to develop tourism more equitably across the 4 GNH pillars. Thus, from a critical perspective, the GNH tourism model requires changes.

To sum up section 4, the tourism challenges in achieving the GNH goals include issues of overcrowding, environmental degradation, accommodation shortage (during the peak season), accessibility issue and poor public toilet facilities discussed, are not something new. These challenges have existed for a long time as identified in the 'structural recurring tourism challenges' mentioned in section 2.1. The TCB has been addressing some of these issues, although there needs to be a more collective effort amongst various government departments to effect real changes, given the capacity issues within TCB, such as the lack of regulation and monitoring resources, according to an official. This report however has identified three key significant issues: the uneven playing field, bad debts and the tour guide issues, that most significantly impacts the GNH tourism model. These issues can potentially harm the tourism industry, if left unchanged. In the next section, strategies to manage these challenges are discussed.

# 5. Strategies to manage these challenges

In the previous section, three key tourism challenges that most significantly impacts on the GNH tourism model were identified and discussed. This section provides strategies by the interview respondents to manage these challenges. Interviewees were asked, “what are some of the strategies to manage these challenges?”. The two identified most significant key strategies that can provide the most effective management outcomes are: education and tariff liberalisation. Section 5.1 discusses the strategies on education. Section 5.2 discusses tariff liberalisation.

## 5.1. Education

Education is identified as one significant way to overcome some of the tourism challenges. Education may be regarded as a ‘soft power’ approach to manage the identified challenges. ‘Soft power’ is one kind of the power, which has the ability to attract, persuade, and influence the behavior of others to achieve certain desired outcomes (Nye, 2004). As tourism is a multi-sector industry, the first strategy of education amongst the multi-sector industry, can help solve many of the issues mentioned earlier in section two, such as poor roads, lack of public toilet facilities, waste management issues, etc. Educating government departments, the wider public and tour operators can help manage these challenges. As interview respondent H3 critically claims,

> I think Bhutan needs to humble itself, in terms of realising that in many areas they don’t have the ability, they don’t have the experience, they don’t have the knowledge, they don’t have the professionals (H3).

### 5.1.1. Understanding tourism

One of the perceptions prevalent in Bhutan, is the notion that tourism benefits only handful namely, the tour operators and hoteliers. This perception is suggested respondent TCB4, who opines that,

> the local people shouldn’t see tourism as a business entity for tour operators or the TCB or hoteliers. They should also understand that they are all benefitting from tourism [i.e. Royalty Fee], and it is important to have tourists and it is important for them to support tourists and be helpful and may be interactive to people (TCB4).

As such, there are some rural communities that do not understand nor support tourism. The rural people need to be prepared to receive tourists, as they are unaware of why tourists are coming, therefore, they need to be educated to understand why tourists are coming to Bhutan. By doing so, the rural community is given the ‘soft power’ to welcome tourists. For example, this is reflected in the same respondent’s perspective that,

> tourist wouldn't want to go to a place where the local communities are not friendly, not acceptable...not forthcoming in terms of receiving you as a guest. (TCB4).

There appears to be much ignorance from the public regarding tourism and its benefits to society. One respondent reveals that,

> Bhutanese in general are quite ignorant as [there is] no understanding how the government receives financial support for all development, like building infrastructure for the country, we think that [it] is the government who has to provide every thing [for] free, so maybe it will be good to educate [the] public through the local government. I feel that it may be important to make our people to understand why tourist all over the world come to see Bhutan, with the income from the tourist that contributes towards our development of health, education, so the people also appreciate the tourist (TO7).

Respondent TO7 suggest the importance of educating the public to understand the value of tourists visiting Bhutan and the benefits that flow from the Royalty Fee. One respondent believes that the GNH tourism model is good but that no everyone understands,

> I think the government policy is very good. I think the government and the people who drive GN, I guess they understand [however] transferring that understanding to every one else is the challenge......it needs more education (H2).

As previously discussed, the tour guides are allegedly inadequately trained and there is a lack of quality in hospitality service. Therefore more professionalism is required and in particular, improved hospitality service standards. One respondent suggests that education should be across the board, with tourism awareness especially targeted at those still at school,

> educate ourselves in having a marketing strategy, educate tourists, education on tourism starting from school. I think one of the best ways would be to start from schools. You know you could have tourism clubs in some schools, or even having some books on tourism, or even having economic classes having a small section on tourism policy. Just a small one or two chapters...at least a chapter or a section under the chapter on tourism, basically talking about tourism policy and the benefits out of it......even having some questions like why tourism in Bhutan? This will probably play an important role because all these young people will one day play an important of tourism (TCB4).

The respondent also felt that there was a need for the general public to understand the environmental, economic and socio-cultural impacts resulting from tourism,

> When I actually finished my high school, tourism for me was all about international tourists coming and going in coaster buses and land cruisers. I had never thought of the environmental impact, economic impact, the cultural impact they could have, and what we can do to help them. So these understandings could probably help our people to be more supportive to this industry (TCB4).

One respondent felt that educating the public on the values of traditional culture is equally important,

> there needs to be education that also focuses on values. Like values that comes out of the traditional culture if that is going to be preserved and then also that is creative and intellectual thoughts for people [and] on their own terms (P4).

Whilst another interviewee suggests that tourism education should be participated by all levels of citizens though an advocacy program,

> I think that's why I feel it very important to maintain and have [tourism] advocacy program...sensitization program, educational programs, seminars, workshops and all this with different levels of citizens (NGO3).

Hence, it appears that educating the public, starting from the school system in the value of tourism development and the value of traditional cultures, can help to close the gap that currently exists, as the Bhutanese public in general, is ignorant of the tourism contributions to the Bhutan's nation building. Such education through this 'soft power' approach can also help enlighten the general public and make them more welcoming towards tourists.

Another remarkable allegation is that some tour operators lack the knowledge and language on tourism. When probed further what was meant by 'language of tourism', the respondent meant tourism terminology, for example CP/AB in India, American Plan, bed and breakfast, full board in international markets, and terms such MICE/FIT/GIT, which are some of the important tourism vocabulary that all the tour operators must know. According to a tour operator interview respondent,

> most of the tour operators here in Bhutan....they have not gone for any tourism study....most are operating tourism in Bhutan through their experience and through some link.....may be 50 or 60 percent of the tour operators, will not [don't] know the language of tourism ....The government has to look into this matter and they should actually educate tour operators, I think. ...may be give some crash course...like how to come out, how to service different nationalities, how to promote different nationalities, how to talk to different nationalities, how to service...(TO3).

The above statement by respondent TO3 suggests that there is a lack of professional understanding of the tourism know-how and the language of tourism. Therefore, educating tour operators about tourism is also equally important.

### 5.1.2. Rural community participation

There appears to be some disconnect between rural communities and tourism, resulting in regional imbalance. One strategy to address regional imbalance is to involve rural communities. One way is to explain to the rural community about their culture that attracts tourists. There should be programs targeted at the rural community to make them understand why tourists visit their village, and how their community can benefit from tourism receipts. Fro example, tourism receipts can help upgrade basic facilities in small villages. And for that to happen, there must be consultations with the rural community to understand if they might be happy for their community to be a tourist destination.

One respondent suggests that many people in the rural communities, do not understand the sectors that bring tourism together, the benefits tourism brings and why tourism is important for the country,

> what's more important for people to understand is the sectors, especially we are talking about grassroots level, the district officials, the ministries, also district officials, the gewog level...sub-district levels...these people...they interact directly with the local people and they know best what probably would work best for the tourism (TCB4).

Another strategy is to educate the various levels of local government, starting from the grassroots levels of the benefits and importance of the whole tourism system to their community, as well as to the nation. It is not only about the Royalty Fee that provides free universal education and health services to the nation, but also about educating the local community about tourism's contributions, in terms of being the largest foreign exchange earner, providing employment, and to nation building. By doing so, this 'soft power' approach through education could most likely lead to an enhanced rural community understanding and more rural community participation. This may result in a friendlier attitude towards international tariff paying tourists. And in particular,

> I think the level of participation from local communities would increase, if they understand how they can benefit from tourism (TCB4).

In short, people at the grass-root levels must understand the benefits of tourism. This includes the multi-sectors that contribute to the tourism system as a whole. By educating the whole rural community on why tourists visit Bhutan and the benefits arising from the Royalty Fee to them, a more balanced regional spread of tourism can be achieved. Using education through a 'soft power' approach can result in many positive outcomes.

### 5.1.3. Enhanced inter-ministerial communications

There appears to be a perception that is a tendency for ministries to work in 'silo', that is in isolation from the rest. In this context, educating all ministries in the importance of the multi-sector approach that contribute towards understanding the whole tourism system, can help to facilitate enhanced inter-ministerial communications. This could lead to better understanding of the role of tourism plays in nation building amongst the various ministries, especially those responsible for the nation's infrastructure.

One respondent suggests that there is a lack of communications between departments, as there is a need to involve different government departments for a better understanding of tourism issues:

> [the] tourism council also they should have a meeting with the related people, like the city corporation and then with the all [those] who are related with the tourists, they should have meeting because what I feel is there is a lack of communication between the departments. So all these people should be

> involved in order to develop the quality, otherwise single-handed in tourism we cannot make a policy with only a one-sided idea (H8).

Hence, educating for a better understanding of the tourism issues, applying a 'soft-power' approach, through a multi-sector approach at the ministerial level, by enhanced inter-ministerial communications, is most likely a helpful strategy to solving the 'structural recurring tourism challenges' discussed in section 2.1. Interviewees have particularly singled out roads, public toilet facilities and waste management as areas of concern.

**Roads**

Improving road infrastructure is vital to enhanced accessibility, which in turn, enhances the tourism product. In particular, the widening of roads and repairing potholes can help enhance the tourists' experience. One respondent says that,

> because of the kind of [mountainous] landscape here in Bhutan, it is not feasible to travel the road both ways (TCB4).

The above respondent suggests that the mountainous nature of Bhutan makes it a challenge to travel from the west to the east and back along the same road system that takes 3 days to get from Thimphu (west) to Merak-Sakten (east) in the district of Trashigang. Road conditions are long and winding, and there is the lack of public amenities (toilets) along the way.

**Public toilet facilities**

There is a pressing demand to plan for public toilet facilities along the major highways. A respondent says that,

> it is quite embarrassing that tourist on a long distance of travelling from west to the east tourist has to stop by the road side for a pee break, at times tourist have bad stomach and they need to have proper facilities (TO7).

Having paid the tariff of US$250 per day, some decent public toilet facilities available along length road journeys, it is the least a tourist would expect to have, whether along the highway or in a village home stay. According to respondent TG3,

> community tourism….you know village home stay…...we need to promote that and then authentic village home stay not just village home stay….where all the people live together ….we don't change the setting…… the villagers stay the way they stay….only thing is we need to beef up the services….we need to make the environment …better…toilets…(TG3).

Through tourism awareness education and training amongst ministries, enhanced inter-ministerial communications can help in this instance, where identified areas for infrastructure development is identified, with the Ministry concerned delivering the necessary outcomes.

**Waste management**

Waste management appears to be a significant issue as discussed in section two. Educating the populace to respect the environment in terms of waste management is key to sustaining tourism. Some respondents have this to say,

> I think the biggest worry, biggest concern will be trashes… yes…trashes…you need to have to educate the people….(TO2).
>
> we have to educate people on how to keep our town clean (TCB1).
>
> especially on their way to the Tiger's Nest, I see lots of empty water bottles, which is a mess (TG4) …..yes for the people of Bhutan we still need more time to educate them to how to take care of their own treasure... you know sometimes you really feel sad…….'Oh God, my country is becoming like a dustbin'...it's really becoming like garbage, when you see at the right or the left all these trash (TG4).
>
> I think there should be some penalties ….if they throw trashes they should be fined (TO2).

Whilst the culture of waste management is slowly gaining momentum, in the interest of the tourists, education on waste management should be further prioritised, as it represents the image of a clean country.

### 5.1.4. The Royal Civil Service Commission

Another significant area for education is the Royal Civil Service Commission (RCSC). Being the largest employer in Bhutan, the RCSC can serve as an instrument to advocate better understanding of tourism. Many RCSC employees are sent to work in remote rural areas. As part of their orientation program, a tourism component 'Tourism Awareness Program' should be incorporated. Such a program can prepare those civil servants who are sent to remote areas, as well as those on training abroad or to represent the government, so that when asked by the host country or the rural communities about tourism matters, they are in a position to comment. There should be special awareness training on tourism to all sectors within the Royal Civil Service Commission (RCSC). This approach will ensure that all sectors are involved, so that the 'whole tourism systems approach' can be better understood. One respondent suggest that,

> So what could we do [is] probably awareness workshops. You know having civil service graduate orientation program [they should] have a small presentation on tourism (TCB4).

Tourism stakeholder participation is essential, not only to those directly involved in tourism but for the whole country. One respondent suggests that the purpose of tourism is also to understand other cultures and as a peace and friendship building tool,

> this is what tourism is all about....you go to different countries and you understand their culture and that's how you know I think [tourism can] bring

> peace or build friendships. How can you actually participate in tourism? The whole idea of tourism is all of us sharing (TCB4).

Thus, educating the largest workforce in Bhutan through the RCSC, using a 'soft-power' approach, is crucial if tourism development is to be further enhanced.

### 5.1.5. Tour guide training

Adequate tour guide training is essential to produce good quality guides. As suggested by respondent (TG3), in section 4.4.1, tour guides should be trained at least for six months, with on going training to upgrade their skills. TCB should perhaps legislate that there be a minimum of between three to six months training as recommended above. It has been observed that the current ongoing tour guide training offered during the off season does suggest that TCB has since taken incremental steps toward ensuring adequate training for tour guides.

## 5.2. Tariff liberalisation

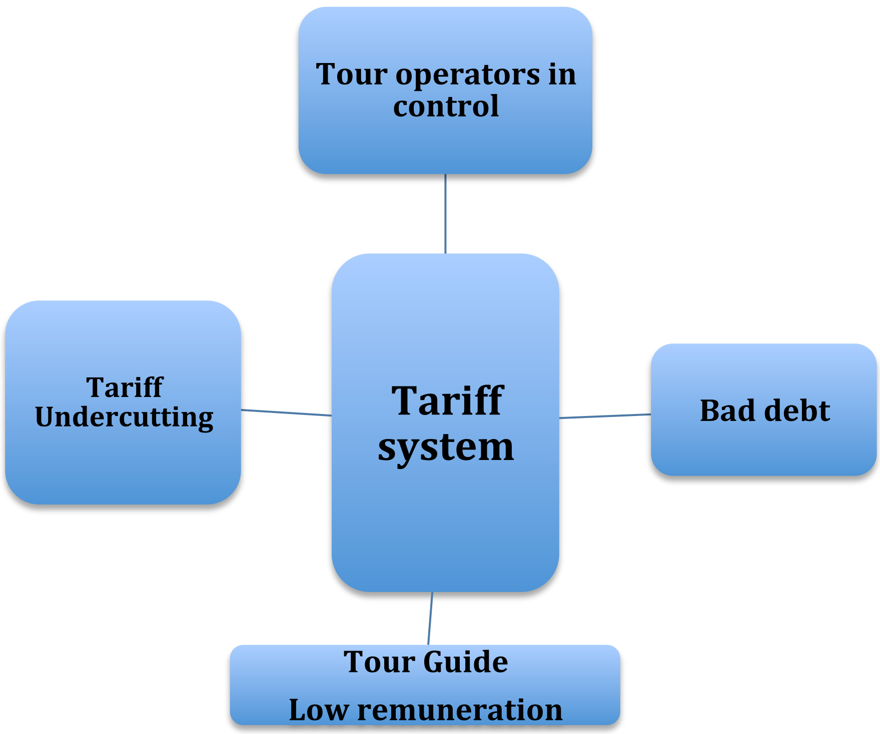
The second strategy of tariff liberalisation can resolve the three identified tourism challenges that have the most significant impacts, mentioned in section four: the monopoly of the tour operators on the tourism industry; the bad debt issue; tariff undercutting, and the tour guide issue. Most importantly, tariff liberalisation can lead to a more equitable and sustainable flow of tourism benefits to a wider section of tourism stakeholders and to the general population.

Tariff liberalisation has been suggested by the previous reports mentioned in section 2 in the review of the GNH tourism model. The current tariff system is restricted in many ways and benefits only a handful of tour operators. In reality, a dozen tour operators hold a monopoly of the tourism industry. The McKinsey Report has encouraged an increase in tourist numbers, as well as an increase in the tariff. One respondent opines that,

> 100,000 or whatever [increase in tourist numbers]… when they raised that [the tariff from] 200 [to] 250 dollars, they didn't raised the royalty [fee]…. they should have raised the royalty [fee]……that unnecessarily giving a lot of room for the operators to undercut (TG3)

It is alleged that the tariff increase resulted in further opportunities for tour operators to undercut the tariff. Figure 6 shows some of tourism challenges impacting the tariff system.

**Figure 6. Challenges impacting the tariff system**




The opening up of the market through the policy of tariff liberalisation, according to respondent H5 is,

> Liberalisation ....That would be better.... Then the clients will get what they pay for (H5).

Clearly, the idea of the liberalisation of the tariff system positions the interest of the clients first. The key contention is to free the controlled market by tours operators. In doing so, clients will have a choice. Two interview respondents suggest having more market competition:

> there is no competition.....they should make it [the tariff] transparent, then it will help to grow the numbers and still be in the high value (H6).

> I felt it's high time that we liberalized the tariff [and] leave it out to the market forces (TG3).

However, there is fear that doing away with the fixed tariff system means encouraging mass tourism, which goes against the principles of the GNH tourism model of a 'slow-paced' development. One interview respondent says,

> They thought it was bad move to do away with the fixed daily tariff system. I do not know what the motive of each individual tour operator, but I personally was also against this...trying to do away with the [tariff] system. Because what we

> would have done was then we would move to a mass tourism destination, which would be dangerous for all our GNH principles (TO4).

This perspective from TO4 appears to suggest that Bhutan tariff liberalisation would signal a move toward mass tourism. The irony of this argument is that the impacts of the McKinsey Report is already showing that Bhutan has around one seventh the number of tourists (105,407 total tourists in 2012) compared to its population size of 720,679 (National Statistics Bureau., 2013) . The fear of mass tourism as a result of tariff liberalisation is understandable from a tour operator's perspective, as it arguably threatens the tight control tour operators have on the tourism industry.

### 5.2.1. Balance uneven playing field

Tariff liberalisation can help balance the uneven playing field identified previously. It will induce competition amongst tourism stakeholders and free up the control of tour operators. In the context of the tariff system, the important thing is to keep the Royalty Fee. One respondent suggests that the Royalty Fee should be increased,

> I am more inclined to say bring down to $65. I have even gone so far as to say a pricey, say a royalty of $100 a day and let the government keep its $65 and then $35 goes to the Tourism Council, so that they have a good solid strong budget, which is a huge [budget] for them to work with and really put Bhutan on the map. And then let the market charge whatever they want on top of that. So if somebody wants to sell a hotel room of $20 a night they can, if somebody wants to sell it for $40 they can, if they want to sell it for $1550 they can. The tour operator then has to put his charges on top of that. So then there will be a lot more of true and genuine competition in the market, with honest figures behind it and allowing the client to choose what they want versus being dictated to by the tour operator. As it is now, the client does not have a say (H3).

The above perspective put forwarded by respondent H3, might offer some resolve to many of the challenges discussed earlier. Keeping the Royalty Fee and raising it to US$100, will provide additional revenue to the government, can help solve many of the infrastructure issues (improvements to roads, public amenities, waste management) discussed. In this way, a direct contribution of the tourism revenue is made to the infrastructure development.

### 5.2.2. Prevent tariff undercutting

The issue of tariff undercutting remains unresolved. As highlighted, tariff undercutting has been identified as a major issue of contention amongst tour operators. Despite transparency of the tariff system, using the Tashel Visa System, tariff undercutting still exist and is undermining the tariff system. This is arguably likely to be the impact of having too many tour operators, which could result in bad debts. The endless cycle to attract more tourists is likely to result in undercutting the tariff and undermining the tariff system. Arguably too, tariff undercutting leads to poorly paid tour guides. This in turn leads to tour guides looking for handsome tips from tourists in order to supplement their low remuneration. This could also be one of the reasons why tour guides prefer not to bring their clients to the Craft Bazaar, since they depend on sales commission from souvenir shops. The Crafts Bazaar was set up for tourists in Thimphu, with no sales commissions for tour guides, making it a less attractive stop for guides to bring tourists to shop at. Regarding tour guide sales commission, one interview respondent adds that, "the reason is the individual shopkeepers and artisans, who are Bhutanese are dying....just because of guide's commission" (NGO3). Hence, the tariff undercutting issue requires a critique review by the authorities.

### 5.2.3. Solve bad debts

**Bad debts**

Bad debts appear to be a major concern for hoteliers. There is allegedly hardly any prepayment from tour operators to hoteliers, except perhaps for the five star hotels. This has caused hoteliers to be selective of tour operators who are reliable paymasters. Interview respondent H3 tells of being threatened by tour operators,

> Many of the tour operators, they just simply say, if you don't give me this or if you don't give me that, I won't work with you. If you don't hold x number of rooms, then I am not working with you. I am not going to pay. There are a lot of issues in terms of payments, not getting paid, getting paid six months or a year later, there is no ability to crawl back that money (H3).

Amongst hoteliers, there is a fear that since tour operators are in control of the bookings, they can choose which hotel they will give the bookings to, based on those hotels that offer credit facilities. Respondent H7 says that,

> What happens is ...there's a lot many 600 travel agents and also a lot many hotels. The fear upon us hoteliers is, if we try to push then we think that the travel agent has all the choice......if he does not take with us, he might take it with another hotel........somebody might give it on credit, that is the fear (H7)

The key idea here is to manage tour operators who practice bad debts. It was suggested to draw up a 'black list' of those tour operators who default in their payments and have this circulated amongst hoteliers and TCB. This blacklist can assist TCB in the renewal of tour operator license. In short, a closer cooperation between hoteliers and TCB is necessary to combat and manage bad debts from tour operators, in order to break the cycle. Another suggestion is for tour operators to pay a fixed deposit fund managed by TCB that can be used in the case of default payment and for bad debts collection.

**Payment disbursements via Tashel Visa System**

The Tashel Visa System can help resolve bad debts. One way is to disburse payments directly to the hoteliers. The current GNH tourism model requires all tariff paying tourists to pre-book their tour itineraries through a tour operator. Hotel bookings must be confirmed and prepaid prior to the tariff tourist arrivals. The tourist visa is issued upon receipt of full payment from clients.

The following is an example of a tariff calculation given by TCB. Through the Tashel Visa System, TCB releases 50% of the prepaid payment to the tour operators prior to the tourist's arrival and the balance after the tourist's departure. However, in reality this is not the case. In fact, the amount released prior to the tourists' arrival is more than 50%. The case example is for 3 international tariff paying tourists for a stay of 7 nights during the low season. The calculation is US$180 x 3 x 7 = $3,780. 50 % of this amount is $1,890. The royalty for this group works out to be $1,365 ($65 x 3x 7). Therefore the net payment due to the tour operator should be $2,415, after deducting the royalty for the tour payment. However, the tour operator is paid $1,890, before the tourists arrive, which is short of the net full payment of $2415 by $525 Therefore, in reality, the tour operators is paid 78% of the total tour payment in advance.

The key point to make here, is that the tariff system has in fact protected tour operators from any major investment. As long as a tour operator is able to get tourists, the tour operator's business appears to be an 'investment free business' because 78% of the prepayment is paid to the tour operator before the tourist arrives. According to a TCB official, this prepayment system has lead to, "attracting all sorts of unscrupulous people who do not pay their debts even when they get the payment in advance" (Personal communications, February 20, 2014). This situation has hence made the business of tourism lucrative.

When 'unscrupulous people' take advantage of the system, bad debts occur. Bad debt occurs, as hoteliers are not being paid upfront. The 78% pre-payment is in the hands of the tour operators, who then fail to pay the hoteliers. Therefore arguably, the tariff system has exacerbated the situation and the tourism authorities need to address this issue urgently. The GNH tourism model is in fact suffering from an eroding image within tourism stakeholders because of such 'unscrupulous practices'. It is imperative that change be implemented for more stringent regulations on tour operators to have entry requirements, one of which is the ability to fund its own operations and not depend on the prepayment system.

As such, it makes sense to propose that the Tashel Visa System be used to disperse payments directly to the hotels, instead of all tour payments made to the tour operators. In this way, the bad debt issue can be resolved.

### 5.2.4. Better tour guide remuneration

The tour guide remuneration is relatively low, given that the main tourist season occurs during a period of six months, as discussed in section 4.3.3. Tariff liberalization can help to increase tour guides' remuneration, as it can provide a tool for tour guides to negotiate with tour operators based on their qualifications, experience and skills. The restrictions in the current tariff system does not allow any opportunities for tour guides to negotiate for a higher remuneration that commensurate with the long working hours, and the seasonality nature of employment. This can lead to better outcomes for the tour guiding profession for a more equitable and sustainable form of employment.

To sum up section 5, education and tariff liberalization are identified as the two most significant key strategies for effective management outcomes to the structural recurrent tourism challenges, and the three key most significant issues impacting on the GNH tourism model. First, a 'soft-power' education is proposed to manage tourism challenges across a broad range of stakeholders. A concerted tourism education starting from the school system to the RCSC and at the ministerial level can help resolve the issues such as poor roads, lack of public toilet facilities, and waste management issues. Educating the rural public in understanding that the tourism industry is a multi-sector industry, and highlighting the benefits of the tourism Royalty Fee, may provide a more harmonious and welcoming attitude towards tourism as an industry. Second, tariff liberalization can help resolved the uneven playing field, the bad debt issue, tariff undercutting, and the tour guide issues. In the next section, policy changes are discussed.

## 6. Policy directions

In the last section, strategies were discussed to manage some of the tourism challenges discussed in sections 2.1 and 4. This section provides suggestions for changes in policy directions. The suggestions are responses from interviewees based on the question, "what changes would you like to see in policy directions in order that GNH tourism can help achieve happiness?". The policy of *'high value, low impact'* appears to be restricted and controlled, resulting in the tourism challenges as outlined earlier. To remain restricted and controlled will not help Bhutan's tourism industry in the long term.

Happiness is central in the GNH development philosophy. As mentioned in the introduction, happiness means different things to different people. The core tenet of the GNH Tourism Model is based the notion of GNH, revolved around the 4 GNH pillars. However, happiness is also highly contested. Happiness means different things to different people but a deep element is the spiritual pursuits (Eckersley, 2000; McDonald, 2004; Seligman, 2011). This is in line with this wider PhD study that found a significant majority of interview respondents associated happiness with 'non-materialism'.

However, tourism's contribution to happiness can arguably be identified in terms of better economic conditions (profits), which leads to enhanced material wealth. Happiness can also be identified in the sharing the socio-cultural customs and traditions of the Bhutanese people with the tourists or regarded as 'non-material' wealth. Respondents TO2 and TO3 describes happiness as:

> money is something that make some people happy, because they can buy something to eat, something to wear, something to live…(TO2)

> I think it can be very hard to achieve the happiness through tourism. The reason is because everything is becoming more materialistic (TO3)

Thus, in the context of GNH tourism model, it can be argued that happiness is associated with both materialism and non-materialism. The question arises as to the spread and equity of tourism benefits, for arguably, according to Tideman, (2011, p.149) ,"happiness relates to sustainability and equity".

In terms of policy relating to the spread and equity of tourism benefits, several of the issues discussed earlier, already have policies in place. Five examples are listed here. First, there is policy in place to build amenities along the roadside for tourists. For instance, the cafeterias and restrooms at Sengor, Mongar, at Tango in Thimphu, at Dochula Pass and the bird watching campsite in Yongkola, Mongar (Tourism Council of Bhutan., 2012a, p.13). Second, there is a policy in place for a hotel star classification system for accommodation providers to meet the standards set by the government, that restricts tariff paying tourists to 3 star properties from 2012. Third, to increase accessibility, a policy is in place to open three domestic airports at Yongphula in the east, Bumthang in the central and Gelephu in the south, and a new Royalty Fee zones in Samdrup Jongkhar and Gelephu. Fourth, there is also a policy in place to spread of tourism benefits to the East, e.g. Merak Sakten Sanctuary opened for tourism in 2010. Fifth, there is also a policy to encourage off season tourism activities, for example the Haa summer festival, the Takin Festival in Laya, and the Nomads and Mastutake festivals in Bumthang (Tourism Council of Bhutan., 2011a, p.13).

However, to achieve the GNH goals so that, 'happiness relates to sustainability and equity', to reprise Tideman's argument, this report recommends changes to three policy directions that most impacts on the GNH tourism model, as identified in the three key challenges mentioned in section 4. Four policy directions are discussed. The first policy direction is to foster tourism understanding across the nation for a better outcome. One way is to provide basic environmental education with a focus on tourism education across a range of stakeholders as discussed in section 5. Second, there should be in place a policy direction to promote tariff liberalization. Tariff liberalization can assist tour operators, tour guides and hoteliers and other tourism service operators: to even the playing field; be held accountable and responsible; to diversify and invest; to increase the Royalty Fee with a portion directed to tourism development activity, and solve the unsustainable tour guide remuneration. Third, there should be a policy directed at blacklisting rogue tour operators. This move can lead to the efficient licensing of tour operators, as it will help to eliminate bad debts. Fourth, a policy directed towards a friendlier Foreign Direct Investment (FDI) is required to assist tourism development investments. Additionally, a section on tourism issues requiring interventions identified by TCB, which has links to this study is also provided.

## 6.1. Education

### 6.1.1 Foster tourism understanding across the nation

A policy to promote tourism across the nation is vital. Concerted tourism stakeholder participation is essential if tourism is to be sustainable. Education can offer a 'soft-power' solution approach to the 'structural recurring tourism challenges' discussed and the other specific key tourism challenges. As discussed in section 5, using a concerted 'soft-power' approach through educating the rural public about the benefits of tourism, as well as the RCSC and the ministries can help foster better understanding of the tourism industry. Starting from the grassroots level to the ministerial level, it is important for the whole nation to engage with tourism. In this way, both western tariff paying and regional tourists are made to feel welcomed. Providing the knowledge about the tourism industry and the benefits of tourism and with it, the 'soft-power' to attract, persuade, and influence the behavior of others across multi-sectors can help to achieve the government's overall ABSD objectives with more positive outcomes.

Education can help make people responsible and accountable. Interview respondent H3 suggests that,

> holding people accountable…right now, there is just a lack of accountability. So until that is addressed, what can be done there? Obviously, there needs to be

> more coordination between ministries. There needs to be more of this credibility. (H3)

In this context, respondent H3 suggests that there should be closer coordination between ministries for accountability Where externalities are involved, ministries should work closely to ensure that basic supplies of water, electricity, and the issues of the poor roads, lack of public toilets and waste management can be credibly dealt with.

Enhanced inter-ministerial communication should therefore be a major policy direction in terms of understanding the tourism system, its issues and the interdependence on various ministries to act together for the benefit of the 'common good'.

## 6.2. Tariff liberalisation

A policy direction to liberalise the tariff can most certainly solve some of the challenges discussed that is most likely to produce an outcome of a more even level playing field.

### 6.2.1. Check and balance

A tariff liberalization policy direction can help make tour operators more accountable and responsible. One respondent felt that tariff liberalization might be a better 'check and balance' tool, as it will be up to the clients to make the choice,

> we talk so much about morality and GNH…it is almost a scam… you know we are cheating people…for example [when we were to] liberalize it [the tariff]. …with royalty [fee]…… then it is up to the client, whether he wants to [book]…(TG3)

Respondent TG3 suggests that tour operators are allegedly 'cheating' tourists and that the liberalization of the tariff system (but keeping the royalty fee in place/and or increasing the royalty fee) may help free up the market, as tourists can then make a choice. The current situation offers little incentive to provide anything other than the minimum standard accommodation, meals and services. The meals offered are quite standard with three Bhutanese buffet style meals that tend to be repetitive. From an hotelier's perspective, the standarised tariff meal payments does not allow for more innovative food offerings. There have also been many complaints from tourists regarding the monotonous Bhutanese buffet and being 'Dzonged-out' through repetitive visits to Dzongs.

### 6.2.2. Diversify and invest

In order for tour operators to diversify, they will need to invest. The tariff liberalization policy can assist tour operators in this way For example, tour operators will have the ability to diversify, if they are able to charge clients according to the cost of the new innovative tourist products. The current tariff system does little to provide incentives for tour operators to diversify, and they are reliant on the government for new tourism products. Tariff liberalization can be helpful in this instance. Respondent TG3 suggests that,

> definitely [tariff] liberalization [but] keep royalty high like 100 dollars. May be with 100 dollars, 25 dollars per day per person can be used for tourism development activities (TG3).

### 6.2.3. Tourism development activity

Tariff liberalization can promote tourism development activity from an increase in the Royalty Fee. Currently, the Royalty Fee provides free universal health and education, however none of this goes back into tourism reinvestment. In this respect, a policy direction is required, to include a portion that is directed toward tourism development activity, as reflected in respondent H3's statement that,

> there needs to be a policy change that quote unquote, the tourism royalty needs to be invested, at least a good portion of it back into tourism. If you are going to charge something called the tourism royalty, then ensure that a portion of that goes back towards tourism (H3).

The Royalty fee should be increased to US$100 per person per day. The market will most likely be able to absorb such an increase in Royalty Fee, because tourists will see that as a direct contribution to the government. However, further improved infrastructure development, such as better road conditions and public toilet facilities along the highways must be provided.

However, not all respondents agree to tariff liberalization. In particular, one respondent noted that the tour operators were against tariff liberalization for the obvious reason that they will no longer be able to control tourism,

> And the tour operators are dead set against liberalising the tariff, because they know that they can no longer have control and they can no longer dictate and they will no longer be making the margins that they make now (H3)

When tour operators are no longer in the position to control the market, the market will most likely to be healthier, with probably less opportunities for tour operators to undercut. The same respondent suggests that,

> there is so much undercutting and other issues and people cheating the system that just going back to the base royalty and then allowing the market to work its way on top of that would actually be healthy (H3)

There above perspective is a dominant theme in the argument for tariff liberalisation. The base Royalty Fee should be maintained and increased as suggested by the interviewees, whilst allowing the tourist market to have a choice through more competitive pricing mechanism.

### 6.2.4. Unsustainable tour guides remuneration

The policy direction of tariff liberalisation can contribute to solving the remuneration issue of tour guides. As mentioned, tour guides are poorly remunerated and this practice appears to be unsustainable. The poorly remunerated tour guide is more likely to focus on sales commission from souvenir sales and tips from tourists, to make up for the meager pay. Some tour guides are required to borrow a loan to pay the hotelier upfront on behalf of the tour operator. This is arguably ethically incorrect. Any tour operator, who is involved in such practice, should have the license withdrawn, as it indicates that the tour operator is unprofessional and does not have the working capital to operate. Such practices should not be tolerated. Tariff liberalization will allow tour guides, tour operators and hoteliers to compete freely in the market. One outcome is a more even level playing field, which will most likely lead to higher profits. This in turn, is most likely to result in tour operators who can afford to pay up front to hoteliers. Higher profits can also lead to better-remunerated tour guides. Tour guiding will most likely be more competitive and become a more attractive employment that is more sustainable.

## 6.3. Blacklist rogue tour operators

To help solve the issue of bad debts, it is proposed that there should be a policy direction implemented to blacklist rogue agents who do not pay on time. This calls for a proper legal framework, where the government ensures all stakeholders are responsible to make timely payments. This move will assist with identifying debtors, making the blacklist available to tourism creditors. The information would also be helpful for the licensing of tour operators, as it will help to eliminate those who conduct themselves unprofessionally. It was suggested that TCB should monitor closely and expose the tour operators who fail to provide quality service or pay creditors on time. According to an official, a Disciplinary Committee has since been formed comprising of all tourism associations. However a lack of proper legislation makes it a challenge. One respondent suggests that,

> How often does the tourism council of Bhutan take actions based on the complaints...these things should be made transparent so that if a company is punished, other companies are kept on their toes (P6).

The information might also assist in identifying those tour operators who practice bad debts and tariff undercutting. As part of the bigger overall picture of GNH, part of the collective wellbeing is perhaps not to incur bad debts so that others down the line need not have to suffer the consequences. However, if tariff liberalisation occurs, it is envisaged that this will no longer be necessary, because clients are able to make direct bookings with tourism service providers and make direct upfront payments.

## 6.4. Foreign Direct Investment

Foreign Direct Investment (FDI) opportunities in the tourism sector will most likely to benefit from the policy of tariff liberalisation. However, there is a perception that there is a need to develop a friendlier policy for FDIs. According to respondent P6, currently the, “World Bank report says it is quite difficult to do business in Bhutan” (P6). A study by Sharma, Jadhav, Singh and Mahapatra (2012) on the FDI conditions in the tourism sector concludes that, “Bhutan has not proved to be a viable destination for high foreign investment”, citing, “net FDI receipts decreased from US$ 74 million during 2006-2007 to US$ 16 million during 2010-2011” (p.15). Reasons cited in this report include constraints such as poor infrastructure, transportation issues, geographical location (landlocked country) with a small market, and the lack of skilled and unskilled labor to meet market demand, as well as the Global Financial Crisis (GFC). Thus, a policy change towards a friendlier FDI can assist to open the market.

Tariff liberalisation will most likely help to open up the tourism market for more competition. Respondent TO1 suggests that,

> if everything is protected by the government then the standard and quality will not be there....because then there’s no competitive feeling to make that thing sustainable… there should be a policy change whereby FDI culture should be now welcomed (TO1).

The tourism sector can help feed FDI as an attractive option. The benefits in tariff liberalization will further inject foreign capital into the economy, create employment opportunities, enhance human resources, access markets and offer competitive choices for the tourist. Therefore, tariff liberalization can help achieve a more sustainable growth. The next section discusses other interventions as identified by TCB.

## 6.5. Tourism issues requiring interventions

This section is dedicated to the 9 out of 12 tourism issues requiring interventions identified by TCB, that are in linked to this study. These 9 issues are: tourism friendly sector policy, air access, road access, roadside amenities, industry capacity building, waste management issue, FDI restrictions, incentives for investment for tourism stakeholders and clearances for tourism development.

First, as previously mentioned in section 5.1, education, as a ‘soft-power’ approach is important especially across the various multi-sectors involved in tourism. TCB has also identified the lack of ‘tourism friendly sector policies’ due to the ‘actions and inactions’ of some major sectors that contribute to the overall tourism development initiatives. TCB recommends that all sectors consider their impacts on tourism while formulating their respective policies using a ‘multi-criteria analysis’ tool.

Second, as mentioned at the beginning of section 6, in order to increase tourists accessibility, a policy has been directed to open three domestic airports. However, only one domestic airport is currently in use, that of Bathapalang in Bumthang. As such, TCB recommends developing the existing domestic airport into an international either in Bumthang or at Yongphula in Trashigang, so that there can be a more equitable geographic spread of tourism benefits.

Third, as discussed in section 2.1 regarding 'structural recurring tourism challenges', the poor road conditions requires greater attention. TCB has identified the feedback from international tourists through the exit survey, that indicates that the road conditions leave a 'less than wholesome experience'. As such, TCB recommends proper and regular maintenance of the highways for international tourists and the local people, calling for more responsibility and action from the Department of Roads Ministry.

Fourth, as mentioned section 1.1 in the introduction, the author signaled the lack of roadside amenities such as clean and functioning toilet facilities, as a disappointment. TCB has also identified the same issues. TCB recommends developing a strategic plan to implement and build roadside amenities through public-private-partnership (PPP) that is sustainable, in conjunction with the Department of roads.

Fifth, as identified in section 5.1 on education across the various sectors, TCB has also identified the urgent need for industry building capacity that is required to boost professionalism in tourism. TCB recommends 'training needs assessment' of the tourism industry that will be translated into a Human Resource Development Plan. This plan calls for a need to 'coordinate, streamline and institutionalise' initiatives across both the tourism industry and the private sector. The aim is to develop and implement a comprehensive capacity building program for the industry in consultation with all agencies concerned.

Sixth, as was identified in section 2.1, waste management is situated in the 'structural recurring tourism challenges'. TCB has identified that waste mismanagement is increasingly becoming an issue for both Bhutanese and tourists alike. TCB recommends working in collaboration with the City Corporation and other relevant agencies to pool resources to develop and implement a proper waste management program.

Seventh, as discussed in section 6.4, a friendlier FDI policy change is required. TCB highlights the fact that the number of FDI's is opened to the hotel sector only and over the years FDI investment in hotels are mainly concentrated in the tourism triangle destinations of Paro, Thimphu and Punakha. TCB recommends that there is a need to promote FDIs in other parts of the country, especially those areas that are 'infrastructure deficient' areas with proper incentives.

Eight, as discussed in section 5.2.3, the Tashel Visa System tour prepayment disbursement system, prevents tourism stakeholders from making from major investments. Incentives for major investment have been identified by TCB to stimulate investments by tour operators and hoteliers. TCB recommends reviewing and promoting incentives to tour operators and hoteliers in order to encourage investments in tourism infrastructure deficient areas.

Ninth, as was highlighted in section 6.4, there are many constraints in the current FDI policy. TCB has identified that currently the processing time to obtain clearances for tourism attractions and infrastructure development is very stringent. TCB recommends a need to review the clearance process and streamline it, in order to encourage and facilitate new tourism attraction and infrastructures.

The above 9 issues identified by TCB along with its specific policy recommendations further reaffirms this study's report.

In summing up section 6, four major policy directions were recommended, so that the GNH tourism model can achieve 'happiness' that is related to 'sustainability and equity'. First, using education through 'soft power' approach in order to foster tourism for a better outcome. Second, promoting tariff liberalization that will result in a more even level playing field. Third, implementing a policy to blacklist rogue tour operators in order to eliminate bad debts. Fourth, designing a friendlier FDI policy that assists tourism development investments. These four policy directions are inevitable for effective management outcomes. Adding to the value of this report, a section on tourism issues requiring interventions as identified by TCB, and linked to this study was also provided. The current inertia to the GNH tourism model has also lead to a poor image of tourism within Bhutan, as there is a perception that tourism only benefits a handful. The concerted 'soft power' approach using education to attract, persuade, and influence the behavior of others may help to alleviate such tensions. The next section turns to discussions on the way forward.

# 7. Discussions

## 7.1. To change or not to change?

The previous section discussed key policy directions recommended for the GNH tourism model to move forward. This section discusses the impacts and implications of the findings on the GNH tourism model and the way forward. The future of the GNH tourism model is the main focus. Three important questions were raised within the scope of this report. First, what are some of the tourism challenges in achieving the GNH goals? Second, what are some of the strategies to manage these challenges? And third, what changes to policy direction is required for the GNH tourism model to help achieve happiness? It is time to consider whether to 'to change or not to change'. This report argues for a change based on the evidence shown in the preceding sections. If there is 'no change', there is the likelihood that the GNH tourism model may face danger in losing its image as a 'high value, low impact' tourism model.

## 7.2. The future of the GNH tourism model

It is clear that the GNH tourism model requires some review. The fact remains that tourist arrivals continue to increase, from 59,921 (tariff paying tourists) in 2008 to 105,407 (combined total of regional and tariff paying tourists) in 2012. And there is a reported in increase of 10% of total tourists arrivals to 116,224 in 2013(Dema, 2014a). As highlighted in section 2.1.1, the capacity has been over stretched especially during the peak season. Without further increase in tourism resource capacity (e.g. infrastructure, hotel accommodation during the peak season) to meet the growing demands, bottlenecks will continue to increase in the future. Hence, the increasing tourist numbers impact gravely on the GNH tourism model. This has resulted in much growing dissatisfaction amongst tourism stakeholders. And therefore it is time for tourism authorities to act.

That the GNH tourism model which was supposedly to be a 'slow-paced' appears rather ironic. As pointed out in section 2.4, (refer to figure1), the irony in the *'high value, low impact'* GNH tourism model, is that it is being impacted by the uncontrolled regional tourists (no visa requirements, not subjected to tariff system, and increasing numbers), resulting in *'low value, high volume, and high impacts'*. This irony reverses the very intentions of the GNH tourism model. Hence, to not change and move forward would arguably be a dangerous move.

To remain at status quo, would be a dangerous because the repeat visitation of the tariff paying tourists is low, as pointed out in figure 2. And this is unsustainable. It is unsustainable because of the alleged resultant low value perceived, although this remains unclear. It could also be an implication of the low quality hospitality product and services. This perpetuates itself in a cycle due to the lack of competition. Thus, the current GNH tourism model rests on shaky grounds and requires some urgent review, in order to secure its future.

**Poor image**

There is currently a poor image of Bhutan's GNH tourism model. The call for four policy direction changes is vital for the GNH tourism model in order to achieve sustainability and equity. If this is not implemented, the implications would be that the challenges discussed in sections 2.1 (structural recurring tourism challenges) and 4 (uneven playing field, too many tour operators, bad debts, tour guide issues), will continue to perpetuate and undermine the tourism model, creating further dissatisfaction amongst those within and outside the industry. This has resulted in a poor image of Bhutan as a 'high value, low impact' destination.

In order to reverse the poor image, a more level playing field is required. Breaking the control of tour operators who undermines the tourism industry is key to achieving sustainability and equity. This move will help to restore the notions of 'high value, low impact' as something worth pursuing not just on paper, but in reality. In doing so, the previously recommended policy changes will secure the future of the GNH tourism model.

## 7.3. Tour operators' control of the tourism industry

The monopolistic control of tourism in the hands of a dozen tour operators (refer to tables 6 & 7), has arguably led to tariff undercutting, bad debts (with hoteliers) and low remuneration (for tour guides). Hence, the GNH tourism model is at the mercy of this small but powerful group of tour operators. It is with little wonder, that the there is a general perception amongst the wider population, that tourism benefits only a small group of people.

The point here is that substantial tourism benefit is not trickled down to the masses, as it still remains in the hands of the few. If Tideman's argument holds true that, 'happiness relates to sustainability and equity', then, it appears that there is little sustainability and equity achieved, as only a handful benefits from the GNH tourism model. As such, the GNH tourism model appears to be stuck in inertia. And this inertia does not propel the industry to move forward. Instead, there is much growing dissatisfaction amongst tourism stakeholders as evidenced in their perspectives on the GNH tourism model.

## 7.4. Lack of competition

The stagnation of an otherwise dynamic industry cannot be left in inertia. To remain in status quo or inertia, will only further exacerbate the identified current tourism challenges (structural recurring tourism challenges and the three most significant issues: uneven playing field, bad debts and tour guide issues) because of the lack of competition. The discourse in tariff liberalisation is not something new, in fact, it has been suggested in the past. But as evidenced in this report, there are sections of tourism stakeholders that are calling for and willing to take a risk to embrace a change that will transform the industry.

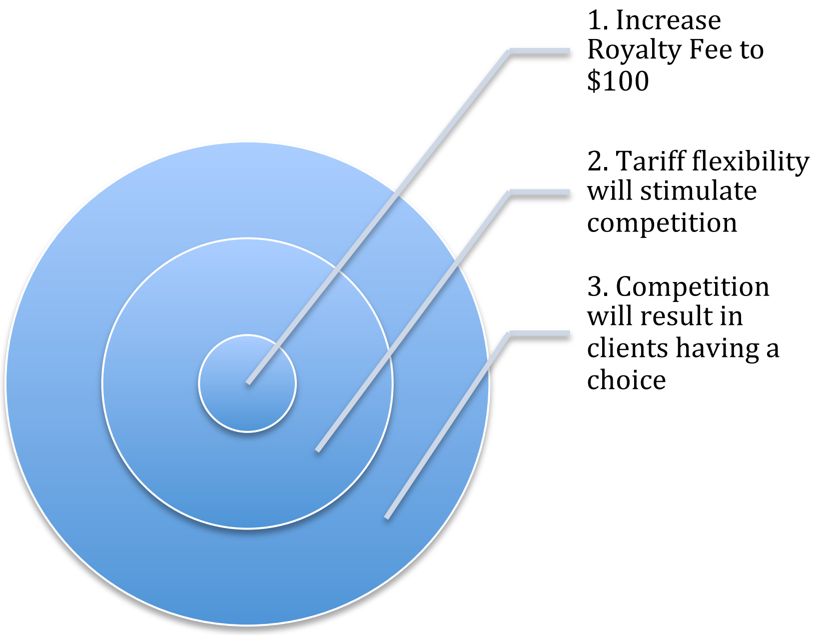
The alternative is to remain in stagnation with the disincentive to compete, given all the identified challenges discussed. The stumbling block has long been identified (bad debts, poorly paid tour guides, tourism controlled by a small minority leading to tariff undercutting by the others). Therefore, it is timely now for both tourism authorities and stakeholders to ensure that there is a more even leveled playing field. Freeing up the market by liberalising the tariff system, that is, to charge the Royalty Fee but to allow hoteliers, tour operators and other tourism service providers to fix their own tariffs, will allow tourists some choices. This transformation may be the best step forward, in order move away from the current stagnation and inertia.

## 7.5. Fairer playing field

The current tourism model results in an uneven level playing field amongst tourism stakeholders, in particular between tour operators and hoteliers. The tariff system favors tour operators who monopolise the tourism industry. A policy direction to change the tariff system, that is to liberalise the tariff, is most likely to result in a fairer playing field. For instance, this can allow tour operators and hoteliers, and other tourism service providers to decide on how much to charge their clients. To reprise respondent H6, it is time to, "free the market, allow clients to have a choice".

Figure 7 suggests a model with three steps that ensures a fairer level playing field. The first step is to increase the Royalty Fee to US$100 for the high season and US$80 for the low season. The second step is to allow tariff flexibility, that is, to allow tourism service providers to fix their own pricing, which will stimulate competition. The third step will result in clients having a choice of the tourism products. In this way, there is more competition, which will result in clients getting what they pay for. Additionally, tour operators, hoteliers, tour guides and other tourism service providers will be able to negotiate and provide higher service quality and product, as the market will decide. This will assist in generating innovative tourism products and establishing marketing services, that are currently absent, thereby creating a new stratum of employment opportunities (sales and marketing). Currently, there is a great dependency on TCB to provide new innovative tourism products. This change in policy directions will result in more accountability and responsibility amongst tourism stakeholders, as well as promote a fairer level playing field.

**Figure 7. Fairer level playing field model**




## 7.6. 'High value?, low impact?'

The notion of 'high value, low impact' remains questionable. The notion of 'high value' is arguably meant for Bhutan and not the visitor. The notion of 'low impact' is also arguably elusive, since the regional tourists are increasingly impacting the GNH tourism model. In theory, the notion of 'high value, low impact' seems to be a noble and wanton aspiration, as is the GNH philosophy. But the GNH tourism model appears not to meet the basic requirements of the tourists as evidenced by the low repeat visitations (refer to figure 2). This could well be that the 'high value' inherent in the model, which in reality does not exist, given the challenges and complaints that continually persists and has been repeatedly been reported in BTM since 2008 (refer to the 'structural recurring tourism challenges' in section 2.1). There are high expectations for the tariff imposed, as three respondents warn that,

> for $250 there are high expectations and Bhutan need to live up to the expectations otherwise the future of the industry is in peril (H3).

> I think from our side we should really try to improve our quality standards (G2).

> the alarm that I would like to sound right now is we need to be seriously conscious about the way we are implementing tourism in Bhutan. I would say management is a serious concern. We are getting little bit I think carried away

> with the glorified image of Bhutan and we are forgetting the homework we have to do (G3).

It is perhaps interesting to note that the above three comments are sentiments suggesting that the notion of 'high value' remains elusive. These comments are agency from 'within', with two representing the government. Hence, arguably, if left unchanged, the future of the GNH tourism model may be in peril.

## 7.7. Stop tariff undercutting

Tariff undercutting remains rampant. It is arguably in part due to the weakness of the tariff system that has resulted in tariff undercutting, bad debts and the power of the tour operators to dominate the industry. This has given rise to a host of issues mentioned in section 4 that remains unresolved. In order to tackle these challenges, a transformational change is required to live up to the image of the notion of 'high value, low impact'. Increasing the tourist numbers alone might meet the socio-economic development goal, but the other 3 GNH pillars are arguably being compromised. Hence, the GNH tourism model as a means to achieve 'happiness' remains an aspiration, unless more decisive actions are taken for Bhutan's tourism model to be credible.

Tourism is a dynamic industry that is subjected to global forces and should be guided by good governance. But if good governance means that the tourism model is skewed towards one section of the tourism stakeholders, then it remains problematic. The way forward, is to effect a transformational change. 'To change or not to change' is no longer the question. How do we to find a balance, between the various tourism stakeholders? There will be winners and losers. But for the interest of the 'common good', a more equitable and sustainable tourism model is urgently required.

In sum, there is little option but to change the GNH tourism model. The key message in this report is that if the current GNH tourism model is to stagnate further, ultimately the whole notion of *'high value, low impact'* remains elusive. As the evidence in the preceding sections has shown, the regional tourists outnumbered the international tariff paying tourists, and continue to do so. The regional tourists are arguably contributing greater impacts (see section 2.5), through 'regional favoritism' due to the geopolitical climate, resulting in the tariff liberalisation accorded to them. The tariff system has created within itself a host of issues as discussed earlier (tariff undercutting, bad debts, lack of competition, tour guide issue, possibly low repeat visitations). Given the above discussions of some of the tourism challenges, strategies to manage these challenges and recommendations for policy changes, the nexus now lies with the tourism authorities to act accordingly. The next section concludes this report.

## 8. Conclusion

This report provided the findings of a wider PhD study, using the case study of the GNH tourism model, to understand some of the socio-cultural realities of achieving GNH. This report focuses on the challenges and impacts of the McKinsey Report. Three important questions were raised. First, what are some of the tourism challenges in achieving the GNH goals? Second, what are some of the strategies to manage these challenges? And third, what changes to policy direction is required for the GNH tourism model to help achieve happiness? The evidence presented clearly suggests that the way forward, is to review the GNH tourism model and make required changes for it to remain equitable and sustainable. The outcomes of this report are recommendations for effective tourism management and policy initiatives, in order to achieve 'happiness' in the context of tourism. The value and significance of this report, which represents tourism stakeholders, lies in the agency and currency given to the issues at hand, or 'views from within'.

The key message in this report is that the GNH tourism model requires changes in order to secure its future. If it remains unchanged, the continuing control of the tourism industry in the hands of a small majority of tourism stakeholders, with its ensuing implications (uneven level playing field, bad debts, tariff undercutting, tour guide issues), and the lack of competition due to the tariff system, renders the current GNH tourism model obsolete. And hence, the romantic idea of a 'high value, low impact' tourism policy is problematic and elusive in reality.

This report suggests two key initiatives for the way forward: applying a concerted education program, with a 'soft power' approach, across multi-sectors and tariff liberalization. In order to support these two key initiatives, this report recommends four policy direction changes: policy directions to foster tourism understanding across the nation through education, tariff liberalisation (to free up the host of issues associated with the tariff system), naming and shaming the rogue tour operators (bad debt issue), and a more supportive and encouraging FDI. In addition, the tourism issues requiring interventions as identified by TCB, linking to this report were also included for recommendation.

### 8.1. Limitations

This report has two limitations. First, this report is based on the fieldwork interviews with tourism stakeholders. These interviewees represent a cross section of tourism stakeholders based in the western region. Due to resource constraints tourism stakeholders from other regions, such as in Bumthang in the central, and the eastern region of Merak-Sakten in Trashigang has not been included, nor are those from the southern regions. Hence, the views presented are limited and not necessarily representative across the country. Second, the fieldwork was conducted during the peak season. As such, there was a limitation to the availability of tour guides. Therefore, this report does not claim to generalise the challenges of the GNH tourism model. The TCB may be already aware of some of the tourism challenges, nevertheless, this report is valuable as it represents insider's perspectives. More importantly, some strategies mentioned and suggestions for change in policy directions in this report may add some new perspectives to TCB.

## 8.2. Recommendations for further research

Four recommendations for further research are suggested. First, what are the reasons for the low tariff paying repeat visitation? This is an area worth further investigation. The findings can provide a better understanding of the issues that can lead to measures required to reverse the predominantly low repeat visitation. This can lead to further outcomes in improvement to the tourism product, in order to attract and retain the various market segments.

Second, an investigation into the reasons for average length of stay, which is around 7 days, is recommended. Is this because of the tariff system? Or is it because of the lack of tourist attractions? The inquiry can lead to outcomes to understand and put in place measures to encourage longer stays, which translates into higher revenue yield.

Third, the issue of tour guides low remuneration requires further investigation. This investigation could be supported through a tour guide survey questionnaire, as well as focus group interviews.

And lastly, the issue of tour guides having to take loans for upfront payments on behalf of the tour operators also requires further investigation. In particular, to verify if there are tour operators who refused to pay the agreed DSA and advance payments for the tour groups, despite that 78% prepayment has already been received. More evidence is required to substantiate these allegations.

## 8.3. Value of report

This value of this report is the contribution to knowledge by providing a deeper insight into some of the socio-cultural challenges of GNH tourism model. The value in the study of Bhutan's GNH tourism model provides important information to Bhutan and the wider tourism industry, regarding the aspirations of a holistic form of tourism development, based on the GNH philosophy. The report is also timely as Bhutan prepares to contribute towards the UN Post-2015 New Development Paradigm. It is envisaged that this inquiry's outcome would provide effective policy direction initiatives to manage and achieve the GNH goals. Grounded in the interview data and document reviews are real concerns of the tourism stakeholders, thereby providing credibility, validity and trustworthiness to the inquiry. Inherent in their perspectives is a desire to sustain the future of the GNH tourism model. And as one respondent puts it:

> Some body told me that word of mouth is a very strong marketing strategy, so people go back and say 'My goodness, you know beautiful country but poor quality services', then people will not turn back. But if they say 'good country,

> very beautiful, very good services', I think lot of people will come back again (G2).

Respondent G2's comment above might lend some weight to the argument regarding low repeat visitations. In conclusion, this report clearly suggests that Bhutan has yet to maximise its tourism potentials. Like the fatigued old car, after 40 years in service, it is time to change some of its faulty parts, especially those that have been identified in this report as being 'obsolete' with the times. It is therefore timely 'to change 'the 40 years old GNH tourism model, for 'not to change' is not an attractive option.

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