



Foreign Direct Investment under Gross National Happiness: A Qualitative Study of Bhutan's Investment Strategy

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Abstract

Foreign Direct Investment (FDI) has become an important driver of economic growth and development in many emerging economies around the world. However, Bhutan adopts a unique investment strategy guided by its national development philosophy known as Gross National Happiness (GNH). This study examines the feasibility and strategic orientation of FDI in Bhutan through a qualitative research approach.

The research relies on policy document analysis, stakeholder reports, and a case study of the Gelephu Mindfulness City (GMC) initiative to understand how Bhutan integrates foreign investment with sustainability, cultural preservation, and environmental protection.

The findings reveal that Bhutan adopts a selective and cautious investment strategy that prioritizes investments aligned with national values and long-term sustainability while still supporting economic development. The analysis identifies three priority sectors with high investment acceptance: renewable energy, tourism and hospitality, and information and communication technology (ICT).

Although Bhutan faces structural challenges such as a small market size, limited infrastructure, and human capital constraints, its policy framework demonstrates that foreign investment can be aligned with broader social and environmental goals. The Bhutanese approach offers an alternative model for small and emerging economies seeking to attract foreign investment without compromising cultural integrity, environmental protection and sustainability.

Keywords: Foreign Direct Investment (FDI); Gross National Happiness (GNH); Investment Policy; Renewable Energy; Tourism; ICT

1. Introduction

Recently, global patterns of Foreign Direct Investment (FDI) have shifted significantly, creating new opportunities for host countries. Foreign investment has become an important source of capital for companies seeking new markets, opportunities, and strategic footholds in many emerging economies (Thakur et al., 2025).

Despite these opportunities, not all emerging economies fully embrace foreign investment as a central development strategy. Bhutan represents a unique case where economic development is guided not only by financial gains but also by the country's development philosophy known as Gross National Happiness (GNH).

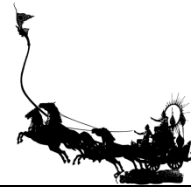
Since its transition to a constitutional monarchy in 2008, the number of foreign investment projects in Bhutan has gradually increased. However, all foreign investments must undergo strict screening to ensure alignment with GNH principles, which emphasize environmental protection, cultural preservation, and societal well-being.

Although policy reforms have gradually liberalized foreign investment regulations, all investment proposals must still demonstrate clear alignment with Bhutan's core development philosophy. This balanced approach presents challenges due to Bhutan's small economic size, landlocked geography, youth unemployment, and limited economic diversification. Nevertheless, the government remains cautious, recognizing that unregulated foreign investment could lead to cultural erosion, social inequality, and environmental degradation.

2. Objectives

This study aims to examine the strategic feasibility of Foreign Direct Investment (FDI) in Bhutan within the framework of the country's development philosophy of Gross National Happiness (GNH). Specifically, the research seeks:

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1. To analyze how Bhutan's policy framework regulates and guides FDI inflows.
2. To identify priority sectors for foreign investment in Bhutan.
3. To examine how Bhutan balances economic development with environmental sustainability and cultural preservation.

3. Materials and Methods

This study adopts a qualitative research design to examine the feasibility and policy orientation of FDI in Bhutan. The research relies on secondary data sources, including government policy documents, investment regulations, selective international reports, and stakeholder statements.

The analysis focuses on three main sources:

1. Policy documents like the FDI Policy 2019 and the FDI Rules and Regulations 2025.
2. Reports from international institutions, including the World Bank (WB) and UNCTAD; and
3. Public statements and policy discussions by Bhutanese policymakers.

A qualitative content analysis approach is applied to identify key themes in Bhutan's investment strategy, particularly the prioritization of specific sectors and the alignment of foreign investment with the four pillars of GNH.

4. Results

The findings indicate that Bhutan's foreign investment strategy differs from many emerging economies in the world, as most of those economies prioritize the volume of FDI inflows. Instead, Bhutan adopts a selective investment policy that emphasizes long-term sustainability and alignment with its national development philosophy of Gross National Happiness (GNH). This approach prioritizes investment quality, environmental protection, and cultural preservation over purely economic goals and objectives.

4.1 Trends in FDI Inflows

Over the past decade, the Bhutanese economy has experienced gradual yet steady growth in foreign direct investment (FDI). Unlike other emerging economies that prioritize volumes of investment, Bhutan focuses on attracting investments that align with sustainability and long-term national development goals.

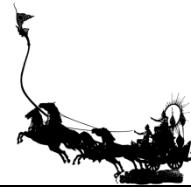
- 4.1.1 **Sector Concentration:** FDI in Bhutan is concentrated primarily in renewable energy, tourism, and information and communication technology (ICT). These sectors face fewer regulatory barriers because they align strongly with Bhutan's sustainable development priorities and immediate requirements.
- 4.1.2 **Geographic focus:** Most investment projects are concentrated in urban and semi-urban areas where infrastructure, administrative services, and regulatory processes are easier and more accessible.
- 4.1.3 **Investor profile:** Investors entering Bhutan's market are typically long-term investors interested in sustainability-focused sectors such as renewable energy, environmentally responsible tourism, and digital innovation.

4.2 FDI Targeted Sectors

Based on the review of policy documents, investment regulations, and stakeholder reports, the study identifies three priority sectors for foreign direct investment in Bhutan. These sectors have relatively higher approval rates because they align with the country's development philosophy and sustainability objectives in the current FDI Policy of Bhutan.

4.2.1 Renewable Energy

Bhutan is endowed with major river systems which can be harnessed and used for the generation of power. Since the 1960s, Bhutan started to export hydropower to neighboring countries, but it has not really captured its full potential given the abundance of river systems in Bhutan. FDI in this sector is a top government priority in recent years to harness the full potential in hydropower, solar, and wind energy.



4.2.2 Tourism

The tourism sector in Bhutan follows the policy of “High Value, Low Volume” which makes it one of the most exclusive tourist destinations in the world, where tourists bear all the costs and are additionally charged \$250 per day as a sustainable fee. This is to reduce the influx and volume of tourists visiting Bhutan to avoid altering the flourishing culture and traditions and to reduce environmental degradation through tourist-related waste. However, Bhutan also welcomes FDI in tourism that enhances the authentic tourist experience in Bhutan negatively impacting culture, tradition, and the environment. Resorts, boutique lodges, and hotels are some of the areas of investment where there are high chances of approval.

4.2.3 Information and Communication Technology

The ICT sector has recently received increasing policy support from the Bhutanese government. Investment in digital innovation is encouraged to enhance digital governance, improve public services, and build technical capacity among Bhutanese citizens. As a result, ICT projects in Bhutan often receive infrastructure support, tax incentives, and institutional assistance from the government.

Overall, the findings suggest that Bhutan’s FDI strategy is characterized by sectoral prioritization, sustainability screening, and alignment with the GNH framework rather than unrestricted investment liberalization.

5. Discussion

The research found that, after reviewing critical reports and stakeholder interviews, there are selective investment opportunities in Bhutan. Among many investment opportunities in Bhutan, the top-priority sectors where the government provides grants and infrastructure support include investment in renewable natural resources, tourism and hospitality, and ICT-related investments. These sectors are termed “Top Tier” due to their immediate approval and minimal regulatory barriers. While other investments are less encouraged, the government maintains a cautious stance.

There is growing literature on FDI in emerging economies, yet several gaps remain. Many studies suggest that FDI is primarily shaped by economic growth considerations, while country’s own identity, culture and values are mostly ignored. Additionally, there are relatively few studies carried out to explore the cases of Bhutan, which recently graduated to an emerging economy, where economic development is explicitly driven by the development philosophy known as Gross National Happiness (GNH).

The research addresses these gaps through a pragmatic analysis of the FDI’s landscape in Bhutan from a broader context, examining ongoing investment trends and how the development philosophy of GNH influences investment decisions. The findings offer distinctive insights for other emerging economies, demonstrating that FDI is possible without compromising the environmental degradation, cultural integrity, and sustainability. The objectives and findings of the research align with the specific research topic, showing that FDI is feasible in Bhutan, but GNH acts as a screening mechanism that determines the type of FDI inflows allowed in the country.

Future research should adopt a mix of both qualitative and quantitative methods to grasp more precise results, as most FDI projects proposed in recent years will soon become operational and mature. This will enable not just FDI alignment with development goal of Bhutan but also to assess the economic growth in real terms. Future researcher may also broaden their scope by including other sectors beyond the three priority areas to make comparative analyses and provide alternative recommendations for the government to address potential loopholes and shortcomings.

The findings support the argument of Narula (2020) that institutional frameworks significantly influence the development impact of foreign direct investment. Unlike many emerging economies that pursue liberal investment policies, Bhutan’s selective investment strategy reflects a governance model that prioritizes social and environmental sustainability.

6. Conclusion

The study finds that Foreign Direct Investment (FDI) is feasible in Bhutan, although it is carefully guided by the country’s development philosophy of Gross National Happiness (GNH). The Bhutanese government selectively screens foreign investments to ensure alignment with long-term sustainability, environmental protection, and the preservation of culture and tradition.



As a result, most approved investments are concentrated in priority sectors such as renewable energy, tourism and hospitality, and information and communication technology (ICT). These sectors receive relatively stronger institutional support and policy facilitation because they align closely with Bhutan's national development goals. Although Bhutan faces structural challenges such as a small market size, limited human capital, and emerging investment frameworks, its cautious and sustainability-oriented investment approach provides useful insights for other emerging economies.

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