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An Assessment of Outcomes and Objectives of Bhutan Foreign Direct Investment Policy 2019

Indraman Chhetri[*] *& Karma Wangmo*[+]

Abstract

Foreign Direct Investment plays a crucial role in economic development. Therefore, assessing Foreign Direct Investment policy effectiveness is essential to understand its impact on growth. This study assesses whether Bhutan's Foreign Direct Investment Policy 2019 achieved its six Gross National Happiness (GNH)-aligned objectives. Employing an explanatory sequential mixed-methods design, data were collected from seventy stakeholders including foreign investors, local partners, Invest Bhutan officials, and potential investors through a structured questionnaire incorporating both Likert-scale and open-ended items. Quantitative data were analyzed using descriptive statistics, while qualitative responses underwent thematic analysis. Findings reveal a policy of partial effectiveness. It successfully attracted investment in green energy and strengthened Brand Bhutan, with majority stakeholder agreement on both the objectives. However, the policy demonstrated critical shortfalls in promoting culturally and spiritually sensitive industries and fostering a knowledge society through technology transfer. The study identifies an implementation gap—the policy creates a permissive environment but lacks orchestration mechanisms to channel investment toward its most ambitious objectives. Recommendations include mandatory environmental, social and governance reporting; targeted promotion of Gross National Happiness-aligned investment niches; mandated knowledge transfer partnerships; and enhanced institutional capacity.

[*] Professor, Royal Institute of Management, Thimphu, Bhutan. Email: indragura@gmail.com.
[+] Assistant Industries Officer, Ministry of Industry, Commerce and Employment (MoICE), Thimphu, Bhutan: Email: karmawangmo132@gmail.com

This research provides empirical assessment of Bhutan's values-driven Foreign Direct Investment policy, offering actionable insights for small economies seeking to align foreign investment with holistic development philosophies.

Keywords: Foreign *Direct Investment; Bhutan Foreign Direct Investment Policy 2019; Gross National Happiness; policy effectiveness; implementation gap; green economy; knowledge transfer; Brand Bhutan; sustainable development; mixed-methods evaluation.*

Introduction

The role of Foreign Direct Investment (FDI) in the growth process of a country has been a widely debated topic in several countries including Bhutan. The Royal Government of Bhutan has increasingly realized that FDI is a crucial source of capital, technology and, most importantly, access to the international market contributing to the country's growth and development (World Bank, 2020). Bhutan's approach to FDI has evolved over time reflecting its development philosophies, priorities and strategies. Overall, the history of FDI in Bhutan reflects a journey from isolation to gradual openness, with ongoing efforts to create a conducive environment for foreign investment. Bhutan started its modern development process in the 1960s and opened up to foreign assistance and investment, especially in infrastructure and hydropower projects, which laid the groundwork for future FDI (World Bank, 2014).

Since the inception of the FDI policy in 2002, Bhutan's FDI policy has been revisited several rounds, with the last revision undertaken in 2019. Bhutan's first FDI policy came into effect in 2005 which encouraged foreign investment to sustainable development and economic diversification, provided incentives, such as tax holidays and customs duty exemptions, to attract foreign investors, particularly in priority sectors like hydropower, tourism, and agriculture and established guidelines for foreign investors including the requirement for a minimum investment threshold and the need for project approval from the relevant government authorities (FDI Policy, 2005). The FDI Policy 2010 introduced a "negative list" to restrict foreign investment in selected sectors, while permitting up to 100% foreign ownership in others, including education, health, and tourism (Royal Government of Bhutan, 2010). Further, it emphasized attracting investments to promote a green and sustainable economy, gave preference to socially responsible and ecologically sound industries towards attracting investments to promote Bhutan's brand and its unique identity, particularly in sectors that align with the country's development goals, simplified the investment approval process, and created provision for incentives for foreign investors, such as tax holidays and customs duty exemptions, particularly in priority sectors that align with national development objectives (Royal Government of Bhutan , 2010). Bhutan continued to refine its FDI policies in 2010 and 2019 with a focus on sustainable and responsible investment that aligns with the country's unique development philosophy, Gross National Happiness (GNH).

While Bhutan's Foreign Direct Investment (FDI) Policy of 2019 was designed as a strategic framework to align capital inflows with national priorities such as Gross National Happiness (GNH), green growth, and infrastructure development, its practical effectiveness has not been systematically assessed. The policy introduced a more refined regulatory environment and a range of incentives including tax benefits for sustainable projects—to direct foreign investment toward priority sectors (Royal Government of Bhutan, 2019). Although the Government of Bhutan has since issued updated FDI Rules and Regulations in 2025, there remains a notable lack of detailed, evidence-based evaluation of the 2019 policy's outcomes, particularly from the perspective of foreign investors.

This study seeks to address this gap by examining the implementation and perceived effectiveness of the FDI Policy 2019. Specifically, it aims to assess the extent to which the policy translated its strategic objectives into tangible outcomes for both foreign investors and the Bhutanese economy.

- To guide this inquiry, the research focuses on the following three questions:
- To what extent did the FDI Policy 2019 succeed in attracting and facilitating investment in green and sustainable economic projects?

- How effectively did the policy contribute to strengthening "Brand Bhutan" by promoting investments aligned with the country's unique cultural and environmental identity?
- What role did the policy play in facilitating meaningful knowledge and technology transfer from foreign enterprises to the local economy and workforce?

Literature Review

Definition and Concept of FDI

Foreign Direct Investment (FDI) is formally defined as a cross-border investment made by a resident entity (the direct investor) in one economy with the objective of establishing a lasting interest in an enterprise located in another economy (OECD, 2008). A lasting interest implies a significant degree of influence and is typically reflected by ownership of at least 10% of the voting power in the enterprise. In the Bhutanese context, an FDI company is legally recognized as a business incorporated domestically where 20% or more of the equity is held by foreign investors. For individual foreign investors, a minimum 10% equity stake is required, while for institutional investors, the threshold is also set at 10% (Foreign Direct Investment, 2019).

Bhutan's approach to FDI is uniquely guided by its foundational philosophy of Gross National Happiness (GNH). The FDI Policy of 2019 explicitly stated that its purpose was to "maximize the happiness of all Bhutanese" by operationalizing the nine domains of GNH, including living standards, ecological resilience, cultural vitality, and good governance. Consequently, FDI is strategically channelled to contribute to six priority areas: (i) developing a green and sustainable economy, (ii) promoting socially responsible and ecologically friendly industries, (iii) advancing culturally and spiritually sensitive industries, (iv) promoting Brand Bhutan, (v) creating a knowledge society, and (vi) diversifying the economy for exports and import substitution (FDI Policy, 2019).

Determinants of FDI Inflows

The flow of FDI into a host country is influenced by a complex interplay of factors. Research indicates that political stability, democratic governance, trade openness, and economic liberalization are significant positive determinants (Büthe & Milner, 2014). A study of 122 developing countries from 1970–2000 further underscores that domestic policy reforms aimed at trade liberalization and participation in international trade agreements are among the most impactful drivers for increasing FDI inflows (Büthe & Milner, 2008).

From a policy perspective, traditional tools to attract FDI include fiscal incentives such as tax holidays, import duty exemptions, and direct subsidies (Sahoo, 2006). However, contemporary strategies extend beyond incentives. The OECD (2002) emphasized that while factors like market size are fixed, governments can significantly enhance the enabling environment by improving infrastructure, facilitating integration into global trade systems, and developing national competencies. This view is supported by Brooks & Sumulong (2003), who stressed the importance of holistic policies to maximize the developmental benefits of FDI. The global trend since the 1990s has been a marked liberalization of FDI regimes, with governments recognizing its potential for economic development and poverty reduction (Borensztein et al., 1998; Safarian, 1999).

Impact of FDI on Host Economies

Empirical evidence across diverse economies confirms that FDI can generate substantial positive spillovers. At the firm level, foreign ownership is frequently associated with higher productivity, improved wages, and greater export orientation. Studies in the UK, Indonesia, and the Czech Republic have found foreign-owned or acquired firms to be more productive and to offer better employment terms compared to domestic firms (Harris & Robinson, 2003; Arnold & Javorcik, 2009; Arnold et al., 2011). Productivity spillovers to domestic firms are also evident, as seen in Bangladesh and Ghana, where local companies benefit from linkages with foreign enterprises (Kee, 2015; Görg & Strobl, 2005).

At the macro level, FDI can catalyse export diversification, job creation, and knowledge transfer. Research on China and Brazil shows FDI's role in forging new export connections and raising wages (Swenson, 2008; Poole, 2013). The historical experiences of South Korea and Taiwan are particularly instructive; through strategic policies that coupled incentives with strict performance requirements (e.g., technology transfer), they leveraged FDI to achieve rapid industrialization and dramatic increases in per-capita income within decades (Chang, 2004). These cases highlight that the developmental impact of FDI is not automatic but is contingent on deliberate and strategic host-country policies.

FDI in Bhutan: Policy, Trends, and the Identified Gap

Despite a progressive policy framework aligned with GNH, Bhutan's FDI inflows remain modest. Data from UNCTAD (2024) and the World Bank (2024) show inflows of just USD 12–15 million in 2023, underscoring a persistent challenge in attracting foreign capital. While reports acknowledge ongoing efforts being made to streamline the approval processes and facilitate better business climate (World Bank, 2020), challenges in the form of structural barriers and a small market continue to pose significant hurdles (ADB, 2024).

There is a clear policy-performance disconnect from the literature. Globally, evidence highlights the importance of strategic, evidence-based policy to harness FDI (Hardman, 2019). In Bhutan, while the objectives of the 2019 FDI Policy are well-defined and ambitious, there is a lack of empirical assessment as to whether these objectives are being materialized or not. Existing literature and reports focus on quantifying low inflows or describing policy provisions but do not systematically evaluate the effectiveness of the policy against its own stated GNH-aligned goals. Questions remain unanswered: Is the policy effectively channelling investment into a green economy or culturally sensitive industries? Is it fostering a knowledge society or meaningful economic diversification? Therefore, this study addresses a vital gap: the absence of a comprehensive, evidence-based evaluation of the effectiveness of Bhutan's FDI Policy 2019 in achieving its six unique intended objectives. By investigating this, the research provided crucial insights to bridge the divide between policy intent and developmental outcomes, informing future reforms to better leverage FDI for Bhutan's sustainable and happiness-centric development.

Methods

An Explanatory Sequential Mixed-Methods Design

To address the gap in empirical assessment of Bhutan's 2019 FDI Policy against its stated GNH-aligned goals, this study employed an explanatory sequential mixed-methods design (Creswell & Plano Clark, 2018). This method was selected for its methodological rigor in first quantifying the broad patterns of stakeholder perceptions and then using qualitative data, collected via open-ended questions within the same survey instrument, to explain, contextualize, and provide deeper meaning to statistical results.

The quantitative part involved collecting numerical data on stakeholder perceptions regarding the FDI policy's effectiveness across various GNH-aligned objectives. This provided a broad understanding of the current state and identified key areas of agreement and disagreement. The subsequent qualitative phase, building upon these quantitative findings, involved in-depth exploration through the analysis of open-ended responses. This allowed for a nuanced understanding of the reasons behind the observed perceptions, uncovering underlying factors, challenges, and opportunities that quantitative data alone could not fully capture. The integration of both quantitative and qualitative data at the interpretation stage provided a comprehensive and robust understanding of the FDI policy's impact.

Target Population, Sampling Strategy, and Sample Size

The target population was strategically stratified into four key stakeholder groups central to the FDI ecosystem, ensuring a holistic assessment:

- Officials from the Invest Bhutan Division (the policy implementers).
- Foreign business investors with active FDI projects.
- Local Bhutanese partners in FDI ventures.
- Applicants with FDI proposals under process.

A stratified random sampling technique was used to ensure representation from each subgroup. For the primary groups of foreign investors and local partners (combined N=149 as of June 2023), the sample size was calculated using Taro Yamane's formula at a 95% confidence level with a 5% margin of error, yielding a minimum of 109 respondents. For the smaller, more focused groups of government officials and pending applicants, a census approach was adopted to capture the complete perspective of these critical informants.

Data Collection, Validation and Analysis

A structured questionnaire was developed for this study, as no existing instrument adequately measured the GNH-aligned effectiveness of FDI policy. The questionnaire was structured in four sections:

- Section A: Demographic information of the respondents.
- Section B: Core Effectiveness Metrics: Employed a five-point Likert scale (1=Strongly Disagree to 5=Strongly Agree) to measure stakeholder perceptions across policy domains derived from the 2019 policy's own objectives.
- Section C: Included open-ended questions for qualitative elaboration.
- Section D: General views of the respondents.

The questionnaire was pilot tested with a representative pilot group of 5 respondents. The final instrument was revised based on the feedback of the pilot study and circulated to the target participants. A total of 70 participants responded to the survey questionnaire. Most of the respondents were from Thimphu, Paro and Chukha Dzongkhags as majority of the FDI projects are located in these Dzongkhags (Districts). Table 1 provides the general demographic background of the respondents. The highest number of respondents were the foreign partners (60%) followed by local partners (22.9%), employees working in the Invest Bhutan Division (8.6%) and potential FDI investors (8.6%) who were processing their new businesses.

Table 1

Demographic Information of the Respondents

Variables	Category	(n=70)	(%)
Gender	Male	40	57.1
	Female	30	42.9
Age	20-30	20	28.6
	30-40	26	37.1
	40-50	16	22.9
	50 and above	8	11.4
Education	Higher Secondary School	4	5.7
	Bachelor's Degree	38	54.3
	Master's	18	25.7
	PhD	2	2.9
	Others	8	11.4
Organization	Public	10	14.3
	Private	56	80.0
	Others	4	5.7
Target population	Invest Bhutan Officials	6	8.6
	Foreign Partners (FDI)	42	60.0
	Local Partners	16	22.9
	Potential FDI Investors	6	8.6

Quantitative data from Sections A and B were coded, entered, and analysed using IBM SPSS Statistics (Version 28). Descriptive statistics including frequencies, means and standard deviations were used to summarize the views of the respondents. Subsequently, the open-ended survey responses from Section C were analysed using thematic analysis, following the six-phase approach outlined by Braun & Clarke (2006). This involved a systematic process of familiarizing with the data, generating initial codes, searching for themes, reviewing and refining themes, defining and naming themes, and producing the report. This qualitative analysis provided rich, explanatory insight into the quantitative data, helping to understand the "why" behind the observed patterns and to contextualize the statistical findings within the broader stakeholder experiences.

Ethical Considerations

The study adhered to standard ethical protocols. All participants were informed about the purpose of the study, their voluntary participation, and their right to withdraw at any point without penalty. Anonymity and confidentiality were maintained throughout the study by ensuring that no personally identifiable information was collected or linked to responses. All data was stored securely and accessed only by the research team.

Results and Findings

This section presents the empirical data collected from stakeholders regarding the effectiveness of Bhutan's FDI Policy 2019 across its six stated objectives. This quantitative data is supplemented by key qualitative insights from open-ended survey responses and interviews.

Effectiveness of Foreign Direct Investment

The overall effectiveness of Bhutan's FDI policy 2019 is assessed in terms of its contribution to: (i) development of green and sustainable economy, (ii) promotion of socially responsible and ecologically friendly industries, (iii) promotion of culturally and spiritually sensitive industries, (iv) promotion of Brand Bhutan, (v) creation of a knowledge society; and (vi) diversification of the economy for exports and import substitution.

In general, majority of the respondents (69%) believed that Bhutan's FDI policy is effective while 31% disagreed with this view as shown in Figure 1.

FDI Contribution to the Development of a Green and Sustainable Economy

Development of a green and sustainable economy is identified as a priority area in the FDI Policy of Bhutan. Foreign Direct Investment (FDI) has significantly influenced the advancement of a green and sustainable economy in Bhutan. Figure 3 represents the views of the respondents on Bhutan's FDI policy's contribution to the development of a green and sustainable economy.

Figure 1

Respondents' Views on the Effectiveness of Bhutan's FDI Policy

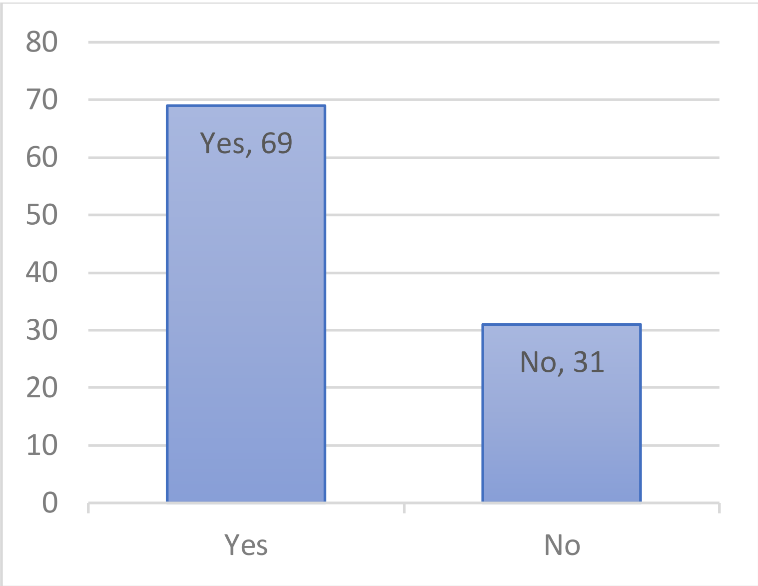
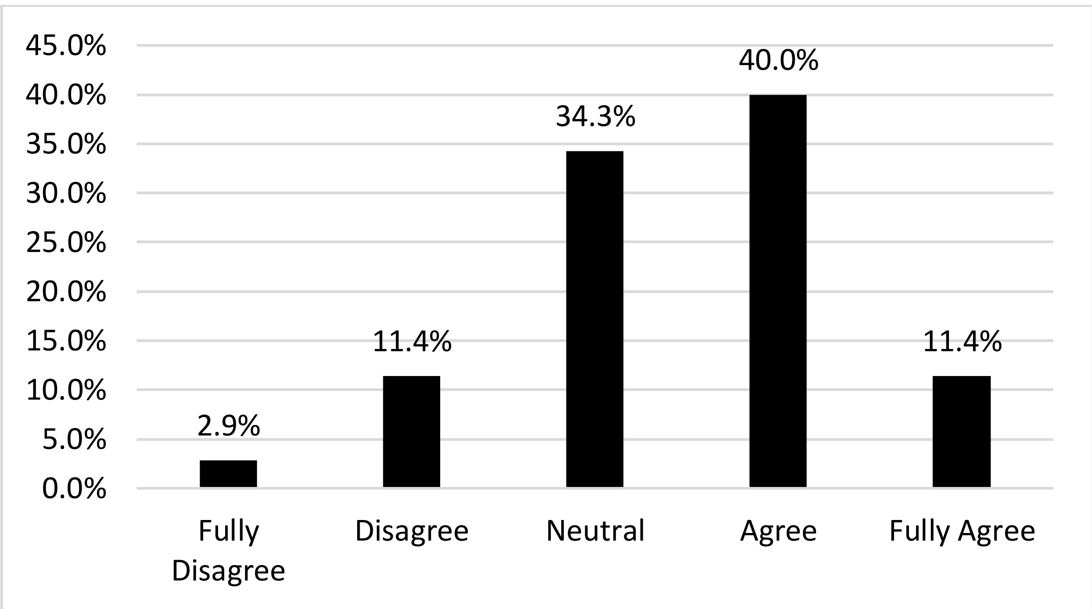


Figure 3

Respondents' Views on the Contribution of Bhutan's FDI Policy to the Development of a Green and Sustainable Economy



As seen above, 51.43% of the respondents agreed (40% agreed and 11.43% fully agreed) that FDI policy positively contributed to the development of a green and sustainable economy in Bhutan. The finding showed that there is no absolute consensus among FDI operators on the contribution| of FDI policy to a green and sustainable economy. According to the feedback obtained from the respondents, many of the hydropower initiatives in Bhutan have benefited from FDI, which bolstered the country's renewable energy capabilities. Bhutan exports excess electricity to India besides meeting its domestic needs, thereby strengthening its economic resilience. The country is also pursuing the development of solar energy to diversify its energy mix, as reflected in the partnership between Reliance Power and the Royal Government of Bhutan, which focuses on developing large-scale solar projects alongside existing hydropower initiatives.

Contribution to the Promotion of Culturally and Spiritually Sensitive Industries

Figure 5 illustrates stakeholder perceptions regarding the policy's contribution to culturally and spiritually sensitive industries. The findings reveal a significant shortfall: 40% of respondents disagreed (25.71% strongly disagreed, 14.29% disagreed) that the policy effectively promotes these sectors, while only 25.72% agreed (14.29% strongly agreed, 11.43% agreed). A substantial portion (34.29%) remained neutral.

Contribution of FDI to the Promotion of Brand Bhutan

This section examines whether Bhutan’s FDI policy reinforces and enhances the positive perception of Brand Bhutan or if there are any areas where alignment could be improved.

Figure 5

Responses on the contribution of Bhutan's FDI Policy to the promotion of culturally and spiritually sensitive industries

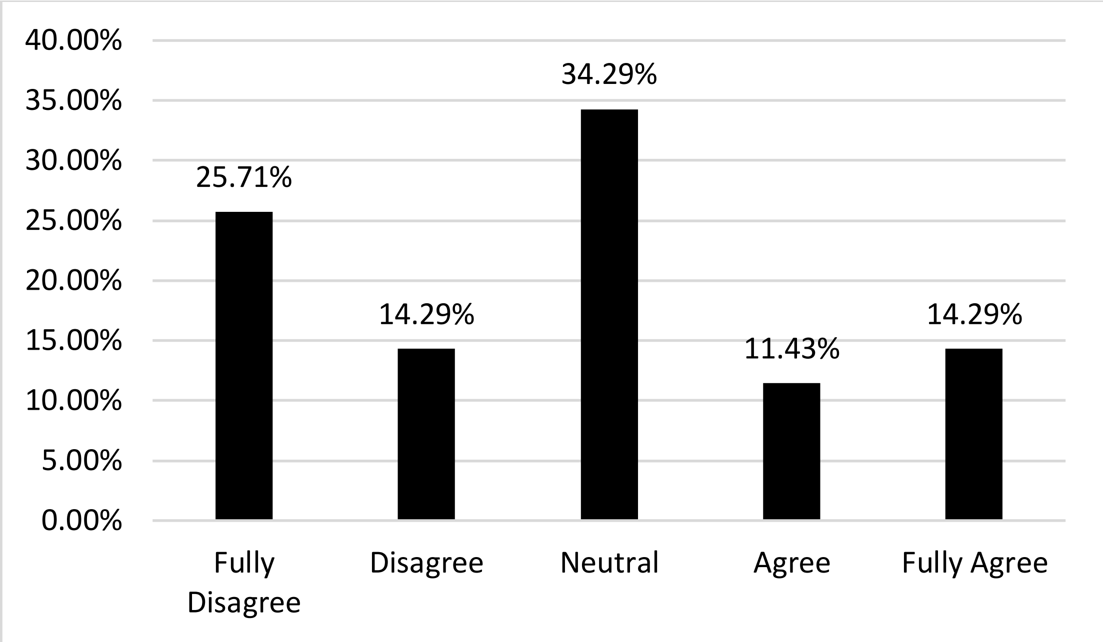
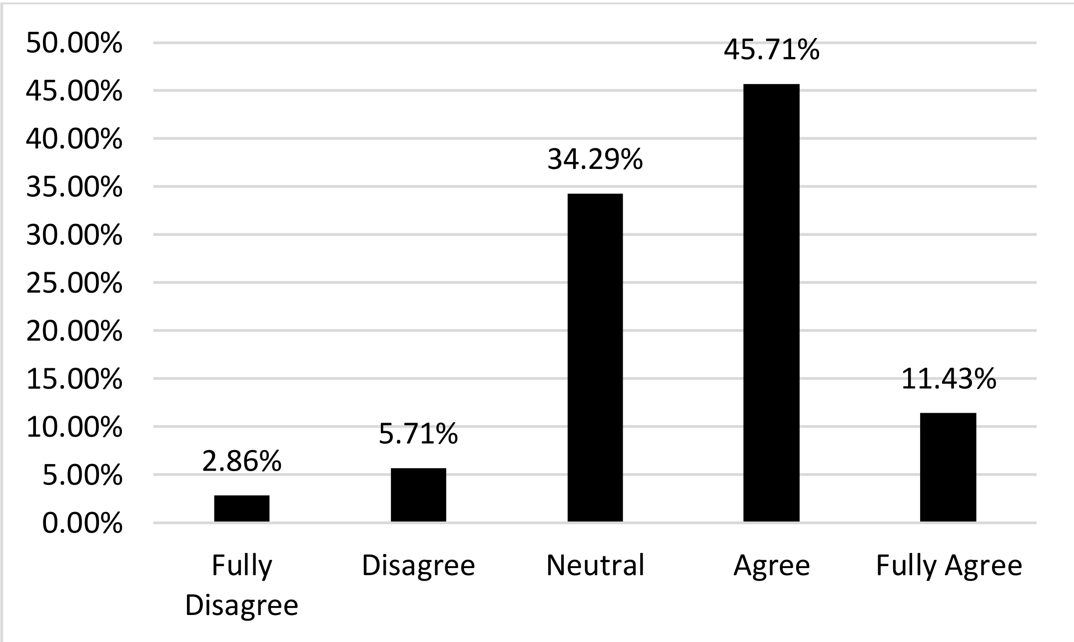


Figure 6

Responses on the Contribution of Bhutan's FDI Policy to the Promotion of Brand Bhutan

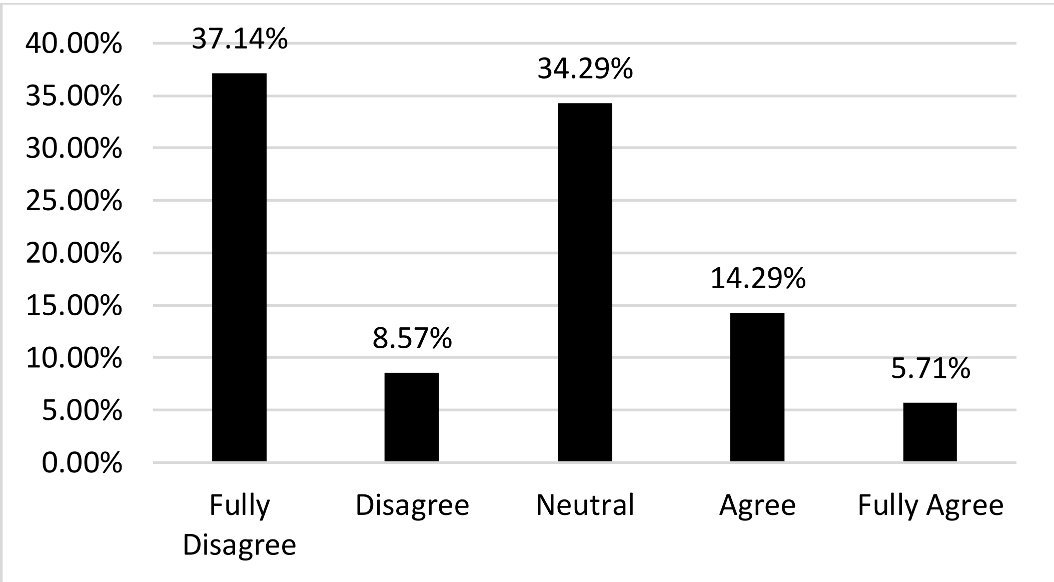


57.14% of the respondents agree (11.43% fully agree and 45.71% agree that Bhutan's FDI policy promotes Brand Bhutan. Only 8.57% disagree (5.71% disagree and 2.86% fully disagree) on the above statement. While supporting their views, most of respondents cited the examples of FDI projects supporting unique selling points of Bhutan such as carbon-negative country, GNH and pristine environment which are seen as attractive to foreign investors, particularly in tourism and agro-processing industries.

Figure 7 represents the responses on Bhutan's FDI policy's contribution to the creation of the knowledge society. Respondents were asked to give their views on the extent of contribution made through the initiatives FDI projects towards the promotion of education, research, technological advancement and the dissemination of knowledge.

Figure 7

Responses on the Contribution of Bhutan's FDI Policy to the Creation of the Knowledge Society.



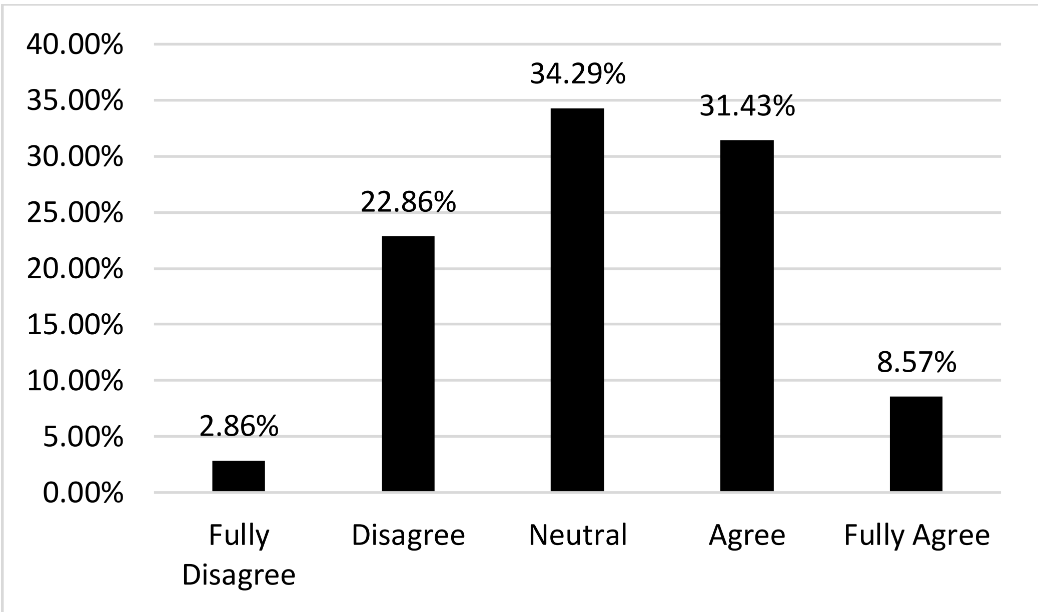
Only 20% of the respondents agreed that FDI projects had supported in the creation of knowledge society while 45.71% of the respondents disagreed (37.14% fully disagreed and 8.57% disagreed). Respondents expressed that the FDI policy has not attracted many innovative investments that would result in the transfer of knowledge and technology to sectors where Bhutan's economy could leverage such as advancements. An official from Invest Bhutan division stated that despite having education and health in the priority list, no FDI companies showed interest to invest in this area which could be due to the sector's own policy matter. Further, the official remarked "Not much could be done in the creation of a knowledge society in the past through the FDI mainly due to lack of competent staff." Another one remarked as "The leveraging of Bhutan's FDI policy to accelerate the creation of a knowledge society is limited or yet to materialize.

Contribution of FDI to the Diversification of the Economy for Exports and Import Substitutions

Most of the respondents agreed that the FDI policy had a significant impact on sectoral development and diversification in Bhutan. Figure 8 represents the responses on Bhutan's FDI policy's contribution to the diversification of the economy for exports and import substitutions.

Figure 8

Responses on the Contribution of Bhutan's FDI Policy to the Diversification of Economy for Exports and Import substitutions



Some of the common examples highlighted by the respondents were the investments in the hotels/ resorts, information technology/ information technology enabled services (IT/ ITES), power-intensive manufacturing, financial services, pharmaceutical manufacturing and agro-based industries, such as food processing and value-added agro-processing, which have contributed to the export of processed food products.

Discussions

The discussion is structured around the study's three guiding research questions, interpreting the data within the context of the literature. It reveals a FDI policy characterized by partial successes in realizing its intended goal besides leaving a significant gap in its actual implementation.

A Green Intent with Obscure Indicators of Measurement

The first research question examined the policy's success in attracting green and sustainable investment. The finding that 51.43% of stakeholders acknowledge its contribution is a modest affirmation, largely based on visible projects in hydropower and nascent solar energy. However, the strikingly high neutral response (34.29%) signals a significant ambiguity. As one respondent noted, the absence of mandatory reporting makes it "hard to provide examples with concrete evidence."

This ambiguity directly reflects a theoretical weakness identified in the literature. Randaccio (2012) argues that the environmental impact of FDI often remains obscure without standardized metrics. Bhutan's policy, although strong on their intent, lacks operational frameworks to define, measure, and incentivize "green" investment. Consequently, its benefits are not systematically captured or maximized, preventing the kind of targeted impact in the field of environmental governance as envisaged by the policy. The effect, as the data suggests, is a diffuse awareness of green FDI rather than a strategically managed outcome.

Brand Bhutan with Untapped Potential

The second question assessed how FDI enhances Brand Bhutan. With 57.14% agreement, this appears to be the policy's clearest success. Stakeholders consistently cited Bhutan's carbon-negative status and GNH philosophy as unique attractors, confirming the power of its brand in sectors like tourism. This aligns with UNCTAD's (1997) emphasis on image-building as a core investment promotion tool.

Yet, this strength is paradoxically underutilized. The policy successfully uses the brand to attract general investment but fails to use it as a strategic filter to attract *specific*, high-value investments. The literature by Siegel et al. (2013) indicates that investors prefer culturally familiar environments. Bhutan's profound failure to promote culturally and spiritually sensitive industries as evidenced by the lowest agreement rate (25.72%) and widespread investor unawareness represents a major strategic oversight in the past. However, with the initiation of Gelephu Mindfulness City (GMC), the nation is targeting investors in Buddhist wellness, spirituality, traditional medicine, or ethical artisanry, thereby harnessing the opportunity to convert its unique cultural brand into a specialized economic niche that would yield deeper alignment and likely greater investor commitment in the immediate future.

A Critical Implementation Gap in Knowledge Transfer

The third question, concerning knowledge and technology transfer, reveals the policy's most critical shortcoming. The overwhelming disagreement (45.71%) that it fosters a knowledge society points to a fundamental design flaw. Qualitative findings from officials confirm that priority sectors like education and health have attracted virtually no FDI in the past, although injection of new technology and collaboration would drastically enhance the quality of education and health services. The disagreement on the knowledge transfer even from the other existing FDI projects could also be attributed to the lack of proper system in place at the implementation level.

This failure highlights a stark contrast with proven international models. The literature review showcased how South Korea and Taiwan (Chang, 2004) achieved rapid development by coupling FDI with stringent performance requirements, mandating joint ventures, and facilitating technology spillovers to domestic firms. Bhutan's policy, in contrast, is largely passive and incentive-based. It hopes for knowledge transfer but does not actively engineer it through partnership mandates, R&D co-investment, or structured linkages between foreign firms and local institutions. This aligns with Cirera & Maloney's (2017) "innovation paradox," where emerging economies remain stuck in a cycle of low-value investment because policies do not forcefully catalyze the shift to a knowledge-based economy. The result is that FDI remains an isolated capital inflow rather than a catalyst for domestic capability building.

A Disconnect Between Policy Intent and Implementation

Together, these interpretations resolve the central paradox noted in the results: a policy perceived as transparent and moderately effective, yet one associated with low investment volumes and unmet strategic goals.

The policy successfully creates a permissive and attractive environment, as evidenced by strong scores for clarity and brand alignment. However, it lacks in its implementation and facilitative instruments needed to channel investment into its most ambitious objectives. It sets goals for a knowledge society and cultural promotion but relies on hope rather than mechanism. As Brooks & Sumulong (2003) and the OECD (2002) emphasize, maximizing FDI's developmental benefits requires a holistic and strategic enabling environment that goes beyond incentives to include active industry policy and institutional linkages.

Therefore, the policy's middling effectiveness is not a failure of vision but of execution. It establishes a credible platform but does not provide the specific pathways—the measurable green metrics, the targeted cultural-industry promotions, the mandated technology partnerships—required to transition from attracting general investment to strategically cultivating transformative, GNH-aligned capital.

Conclusion and Forward-Looking Implications

In conclusion, the 2019 FDI Policy established a necessary and philosophically coherent foundation but could not fully leverage Bhutan's unique brand identity for economic gain. Yet, to truly "hit its intended objectives," the future FDI policy must evolve from a framework of attraction to one of orchestration.

Based on the findings and discussion, the following recommendations are proposed to enhance the effectiveness of Bhutan's FDI policy in achieving its GNH-aligned objectives.

Introduce Mandatory ESG and Green Impact Reporting

To address the ambiguity surrounding green investment outcomes, Bhutan should introduce mandatory environmental, social, and governance (ESG) reporting requirements for FDI projects with clear indicators such as carbon impact, renewable energy use, waste management, and biodiversity conservation. This would transform green FDI from a symbolic commitment into a measurable policy objective. The government should also establish a centralized monitoring system to track environmental performance.

Promote GNH-Aligned Investment Niches

Rather than promoting FDI broadly, Bhutan should actively target niche sectors aligned with its GNH philosophy. These include wellness tourism, spiritual retreats, traditional medicine, ethical craftsmanship, sustainable agri-processing, and mindfulness-based services. Tailored incentive packages, sector-specific promotion campaigns, and dedicated facilitation units should be developed to attract investors who are culturally aligned and more likely to make long-term commitments. The Gelephu Mindfulness City initiative presents a strategic opportunity to pilot this targeted approach. Furthermore, the government should develop clear criteria for what constitutes "GNH-aligned investment" and create a distinctive certification or branding mechanism to differentiate such investments in regional and global markets.

Strengthen Knowledge and Technology Transfer Mechanisms

To overcome the knowledge transfer gap, the FDI policy should move beyond voluntary spillovers toward mandated knowledge-sharing arrangements. This can be achieved by requiring structured partnerships between foreign investors and local institutions, including joint ventures, formal training programmes, internship pipelines, research collaborations with Bhutanese institutions and supplier development programmes. Incentives should be explicitly linked to demonstrated knowledge sharing as measured through metrics such as number of local staff trained, patents co-developed, research publications, or technology adoption rates rather than capital inflows alone. The policy should also consider establishing an FDI knowledge transfer fund to support such collaborations.

Strengthen Institutional Capacity for Policy Implementation

Several gaps identified in the findings stem from limited institutional capacity within key implementing agencies. Strengthening agencies such as Invest Bhutan through targeted staffing, specialized technical training, enhanced inter-agency coordination, and adequate resourcing would significantly improve policy execution. A dedicated monitoring and evaluation unit should be established within the Ministry of Industry, Commerce and Employment (MoICE) to track policy performance across green impact, cultural alignment, and knowledge transfer objectives. Additionally, establishing a "GNH Industry Fund" could provide targeted financial support for FDI projects that demonstrate exceptional alignment with multiple GNH domains, thereby incentivizing quality over quantity in investment attraction.

Enhance Stakeholder Communication and Awareness

The finding that some stakeholders were unfamiliar with the "Brand Bhutan" concept highlights a broader communication gap. The government should develop comprehensive communication strategies to ensure that both domestic and foreign investors clearly understand Bhutan's unique value proposition, policy priorities, and available incentives. Regular stakeholder consultations, investment forums, and targeted informational campaigns could bridge this awareness gap and ensure that policy intentions are effectively transmitted to potential investors.

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