

Tourism and Hotels

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Retired teacher and businesswoman, Kencho, planned to build a huge residential complex in Babesa, along the expressway. With a shopping complex on the ground floor, she would never have problems finding tenants.

Then the idea changed. Three factors convinced her.

There is a cap on construction loans, and interest rates are high. A rough calculation showed that Kencho would be using all her rental income to repay her loan for the next 25 years. Her daughter was unemployed. She wanted to study hospitality.

Kencho decided to convert the massive five-storey structure into a 3-Star hotel. There were many advantages.

The conversion was not a difficult procedure, and the lending rates were a lot cheaper (eight percent compared with 12 percent for an apartment/commercial building). There was a subsidy and tax holiday. All the interior furnishings could be imported from India, Thailand, and China tax-free.

The hotel will be ready by the end of this year. Kencho is confident that it will do well.

When reminded of the five other three-star rated hotels within a square kilometre of hers, she paused. She was aware of that. Half of her building, minus the 30-room hotel, will be commercial space. “I can fall back on them to repay the loan,” says Kencho, who is also a single mother.

The hotel, not named yet, will be the latest addition to the five already operating in her locality in South Thimphu.

In the locality, planners initially had a different concept of development when the capital city’s structural plan was finalised almost two decades ago. It was supposed to be an urban village with amenities like clinics, nursery schools, solid waste disposal sites, fire fighting units, and more. There are none of those today. Plans, it seems, are reversed by landowners’ decisions. Constructing hotels is one.

A Vibrant Industry

The hotel industry is one of the fastest growing industries today. In the last six years, the sector grew by over 124 percent with an annual growth rate of over 14 percent during this period (HRAB, 2019). It claims to be the biggest employer of youths. According to the Hotels and Restaurants Association of Bhutan (HRAB), the hotel industry has provided direct jobs to more than 10,000 people as of March, 2019.

The industry had grown overnight. Going by building proposals the Thimphu thromde is approving, it is not going to stop. As of September, 2018, there were 276 hotels offering 5,868 rooms and 11,195 beds. The thromde approved another 50 constructions in 2017 and 2018.

About Nu 28 billion has been invested in the hotel sector so far. It is estimated that another Nu 3 billion worth of investments is underway.

It is not only in tourist hotspots like Thimphu and Paro. Many are lured into building hotels, including farmers who are waiting to turn their paddy fields into tourist resorts.

At Sophukha village, where tourists park their cars and walk through the paddy fields to the famous *Chime Lhakhang* (monastery), it is not only the tourists who are distracting farmers. Farmers envy those who bought parcels of their land and built hotels. At any given day, farmers are willing to build their own, or sell their land and “live more comfortable lives”.

What is Fueling the Growth?

The trend today seems to be investing in hotels. This is driven by the lure of dollar-paying tourists, where the income is better. The Tourism Council of Bhutan mandates that a hotel has to be at least 3-Star to cater to dollar-paying tourists. There were only 45 3-Star hotels in 2012. The number more than doubled in less than six years. As of September 2018, there are 105 hotels in the country.

Our policies favour the hotel industry. Banks give them generous loans with interest rates far lower than for constructing residential buildings, even when housing shortage is a major problem. It is no secret that bankers or promoters in the banking sector own or have shares in hotels.

About 24 percent of all credit in the country today has been extended to the service and tourism sector, of which a large majority is in the hotel sector (HRAB). As of August, 2019, one bank alone has lent about Nu 17B to the housing sector, construction of residential and commercial buildings, which includes hotels.

There is a moratorium on government construction, but the economic affairs ministry and the tourism council approve licences for new hotel constructions without a second thought. The Thromde believes that they “shouldn’t stop construction of hotels as long as they can be sustained, because the hotel industry is employing the highest number of youths.”

Even as new hotels are being built or approved, there is a new trend dictated by mass tourism -- the conversion of residential buildings into budget hotels.

In Phuentsholing, where an acute housing shortage has forced Bhutanese to live in shanties and cheap places in neighbouring Jaigaon, many residential buildings in the core area of the border town have been renovated and transformed into budget hotels in the last two years (Kuensel April 2019). Thromde records show that 15 new hotels were constructed in the last five years and 11 residential buildings were converted into hotels.

The vision of high value low volume tourism has been thrown out of the window. Numbers are now determining the success of the tourism industry. The unchecked number of tourists demands infrastructure. Hotels are high on the priority list. We have more than 5,000 today, and some are still waiting for their first group.

A Poor Rich Hotel Industry

A joke among Bhutanese is that those in the hotel business come with the grandest proposal before starting a hotel, only to come in flashy Prados to declare losses, year after year.

This is the biggest irony in the explosive and lucrative hotel industry. Going by statistics, it is thriving only because of tax holidays and other incentives at the cost of the government exchequer. The latest national revenue report (2017-2018) states that 55 hotels have declared losses or not declared their income. Among the 55, there are many well-established hotels, including five-star hotels. They are rich until it is tax time!

In the year 2017, revenue forgone through fiscal incentive measures and exemptions increased by 14 percent to Nu 4,442.6 million (from Nu. 3,901.1 million in the income year 2016) mainly on account of increase in sales tax by 16 percent and customs duty by 21 percent. Of the total, the highest tax forgone was from sales tax at 58.9 percent, followed by customs duty at 39 percent. A huge chunk, it would be accurate to surmise, is in the hotel industry.

In addition to a 10-year tax holiday, hotels enjoy exemption on import of sanitary wares, to luxury furniture and fittings imported from third countries. This is the reason most of Bhutan's foreign direct investment is in the hotel business. There is a policy to encourage private home ownership, but it is not working because they do not enjoy facilities like those in the hotel business.

There is no doubt that the industry is absorbing unemployed youth, contributing convertible currency to the government, and helping the tourism industry, but at the rate the hotel industry is booming the bubble, experts caution, will burst soon. This will have a ripple effect, as banks will be affected. The economic affairs minister, Lyonpo Loknath Sharma, soon after taking office, had warned of an economic crisis: "They (hoteliers) projected the demand but not the supply and if there is no solution, it would lead to an economic crisis."

On the outskirts of the capital city, a hotelier is worried about the monthly salary of her seven employees and a chef. The monsoon this year had been dry for her. Her 13-room hotel was not occupied in a month. She gave up a flat she had rented for laundry and store, had downsized her staff, and is in close contact with administration officers of the government and corporate offices in the city. When tourists are low, government meetings and seminars come as saviours!

There is a risk here. This arrangement could brew corruption. There is credible information on collusion with public servants who are paid commissions for booking hotels for seminars, official dinners, and meetings. In their line of business, it is called contact building or networking.

The unchecked growth of hotels, especially in places that are already crowded, like Thimphu, Paro, and Punakha, is exacerbating the low occupancy rate.

Mass Tourism and Hotels

From the records of tourist arrivals, it is the regional tourists who have dominated the market. In 2018, Bhutan received 274,097 tourists, out of which, about 73 percent, or 202,290, were regional tourists.

The hotel and the tourism industry are closely related. What happens in one affects the other. If travel agents are not bringing in guests, there would be no-one staying in the hotels. The low occupancy rate is already hurting those in the industry. There are many hotels to choose from, and this makes them vulnerable to the whims and fancies of the travel companies. There is an explosion of star-rated hotels, especially 3-Star, and those in the business are already feeling the heat.

To stay in the business, they cater to regional tourists (non-dollar paying). In fact, most hoteliers interviewed for this article said that, without regional tourists, they would have long gone out of business.

Regional tourists are important for the hotel industry. Even if they are not reaping the benefits like the tour operators, they would want the influx of regional tourists. This is notwithstanding concerns of regional tourism beginning to change the tourism scenario of Bhutan, of losing Bhutan's brand as an exclusive high-end tourist destination, and the end of the "high-value low-impact" vision.

In the absence of a tourism policy, the hotel industry is lobbying not to change the trend related to regional tourists. Regional tourists play a key role in ensuring the financial viability of the hotel industry.

In the regional tourist game, without regional tourists paying royalty or the minimum daily fee, tour operators make money from the hotel industry. Operators negotiate room rates and charge a higher rate to tourists. The profit is made from the difference, sometimes a few hundred Ngultrums. The margin is from volume, not from value.

Hotel occupancy by dollar-paying tourists is minimum. HRAB estimates it at around 16 percent, which is not financially viable for hotels. They need the regional tourists to improve occupancy rates.

HRAB is a close-knit association. They have common interests and they know how to lobby. In the absence of studies or surveys for decision making in the service sector, the association is influencing polices or decision makers.

They are recommending changes in tourism tariff as well as taxation policies and government subsidies. They are questioning immigration rules and regulations. Debunking the myth that fiscal incentives for hotels have led to revenue forgone for the government, the association claims that the fiscal incentives is the driver for the tourism sector, which helps the industry to grow at the rate of about 17 percent annually (HRAB 2019).

Although there is no evidence, some believe that the hotel industry has threatened political parties that industry members would not support them. The industry is also warning decision makers about geo-political ramifications of controlling the inflow of regional, especially Indian, tourists. “Bhutan would have too much to lose if India also reciprocates with a similar move on the movement of Bhutanese nationals in India.” (HRAB, 2019).

Conclusion

Tourism in Bhutan started in the 1970s. There is no written tourism policy even after five decades. Tourism developed in a sustainable and manageable way under the guidance of the farsighted visions of the Kings.

The industry is changing and under a lot of pressure. The sustainable tourism we took pride in for so long is under threat, as we are now lured by the temptations that mass tourism is offering.

The warnings are clear. We are losing our brand and our vision. Not long ago, tourists saw their visit to Bhutan as a trip to the last Shangri-La. It was an exclusive destination. They wanted to see the Shangri-La which isolated and exotic Bhutan presented.

The tone is now changing. Bhutan is losing its exclusivity. Every monastery, handicraft shop, and *tshechu* is crowded with tourists, to the extent that some are seeing the same face at all tourist hotspots.

Some big agents who send rich tourists to Bhutan are rethinking. They cannot sell Bhutan as an exclusive destination. Some are attracting tourists with their luxurious property, not with Bhutan.

The message is that there are too many tourists. The numbers may translate into revenue but there are costs that are beyond the revenue earned today.

A foreign tour operator who has been to Bhutan 39 times since 2001 announced that he is ending his tour as of April 2020. “A major part of the reason is that Bhutan has lost its appeal to high-end travellers who want to go to less travelled places, which Bhutan used to be.” (The Bhutanese, March, 2019).

The hotel industry might have helped create jobs and earn revenue for the government coffers but the trickle-down effect remains questionable. Apart from making some people in Thimphu rich, it has not benefited the rural populace. It makes no sense if remote communities do not benefit from tourism.

In 2018, 92.22 percent of regional tourists visited only five dzongkhags -- Thimphu, Paro, Wangduephodrang, Punakha and Bumthang. Tsirang’s and Samtse’s share of tourists was 0.1 percent. In 2018, only 24 tourists visited Dagana.

The risk of mass tourism can be summed up in the words of a tourist guide catering to regional tourists. “It is scary to see so many people flock to our lhakhangs and dzongs. From the recently built Kuensel Phodrang to the Taktshang, every place is crowded.”