A Study of Bhutan's Craft Retail Sector: Challenges, Practices, and the Path to a Dynamic and Sustainable Industry

by
Gopal Pradhan[1], Neten Wangchuk[2], Chador Tenzin[3] & Dorji Samdrup[4]

Background

Bhutan is internationally recognised for its unique culture and authentic handicrafts, which represent one of the country's strongest cultural and touristic assets. Alongside its pristine environment, Bhutanese culture including handicrafts is one of the key attractions that draws visitors to the country and is considered an integral part of the overall Bhutanese travel experience. Given that tourism is among the highest contributors to Gross Domestic Product (GDP) and a major source of foreign exchange earnings and employment, the craft sector's role extends well beyond retail commerce; it functions as a visible and tangible expression of Bhutanese identity and heritage to the outside world.

The craft industry supports a wide range of interdependent actors, including individual artisans, cooperative and producer groups, wholesalers and dealers, transporters and retailers. Each of these actors plays an important role in the value chain that ultimately brings a finished craft product from producer to consumer, and the health of the sector as a whole depends on the functioning of each of these links.

Despite its importance, the sector faces a number of significant concerns. Beyond the competitive pressure exerted by cheap imported craft products, the absence of a robust quality certification and product standardisation system limits the ability of local producers to differentiate themselves credibly in the market. Compounding this, the sector's fortunes remain heavily dependent on tourist arrivals, leaving it structurally exposed to fluctuations in tourism demand. Within this environment, certain practices have become common, including commissions paid to tour guides for referring tourists to specific shops, the misrepresentation of imported products as locally made, and price segmentation whereby different buyers are charged different prices for ostensibly the same product. While individually each of these practices may appear to be a rational response by retailers operating under competitive and financial pressure, collectively they pose a risk to the long-term reputation and trustworthiness of Bhutan's craft sector, with potential knock-on effects for the broader tourism brand of the country.

It is against this backdrop that this study was undertaken, with the aim of better understanding the structure, practices and challenges of the craft retail sector from the perspective of retailers themselves, and of identifying the actions that government and the private sector can take to enhance the dynamism, competitiveness and sustainability of the industry, while ensuring that consumers are protected and receive genuine value for money.

[1] Chief Program Officer, Consumer Empowerment & Economics Division, CCAA
[2] Assistant Program Officer, Consumer Empowerment & Economics Division, CCAA
[3] Assistant Program Officer, Consumer Empowerment & Economics Division, CCAA
[4] Assistant Program Officer, Consumer Empowerment & Economics Division, CCAA

Methodology

The study was based on a sample of 31 small-scale craft retailers located in Thimphu and Paro, two of Bhutan's most popular tourist destinations and the primary hubs of craft retail activity in the country. These two locations were selected given their high concentration of craft retail outlets and their significance as points of first and frequent contact between tourists and Bhutanese craft products.

Primary data was collected through a structured questionnaire administered to the sampled retailers, covering areas such as business profile and years of operation, the range of craft products stocked and their local or imported origin, sourcing channels, pricing practices, engagement with tour guides, and retailer perspectives on the challenges facing the sector and the role government could play in addressing them.

The data collected from individual questionnaires was aggregated and analysed to identify overall patterns and distributions across the sample, expressed as percentages of total respondents for each question. On some questions retailers were able to select more than one response, or the question applied only to the subset of retailers stocking a given product category; in these cases, percentages are expressed as a share of the relevant number of responses or respondents rather than of the full sample of 31, and this base is noted alongside the corresponding finding.

Given the concentration of craft retail activity and tourist footfall in Thimphu and Paro, the findings offer a meaningful and policy-relevant view of the issues facing the sector in the country, though the craft sector in more remote locations may face additional or different challenges and should be the subject of further study.

Results and Discussion

~ Profile of craft retail businesses

The findings indicate that craft retailing is a well-established and enduring business activity in Thimphu and Paro. A substantial majority of retailers (58%) have been in operation for more than ten years, while a further 32% have been in business for between two and ten years. Only a small proportion (10%) are relatively recent entrants, having operated for less than two years. This distribution suggests that craft retailing constitutes a stable and viable livelihood, one that encourages sustained investment and continuity within the sector rather than short-term or speculative entry. It also implies that most retailers have accumulated substantial first-hand experience of the sector's practices and challenges, lending weight to the perspectives captured in this study.

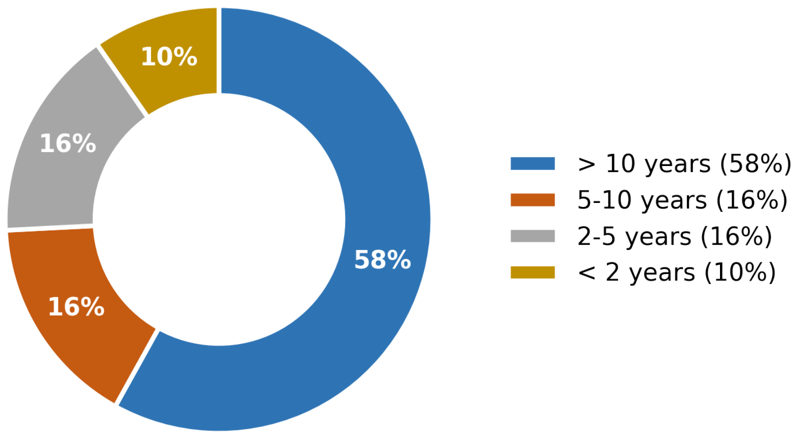

Figure 1: Percentage of businesses by years in operation

~ Composition of local and imported craft products by category

For the purpose of the study, craft products retailed in the market were classified into nine broad categories: textile and textile products; *yathra* and *yathra* products; wood products; bamboo and cane products; metal products; ceramic products; clay products; *thangka* and embroidered products; and souvenirs and knick-knacks. The extent to which each category is sourced locally as opposed to imported varies considerably, reflecting differences in domestic production capacity, raw material availability, cost competitiveness and consumer demand.

Figure 2 brings together the sourcing composition of all nine categories, allowing them to be compared directly. Two broad clusters emerge. The first comprises categories in which Bhutan holds a comparative advantage and where local production dominates or is exclusive — bamboo and cane products, wood products, *yathra* and *yathra* products, and souvenirs and knick-knacks, together with clay and thangka products to a somewhat lesser extent. The second comprises categories where Bhutan lacks the domestic raw-material base or manufacturing capacity to compete, chiefly metal and ceramic products, where imports account for the overwhelming majority of stock. Textile and textile products form a notable exception to this pattern: despite reasonably strong domestic weaving capability, only 16% of retailers stock exclusively local textiles, with 81% mixing local and imported lines. This suggests that, unlike metal and ceramics, the constraint in textiles is not one of capability but of price and product variety — a distinction with direct implications for the type of support the category needs, discussed further below.

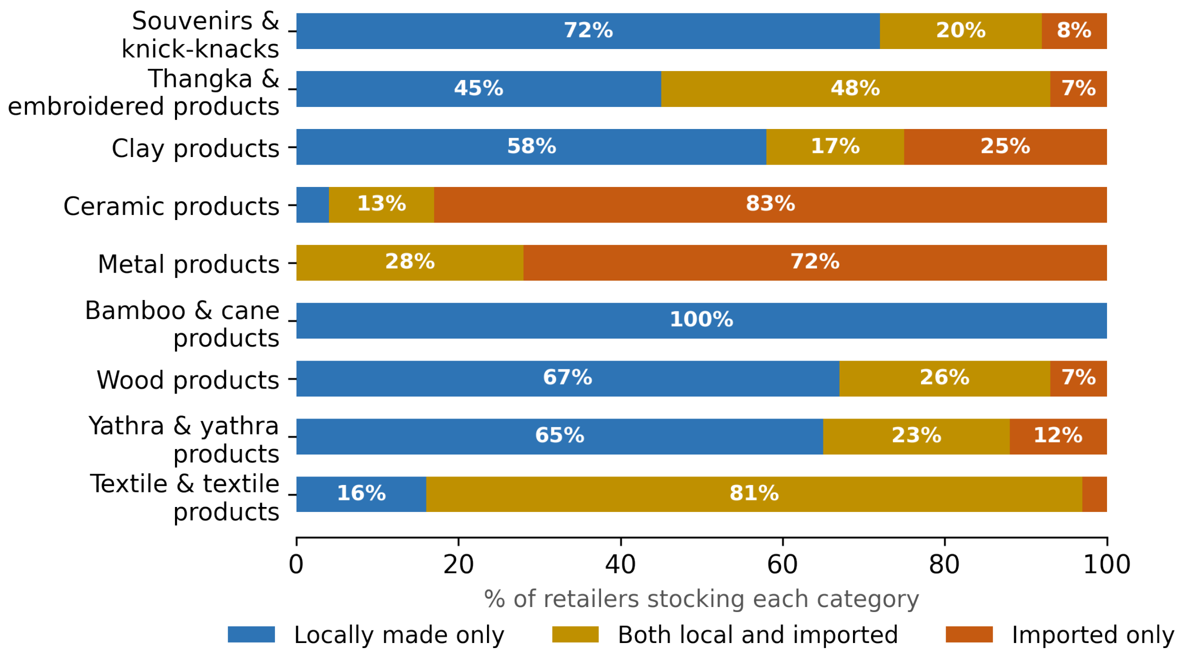

Figure 2: Comparative overview of local and imported sourcing across product categories

Textile and textile products show significant import penetration: 81% of retailers stock both locally made and imported items, 16% deal exclusively in local textiles, and a further 3% stock imported textiles only.

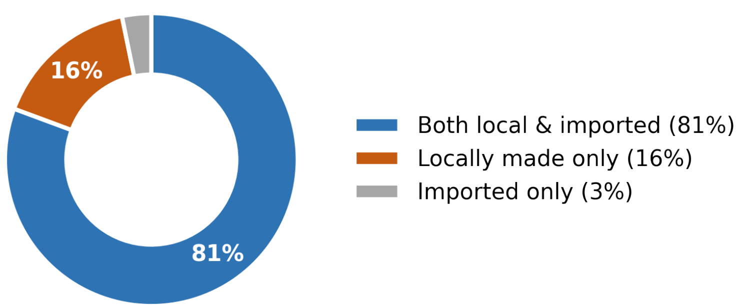

Figure 3: Percentage of different sources of textile and textile products

Yathra and *yathra* products, together with wood products, are predominantly locally produced. Local goods are stocked by 65% of *yathra* retailers and 67% of wood product retailers, with imports accounting for only 12% and 7% of these categories respectively, and the remainder stocking both.

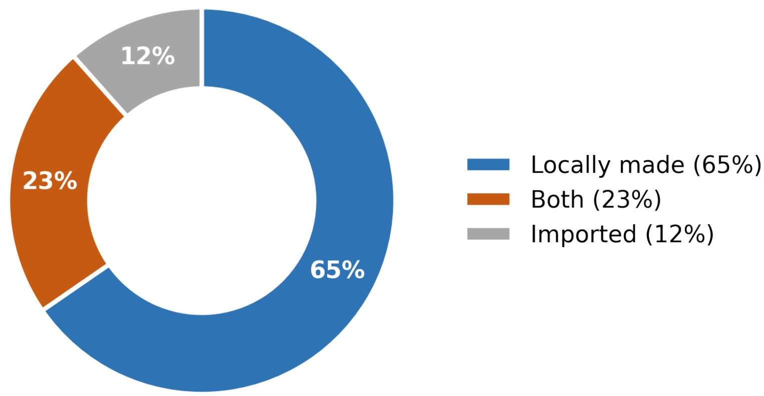

Figure 4: Percentage of different sources of *yathra* and *yathra* products

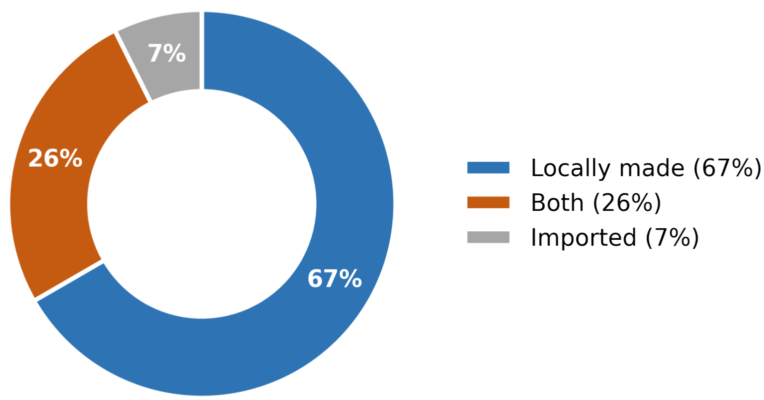

Figure 5: Percentage of different sources of wood products

Bamboo and cane products are entirely locally made, with no imports reported in this category — a reflection of Bhutan's comparative advantage and ready access to raw material.

Metal and ceramic products show the opposite pattern, being overwhelmingly imported. Among metal product retailers, 72% stock only imported items and the remaining 28% carry both local and imported goods; none deal exclusively in locally crafted metal products. Ceramic products follow a similar trend, with 83% of retailers stocking only imported goods and just 4% dealing exclusively in locally made ceramics, with the remaining 13% carrying both. In both cases, the near-total reliance on imports most plausibly reflects Bhutan's limited domestic metalworking and ceramic manufacturing base rather than a lack of retailer or consumer preference for local goods, and should be read differently from the import penetration seen in categories - such as textiles - where domestic capacity already exists.

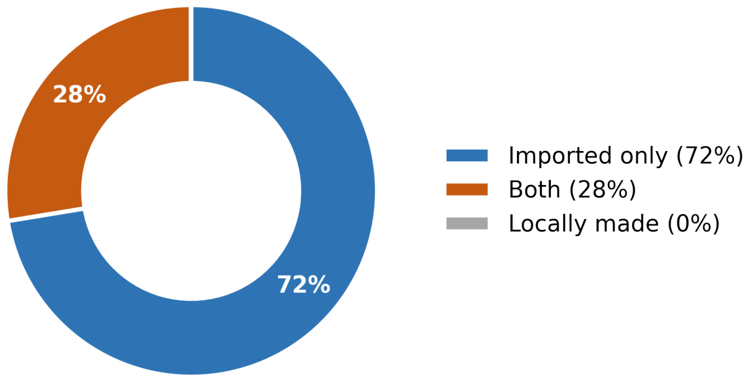

Figure 6: Percentage of different sources of metal products

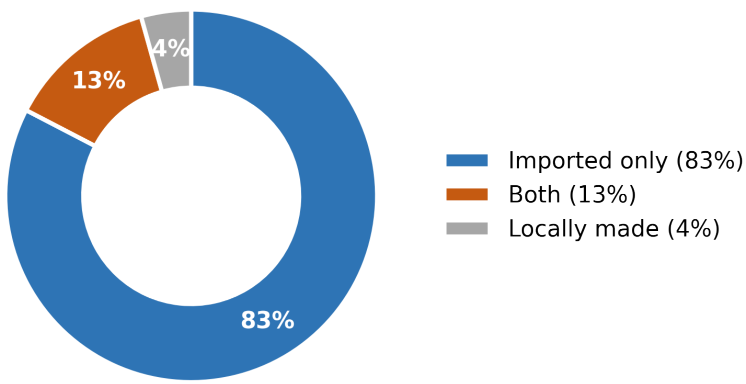

Figure 7: Percentage of different sources of ceramic products

For clay products, local production leads: 58% of retailers stock locally crafted goods only, 25% rely solely on imports, and the remaining 17% stock both.

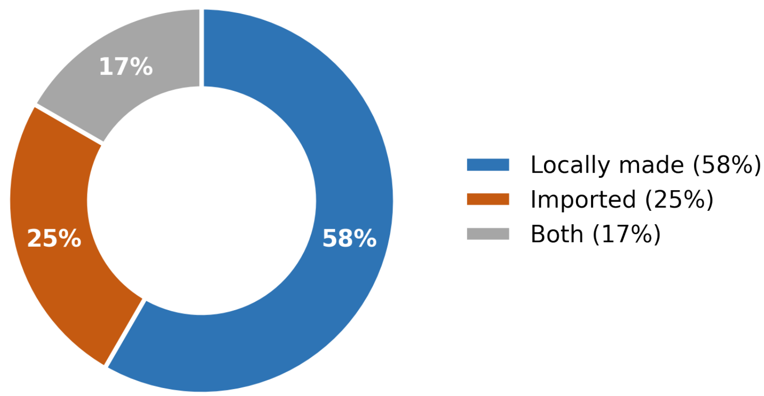

Figure 8: Percentage of different sources of clay products

Thangka and embroidered products reflect relatively strong local craftsmanship, with 45% of retailers stocking only locally made items, 48% carrying both local and imported products, and a smaller share (7%) dealing solely in imported items.

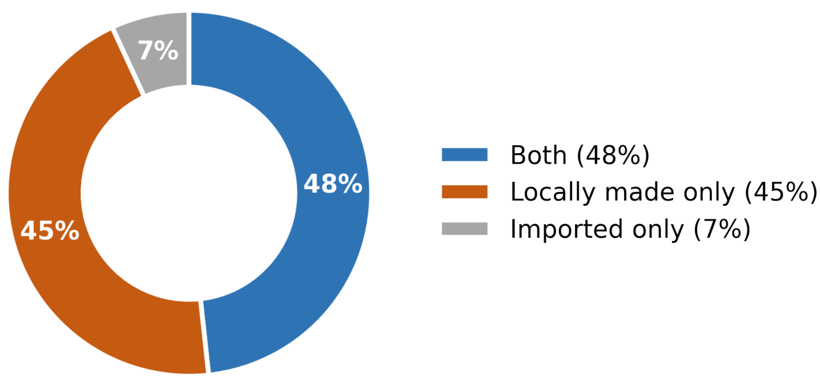

Figure 9: Percentage of different sources of thangka and embroidered products

Souvenirs and knick-knacks are dominated by local production, with 72% of retailers stocking locally made items only - indicative of a comparatively dynamic domestic souvenir-making sector - while 20% carry both local and imported goods and 8% deal only in imports.

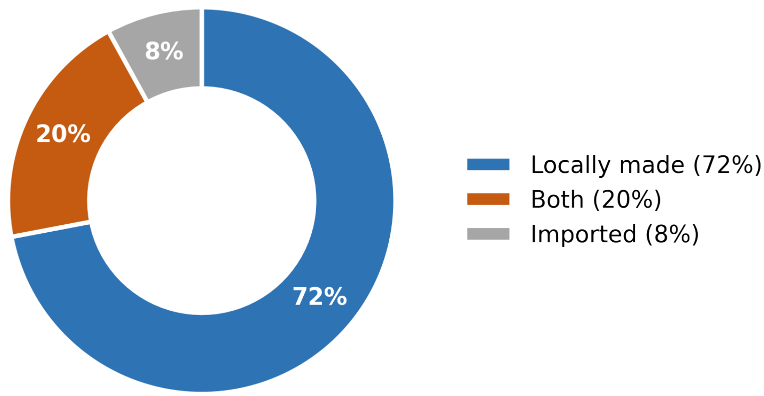

Figure 10: Percentage of different sources of souvenir and knick-knack products

~ Sourcing channels for craft products

Craft retailers source their products through several channels: local wholesalers or dealers, individual artisans, artisan or producer cooperatives, and combinations of these. The coexistence of multiple channels reflects a fragmented supply chain in which retailers, rather than a centralised or standardised procurement system, determine sourcing arrangements on a case-by-case basis. Just under half of retailers (48%) acquire their goods exclusively from local dealers or wholesalers, whether the products themselves are imported or locally made. A further 26% combine artisans and local dealers as sourcing channels, while 23% draw on multiple sources simultaneously, and a small remainder (3%) combine artisans with craft cooperatives or producer groups. This layered, retailer-driven sourcing structure also helps explain why reliable information on a product's true origin does not always travel from producer to end consumer, a theme that recurs in the findings on misrepresentation below.

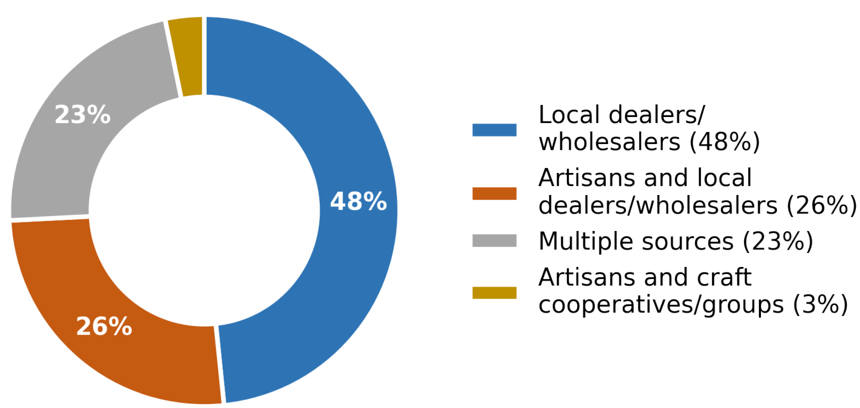

Figure 11: Percentage of retailers by sourcing channel for crafts

~ Reasons for retailer dependence on imports

Retailers identified several reasons for relying on imported rather than locally made craft products. Limited diversity of locally available products was the most frequently cited factor, accounting for 27% of responses, closely followed by the higher price of locally crafted goods at 26%. Unavailability of desired products on demand accounted for a further 19% of responses, while unreliable or inconsistent supply was cited by 13%. Poor quality of local craft products was flagged by a smaller share of respondents (6%), with the remaining 10% attributing their reliance on imports to other factors. Taken together, these findings suggest that import dependence is driven less by an absence of demand for local products and more by structural weaknesses on the supply side - cost, variety, availability and consistency - that collectively push retailers toward imported alternatives even where they might otherwise prefer to stock local crafts.

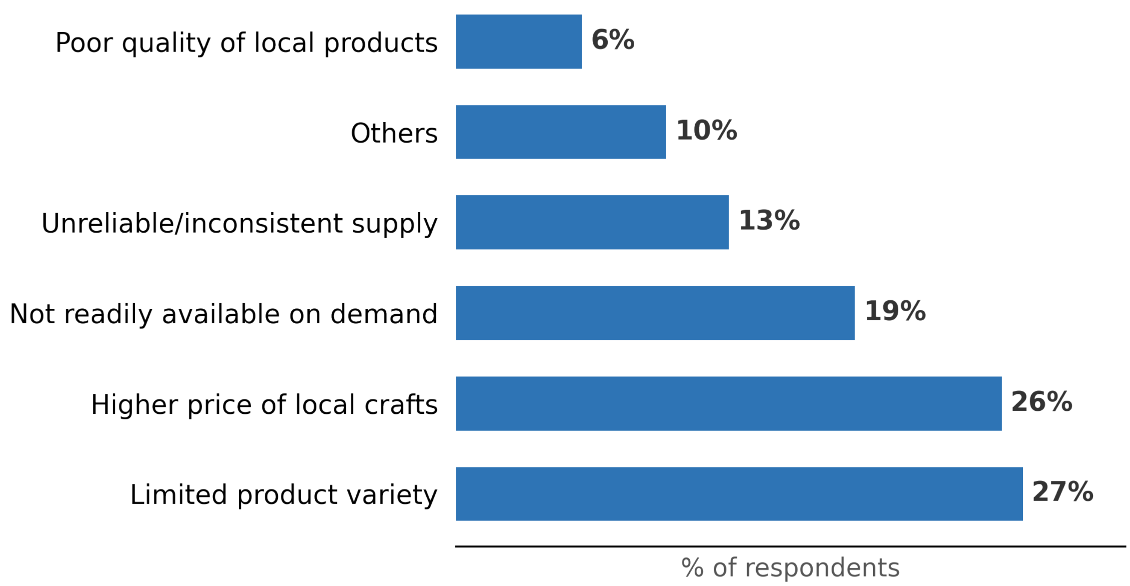

Figure 12: Percentage of different reasons why retailers sell imported crafts

~ Misrepresentation of imported products as locally made

One of the more concerning practices identified by the study is the misrepresentation of imported craft products as locally made, particularly to tourists and other buyers who may be unable to distinguish genuine local craftsmanship from imported substitutes. While 30% of retailers reported that this practice does not occur, an equal proportion (30%) indicated that it happens frequently, and a further 17% stated that it is a consistent, ongoing practice in their business. Taken together, close to half of all respondents acknowledge that misrepresentation occurs to some degree, pointing to a material integrity gap in the market that undermines consumer trust and places genuine, transparent retailers and artisans at a competitive disadvantage.

Retailers who acknowledged this practice cited several underlying motivations. The most significant driver, cited by 29% of respondents, is buyer preference: foreign tourists in particular place high value on locally crafted goods as part of the touristic experience, creating a direct incentive to mislabel imported goods as local. General market practice and competitive imitation were equally significant, cited by 19% of respondents, with a further 19% pointing specifically to the better profit margins the practice yields once it becomes common among competitors - together indicating that unethical practice, once established by a few retailers, tends to become normalised across the market. Price and supply considerations were comparatively secondary, with 11% citing the higher cost of local crafts and 4% citing short supply of local products; the remaining 18% cited other reasons.

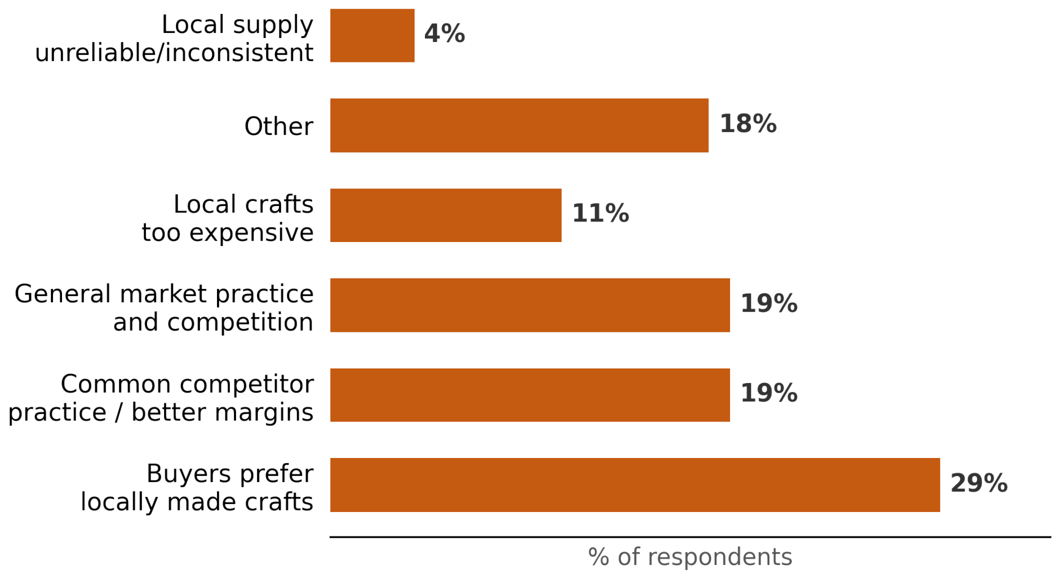

Figure 13: Percentage of different reasons why retailers misrepresent imported products as locally made

~ *Consumer awareness and verification of product origin*

Despite the prevalence of misrepresentation, consumer demand for authenticity remains high. A large majority of retailers (84%) reported that buyers sometimes or frequently ask to confirm the origin of a product, while only 16% said buyers rarely or never do so. This indicates that most consumers actively value and seek assurance of authenticity but currently have limited reliable means of independently verifying retailer claims - leaving them exposed to misrepresentation despite their own diligence, and underscoring the potential value of a credible, independently administered certification or labelling system.

~ *Price discrimination based on buyer*

The study also found evidence of differential pricing based on buyer nationality. More than half of retailers (52%) charge international tourists (from outside the region) 10-25% more than local buyers, while a further 32% charge as much as 26-50% more, and only 16% apply a markup of less than 10%. Pricing practices toward regional tourists are comparatively more moderate: 46% of retailers add less than 10% to the price charged to local buyers, 29% add 10-25% more, and 25% still charge as much as 26-50% above the local price. While a degree of price differentiation is not unusual in tourism-oriented markets, the scale of the markups applied - particularly to international tourists - raises consumer protection concerns around price transparency, fairness, and the absence of any disclosed basis for the differential.

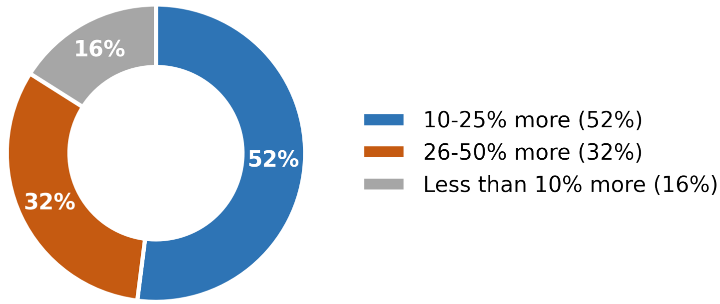

Figure 14: Percentage of retailers charging extra (% higher) to international tourists

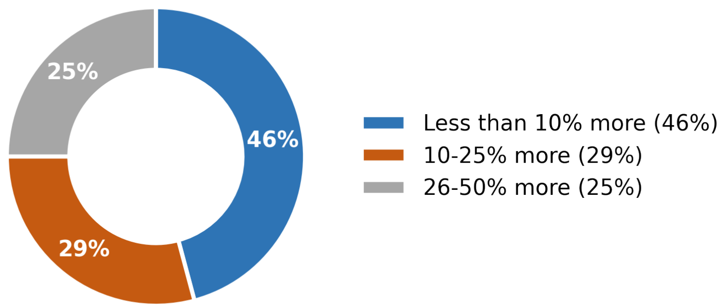

Figure 15: Percentage of retailers charging extra (% higher) to regional tourists

~ Commission-based referral practices by tour guides

A further practice reported almost universally, by 94% of retailers, is the payment of commissions to tour guides in exchange for directing tourists to specific shops or recommending those shops over others. Commission rates range from 10% to 25% of the value of goods sold, with 20% being the most common rate. While commission-based referral is common in many tourism-dependent economies, the practice embeds a hidden cost within the price paid by the tourist - a cost that is undisclosed, unrelated to product value or authenticity, and capable of distorting guide recommendations toward retailers offering the highest commission rather than the best product or price. Read alongside the price discrimination findings above, guide commissions of this magnitude are a plausible structural contributor to the elevated markups charged to international tourists, since retailers must recoup the commission cost somewhere in the price they charge.

~ Key challenges facing the craft sector

The craft sector faces several structural challenges. Of the 75 responses received on this question, competition from mass-produced imported crafts was the most frequently cited specific challenge, accounting for 21% of responses - second only to the 31% of responses grouped under other, more varied concerns. Other significant challenges included low and erratic demand (16%), the absence of an effective product certification system (15%), and limited or unreliable supply of local products (12%). Inconsistent quality among local products was cited by a smaller but still notable

5% of respondents. The relatively even spread of responses across these categories suggests that the sector's difficulties are multi-dimensional rather than attributable to any single cause, reinforcing the case for a coordinated policy response rather than isolated interventions.

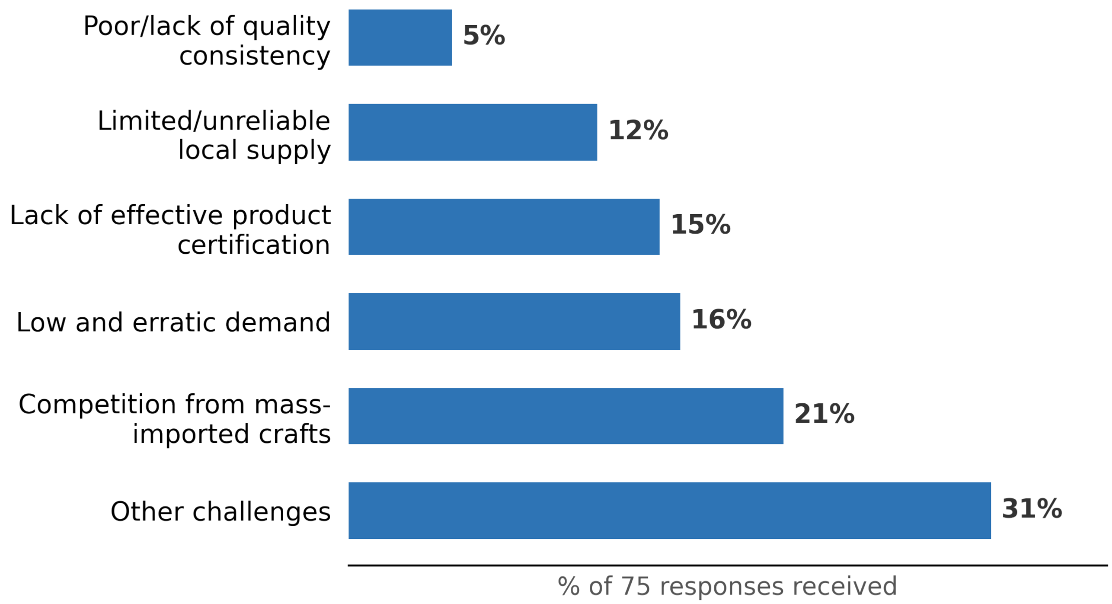

Figure 16: Key challenges faced by the craft sector, according to retailers

Craft retailers expect a range of support and intervention from government to help build the sector. Of the 76 responses received on this question, skills development for artisans and producer groups was the most frequently cited form of support (24%), directly consistent with the quality and consistency weaknesses identified elsewhere in this study. Stronger enforcement to penalise unethical business practices followed at 21%, and support for a proper, reliable quality certification system at 17% - both of which speak directly to the misrepresentation and authenticity concerns discussed above. Higher tariffs on imported crafts (8%) and greater support for small-scale enterprises producing souvenirs and other knick-knacks (7%) were also raised, along with calls for a dedicated bazaar for authentic crafts (4%). Taken together, retailers' priorities align closely with the structural weaknesses identified through the rest of the survey, lending confidence to the recommendations that follow.

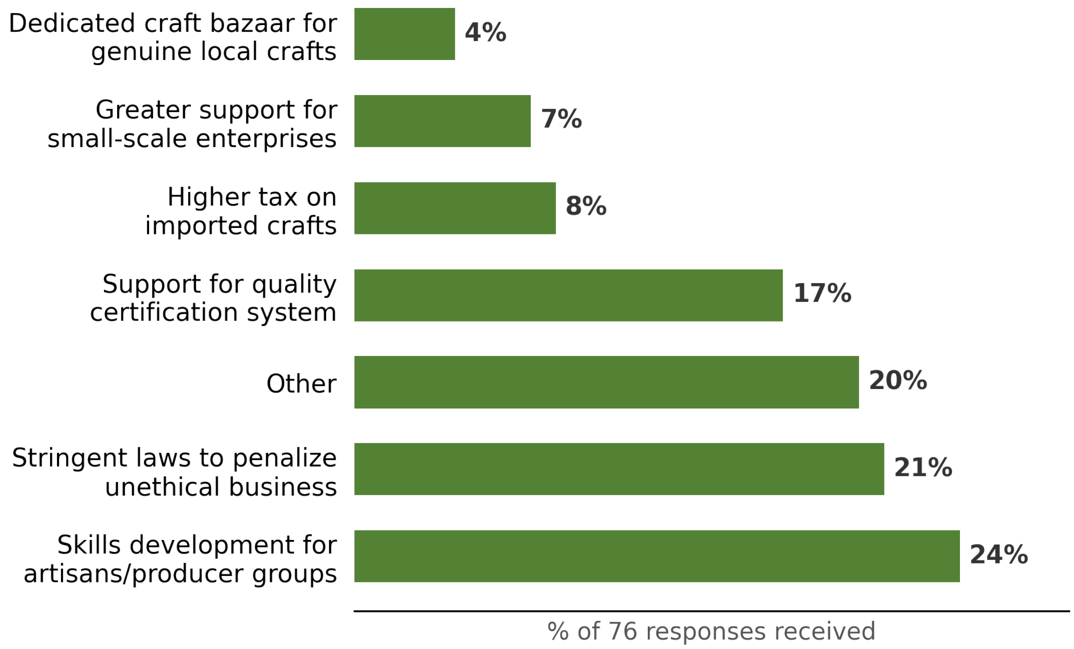

Figure 17: Government support anticipated by craft retailers

Recommendations

The findings point to a sector that is structurally stable and culturally significant, but held back by gaps in quality assurance, market transparency, and support for local production. The following recommendations are drawn directly from the evidence gathered and are intended to be read as a coordinated package rather than a menu of standalone options.

~ Establish a national craft quality certification and standardisation scheme

Inconsistent quality was raised as a concern both directly (as a challenge facing the sector) and indirectly (as a reason for import dependence and a barrier to consumer trust), and a certification system was the second most-requested form of government support. A voluntary, independently administered certification mark for genuine, quality-assured Bhutanese crafts would give consumers a reliable way to verify authenticity, allow compliant retailers and artisans to differentiate themselves credibly in the market, and provide a practical foundation for any future country-of-origin labelling requirement.

~ Mandate country-of-origin disclosure and strengthen enforcement against misrepresentation

With close to half of retailers acknowledging that imported products are misrepresented as local to some degree, and 84% of buyers actively seeking origin assurance, a clear regulatory gap exists between consumer demand for authenticity and the means available to verify it. The government should consider a mandatory point-of-sale origin disclosure requirement for craft retailers, paired with a visible enforcement and penalty regime for non-compliance - the form of intervention most requested by retailers themselves after skills development.

~ Introduce transparency requirements for tour-guide commissions

The near-universal payment of undisclosed commissions to tour guides (94% of retailers) embeds a hidden cost in the price paid by tourists and risks distorting purchase recommendations away from product quality or value. Government, in coordination with the tourism associations, should consider requiring disclosure of guide commission arrangements to tourists at the point of sale or referral, and should assess this practice as part of any broader review of price transparency in the sector.

~ Invest in artisan skills development and product diversification

Skills development was the single most-requested form of government support (24%), and limited product variety and higher prices were the two leading reasons retailers turn to imports (27% and 26% respectively). Targeted training in design diversification, production efficiency, and costing would directly address both constraints, particularly in categories such as textiles and *thangka* products where domestic capability already exists but is not fully meeting retailer and consumer demand.

~ Calibrate trade and industry policy to each category's underlying comparative advantage

The comparative data in Figure 2 show that import dependence has different roots in different categories, and policy should respond accordingly. In categories where Bhutan has an established production base but faces a price or variety gap - textiles, clay, and *thangka* products - support for local producers (through the measures above) is likely to shift the local-imported balance. In categories where Bhutan lacks the domestic raw-material or manufacturing base, notably metal and ceramic products, import substitution is unlikely to be realistic in the near term; policy in these categories should instead focus on ensuring imported goods are honestly represented as such, rather than on tariff measures that raise costs without a corresponding increase in local supply.

~ Support market and channel diversification to reduce tourism dependency

The sector's near-total dependence on tourist footfall, noted at the outset of this study, leaves retailers and artisans structurally exposed to fluctuations in arrivals. Government and industry bodies should explore support for e-commerce and export channels for certified authentic crafts, which would both diversify demand beyond tourism and extend market access for high-quality producers beyond Thimphu and Paro.

~ Dedicated marketplace for certified authentic crafts

Although a dedicated bazaar for authentic crafts was a comparatively lower priority among retailers (4%), it would provide a natural, visible venue to showcase products carrying the certification scheme proposed above, and could serve as a pilot site for testing origin-disclosure and anti-commission measures before wider rollout.

Conclusion

This study set out to understand the structure, practices, and challenges of Bhutan's craft retail sector from the perspective of retailers in Thimphu and Paro, and to identify actions that could strengthen its dynamism, competitiveness, and sustainability. The picture that emerges is of a sector that is well established and enduring as a livelihood, built on product categories in which Bhutan holds genuine comparative advantage, but constrained by gaps in quality assurance, market transparency, and structural over-reliance on tourism. Practices such as the misrepresentation of imported goods as local, undisclosed tour-guide commissions, and nationality-based price differentials are each individually understandable responses to competitive pressure, yet collectively they risk eroding the trust on which the sector's reputation - and, by extension, part of Bhutan's tourism brand - ultimately depends. Encouragingly, the findings also show a strong alignment between the weaknesses identified through the survey and the forms of support retailers themselves are asking for, from skills development to quality certification to stronger enforcement. This alignment suggests that a coordinated, evidence-based package of interventions, of the kind set out in the recommendations above, has a realistic prospect of both protecting consumers and helping genuine Bhutanese craftsmanship compete on its own terms.

Acknowledgement

We would like to thank all the proprietors and managers of the craft shops for finding the time to talk to us and providing us very candid facts and opinions about their business and the craft sector as a whole, which has permitted us to gain a good understanding of the current craft sector in Bhutan and prepare this report.