

EXPLORING THE NEXUS BETWEEN ENTREPRENEURSHIP AND INTERNATIONAL BUSINESS: A CASE STUDY OF BHUTAN

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Abstract: *This study delves into the relationship between entrepreneurship and international business in Bhutan, a small, landlocked kingdom that primarily depends on agriculture and hydropower. It aims to assess the current state of entrepreneurship in Bhutan, explore the trends in international trade involving Bhutanese businesses, and pinpoint the challenges and opportunities that Bhutanese entrepreneurs face in the global market. By using secondary data involving the information pertaining to economic environment of Bhutan, the study reveals that Bhutanese entrepreneurs encounter significant obstacles to going global, such as limited access to finance, a shortage of skilled workers, and complex regulatory environments. However, there are opportunities in government policies that promote entrepreneurship and regional trade agreements. The study concludes with policy recommendations to better integrate Bhutanese entrepreneurial ventures into the global market, focusing on regulatory reforms, improved access to finance, and capacity-building initiatives.*

Keywords: *Entrepreneurship, International business, Bhutan, Challenges, Opportunities*

1. INTRODUCTION

1.1 Background and significance of the study

Bhutan is a small landlocked kingdom nestled between two of the world's largest economies, India and China. Being completely landlocked and mountainous Bhutan has limited access to foreign markets due to which Bhutan heavily relies on India for its trade routes, making India a major trading partner. Bhutan's small domestic market and unfavorable resource endowment for industrialization mean that a significant portion of its population depends on primary sectors such as agriculture, forestry, and hydropower (Cheong, Bark & Jeong, 2015). Trade issues are not typically national policy priorities, reflecting the country's focus on holistic development over rapid industrialization (Cheong, Bark & Jeong, 2015).

According to Warr (2012), historically, landlocked countries have been pessimistic about the scope for an export-oriented development strategy and often choose inward-looking development strategies. Hence, as a landlocked country with limited economic power, Bhutan

has exhibited a passive attitude toward international trade (Cheong, Bark & Jeong, 2015). With a population of approximately 774,000 and a GDP of \$2.84 billion, Bhutan is renowned for its unique development philosophy centered on Gross National Happiness (GNH) rather than Gross Domestic Product (GDP). This approach prioritizes sustainable and equitable socio-economic growth, environmental conservation, cultural preservation, and good governance.

However, achieving steady socio-economic growth has been a hurdle for the small kingdom with a largely underdeveloped trade sector and even more nascent engagement in international trade. Bhutan is heavily reliant on hydropower and tourism for revenue, leaving the country vulnerable to climate change and global pandemics or changes in tourism patterns. The World Bank reports that a decline in electricity production could lead to a 3-4 percentage point drop in GDP and a decrease in government revenue by approximately 0.5-1 percent of GDP (Razzaque, 2020). Additionally, due to travel restrictions imposed by COVID-19, tourism revenue fell drastically from \$225 million in 2019 to \$19 million in 2020 (Rinzin, 2021). Vijayasri (2013) states that international trade leads to economic growth and is important for achieving a quicker pace of economic development.

Therefore, as Bhutan looks to restart its economy after COVID-19, improving international trade is essential for Bhutan's economic development. By participating in international trade, Bhutan can diversify its economy, lessen its dependence on a limited number of sectors, and improve its economic resilience. Studying the relationship between entrepreneurship and international trade in Bhutan can unlock new growth avenues, improve economic resilience, and contribute to the overall well-being of its population. This study aims to provide a comprehensive understanding of this nexus, offering actionable insights for entrepreneurs, policymakers, and other stakeholders to foster a vibrant and globally integrated entrepreneurial ecosystem in Bhutan.

1.2 Research objectives and research questions

1.2.1 Research Objectives

- Analyze the Current State of Entrepreneurship in Bhutan
- Examine the Patterns and Trends of International Trade Involving Bhutanese Businesses
- Identify the Challenges and Opportunities Faced by Bhutanese Entrepreneurs in the International Market
- Assess the Impact of International Trade on Entrepreneurial Growth and Economic Development in Bhutan
- Provide Recommendations for Policymakers to Support and Enhance the Nexus Between Entrepreneurship and International Trade

1.2.2 Research Questions

- What is the current landscape of entrepreneurship in Bhutan?
- How are Bhutanese entrepreneurs participating in international trade?
- What barriers do Bhutanese entrepreneurs face in accessing international markets?
- What opportunities exist for Bhutanese entrepreneurs in the global market?
- What role do government policies and trade agreements play in facilitating international trade for Bhutanese businesses?

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- How does international trade influence the growth and success of entrepreneurial ventures in Bhutan?
- What policy recommendations can be made to improve the nexus between entrepreneurship and international trade in Bhutan?

1.3 Scope and limitations

1.3.1 Scope

This study focuses on exploring the relationship between entrepreneurship and international trade in Bhutan. The research will cover:

- **Entrepreneurial Landscape:** Analysis of the current state of entrepreneurship, including key sectors, demographic characteristics, and the level of entrepreneurial activity.
- **International Trade Patterns:** Examination of Bhutan's trade volumes, main products and services traded, and primary trade partners.
- **Challenges and Opportunities:** Identification of barriers and opportunities for Bhutanese entrepreneurs in the international market.
- **Economic Impact:** Assessment of the contribution of international trade to GDP, employment, innovation, and business growth in Bhutan.
- **Policy Analysis:** Evaluation of existing policies and trade agreements, and formulation of recommendations for enhancing international trade and entrepreneurship.

1.3.2 Limitations

- **Data Availability:** The limited availability of comprehensive and up-to-date data on Bhutanese entrepreneurship and trade activities may affect the depth of analysis.
- **Geographical Focus:** The study is confined to Bhutan, and findings may not be generalizable to other countries with different economic and trade contexts.
- **Time Constraints:** The conduction of the study over a few months may limit the depth and accuracy of the findings.
- **Resource Limitations:** Limited resources may restrict the extent of fieldwork case studies conducted.

2. LITERATURE REVIEW

2.1 Theoretical framework: Linkages between entrepreneurship and international business

The connection between entrepreneurship and international business in Bhutan is extremely important owing to Bhutan's unique economic landscape due to its geographic location, economic dependencies and policy priorities centered around Gross National Happiness (GNH). This review aims to delve into theoretical frameworks, the entrepreneurial ecosystem, factors influencing international business, and existing studies to provide a comprehensive understanding of the challenges and opportunities for Bhutanese entrepreneurs in the global marketplace.

We must be familiar with several theoretical perspectives to understand the connection between entrepreneurship and international business. One such perspective is the Resource-

Based View (RBV), which argues that businesses can achieve success in global markets by leveraging their unique resources and capabilities (Barney, 1991). This implies that Bhutanese entrepreneurs should focus on developing and utilizing their strengths to compete effectively on the international stage. Additionally, another theory that highlights this is the comparative advantage theory which states that nations should specialize in productions that result in lower opportunity costs to drive efficient international trade (Boyce, 2023).

Another relevant theoretical framework is the Uppsala Internationalization Model, which proposes that businesses gradually expand their international operations, starting with markets closer to home and then progressing to more distant ones as they gain experience and knowledge (Johanson & Vahlne, 1977). The Uppsala Model is relevant to Bhutanese businesses because it suggests a gradual approach to international expansion by starting with neighbouring markets (e.g., India) and progressively venturing into more distant markets based on experience and market knowledge.

Next, the Network Theory emphasizes the importance of social networks and relationships in international business activities (Johanson & Mattsson, 1988). For Bhutanese entrepreneurs, building strong networks with international partners and stakeholders can provide valuable opportunities for market access and growth.

There is also the Effectuation Theory which encourages entrepreneurs to embrace uncertainty, leverage their strengths and networks, and adopt a flexible and adaptive approach to entrepreneurship (Sarasvathy, 2001). This will guide Bhutanese entrepreneurs in navigating uncertain international business landscapes by focusing on creating opportunities, leveraging local strengths, and adapting to emerging market demands with creativity and resilience.

2.2 Entrepreneurial ecosystem and internationalization

An entrepreneurial ecosystem comprises of various elements such as access to funding, mentorship, supportive policies and a conducive regulatory environment (Isenberg, 2010). In Bhutan, the entrepreneurial ecosystem is evolving. Ura et al. (2012) highlight that "Bhutan's policies aligned with the Gross National Happiness (GNH) framework promote sustainable development, social entrepreneurship, and ethical business practices."

There are also entrepreneur support organizations such as the Bhutan Innovation and Technology Centre (BITC) that provide resources and guidance to startups. As noted by Johanson and Mattsson (1988), "Mentorship programs and incubators within the entrepreneurial ecosystem play a pivotal role in fostering innovation and guiding entrepreneurs through challenges."

Research suggests that a supportive entrepreneurial ecosystem is instrumental in facilitating internationalization for startups and small businesses (Acs, Szerb, & Autio, 2014). Access to finance, mentorship programs and networking opportunities can enable Bhutanese entrepreneurs to expand their businesses globally. However, "Internationalization is the process of increasing involvement in international operations, such as foreign markets, cross-border production, or global value chains, which may include exporting, importing, licensing, franchising, foreign direct investment, joint ventures, and strategic alliances" (Rugman & Collinson, 2012). It is a strategic imperative for Bhutanese businesses seeking to expand globally. According to Knight and Cavusgil (2004), "Internationalization allows Bhutanese

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enterprises to diversify their customer base, reduce dependence on domestic markets, and tap into new revenue streams."

Another important detail is that export opportunities contribute to economic growth. Cheong, Bark, and Jeong (2015) state that "Internationalization facilitates export opportunities for Bhutanese products and services, promoting economic development and industry growth."

The aforementioned studies reiterate that fostering a strong entrepreneurial ecosystem and embracing internationalization are integral to Bhutan's economic development and global competitiveness. Collaborative efforts among stakeholders, supportive policies, and strategic initiatives are vital for empowering Bhutanese entrepreneurs to succeed in the dynamic global marketplace.

2.3 Factors influencing international business activities in Bhutan

Several factors influence international business activities in Bhutan. Geographical factors, such as Bhutan's landlocked status between India and China, impact trade routes and market access (Warr, 2012).

Economic factors, such as dependence on hydropower and tourism, contribute to Bhutan's vulnerability to external shocks and market fluctuations (Razzaque, 2020; Rinzin, 2021). Moreover, the World Bank (2019), suggests that the dependence on state-led hydropower might have resulted in crowding out of the private sector which indirectly impacts international trade.

Government policies, particularly those aligned with the GNH philosophy, shape Bhutan's approach to international trade and investment (Ura et al., 2012).

Cultural and institutional factors also play a role in influencing international business activities in Bhutan. Brooks (2013) states that "Understanding cultural preferences and social norms is essential for effective market entry and relationship building in Bhutan."

Infrastructure development also influences trade and connectivity. Warr (2012) highlights that "Improvements in transportation networks and energy infrastructure can enhance Bhutan's trade capabilities and reduce logistical barriers."

Trade policies and agreements also greatly help to shape Bhutan's trade relations. Cheong, Bark, and Jeong (2015) mention that "Bhutan's participation in regional trade agreements impacts market access and trade flows."

2.4 Existing studies on entrepreneurship and international business in Bhutan

Several studies have contributed to understanding entrepreneurship and international business in Bhutan. Cheong, Bark, and Jeong (2015) conducted a study on "Regional Cooperation and Trade Issues in Bhutan," highlighting the challenges and opportunities in regional trade partnerships.

In their other study on Bhutan's trade policy titled "A Framework of Trade Policy for Bhutan Compatible with the Gross National Happiness", Cheong, Bark, and Jeong (2015) emphasize the importance of joining global supply chains for economic gains. They also highlight that while Bhutan's trade policy should support Gross National Happiness (GNH) by balancing economic growth with social well-being, it is crucial for Bhutan to adopt economic reforms and trade liberalization to improve its international competitiveness.

Warr (2012) conducted research on the economic strategies of landlocked countries, including Bhutan. His study provides insights into the economic challenges and strategic approaches adopted by landlocked nations like Bhutan.

Razzaque (2020) focused on the economic impact of hydropower on Bhutan's economy. The study discusses the significance of hydropower revenues in Bhutan's international trade and economic development.

Ura, Alkire, and Zangmo (2012) explored the influence of Bhutan's Gross National Happiness (GNH) framework on economic policies. Their study delves into how GNH principles shape Bhutan's approach to international business and economic development.

Brooks (2013) conducted research on cultural and institutional factors affecting business practices in Bhutan. The study provides insights into how cultural values and institutional frameworks influence entrepreneurship and international business activities.

Knight and Cavusgil (2004) discuss market entry strategies for Bhutanese enterprises in their work on international business expansion. Their insights into market diversification and entry modes are relevant for Bhutanese businesses aiming to expand globally.

Ayaji Fujita, Jigme Lhendup, and Sangay Thinley (2022) shed light on the significant administrative hurdles, financial constraints, and cultural barriers that hinder entrepreneurial activities in Bhutan in their study titled "Promoting Entrepreneurship in Bhutan".

Vijayasri (2013) explores the impact of globalization on Bhutanese businesses and strategies for building resilience in international markets. The study provides recommendations for enhancing business competitiveness and sustainability in a globalized context.

These studies offer valuable insights, best practices and strategic recommendations for fostering economic growth, innovation, and sustainable development in the country.

In conclusion, the literature review has explored how entrepreneurship and international business intersect, especially in Bhutan. We've looked at theories that connect entrepreneurship with global trade and how a strong entrepreneurial environment supports businesses going global. Factors like Bhutan's unique geography, economic dependencies, and policies focused on Gross National Happiness (GNH) have a significant impact on international business activities. The existing studies we've reviewed shed light on regional cooperation, economic strategies, and cultural influences on Bhutanese businesses. Bringing all this together, it's clear that leveraging technology, fostering innovation, and building strong international relationships are key for Bhutan's continued growth and success in the global business arena.

3. METHODOLOGY

3.1 Research Design and Approach

This research utilizes a combination of descriptive analysis and macroeconomic evaluation to investigate the relationship between entrepreneurship and international business in Bhutan. The descriptive approach facilitates a comprehensive understanding of the relationship, while the macroeconomic assessment offers insights into broader economic patterns and elements affecting entrepreneurship and business within the country.

3.2 Data Collection Methods

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This study's data collection process exclusively utilizes secondary data obtained through a comprehensive review of relevant government documents, case analysis, departments official reports, and research publications. These resources provide quantitative information on Bhutan's trade dynamics, governmental policies, and entrepreneurial landscape. By utilising secondary data, the research benefits from an extensive examination of existing studies and macroeconomic indicators.

3.3 Sampling Techniques and Data Sources

As the research relies on secondary data, no primary data collection was undertaken. Instead, information was gathered from diverse international and national sources, including publications from the World Bank, Asian Development Bank, and Bhutanese governmental bodies, as well as academic research focused on Bhutan's economy and international business.

3.4 Data Analysis Techniques

The collected data were analysed using macroeconomic metrics such as GDP expansion, trade quantities, and economic sector contributions. Visual representations and charts depicting trade patterns were sourced from various governmental publications and official websites. The analysis also included an evaluation of Bhutan's trade policies, trade agreements, and entrepreneurial environment to identify patterns, obstacles, and prospects for enhancing international business activities.

4. ENTREPRENEURSHIP LANDSCAPE IN BHUTAN

4.1 Overview of the entrepreneurial ecosystem

Bhutan's entrepreneurship ecosystem has been progressively growing, reflecting the nation's aspirations to expand its economic base beyond conventional industries like hydropower and agriculture. The ecosystem includes a blend of educational institutions, government agencies, non-profit organizations, and private sector players who collectively contribute to fostering entrepreneurship. Initiatives like the Springboard Programme and the establishment of the Startup Centre are pivotal in providing necessary skills and mentorship to aspiring entrepreneurs (UNDP, 2024). Despite the increasing number of incubators, co-working spaces like the inaugural startup centre, and startup competitions, encouraging young people to view entrepreneurship as a fulfilling career option remains a challenge. This cultural hurdle is reinforced by conventional family settings that often do not see entrepreneurship as a viable professional path (Daily Bhutan, 2024). Businesses in Bhutan are categorized based on their investment levels and workforce size:

- **Small Industries:** Investments of Nu 1 million to Nu 10 million (≈\$13,000–\$130,000) and employ 5 to 19 people.
- **Cottage Businesses:** Investments of less than Nu 1 million (≈\$13,000) and employ up to 4 people.

This categorization helps structure the support and resources provided to businesses at different stages of development. The government's efforts to create a conducive environment for entrepreneurship are evident in initiatives like the G2B (Government to Business) portal, which simplifies the business registration process for small and cottage industries (G2B, n.d.).

Moreover, programs like the Springboard Programme and the Loden Entrepreneurship Programme (LEP) provide essential skills, mentorship, and financial support to young entrepreneurs, helping them navigate the entrepreneurial landscape and make their startups investment-ready (EBhutan, 2024). These initiatives indicate a supportive ecosystem, although more efforts are needed to foster a culture that fully embraces entrepreneurship as a career choice. Moreover, Bhutan lacks investors and targeted financial institution packages for financial support that can give entrepreneurs access to finance. Getting funding is still one of the largest obstacles in business development, regardless of the stage at which a company is founded or is growing and expanding (ITC, n.d.).

4.2 Government policies and initiatives promoting entrepreneurship

Entrepreneurship is vital for economic growth, innovation, and job creation, and the Bhutanese government has recognized this importance. Several laws and programs have been enacted to encourage economic diversification and support entrepreneurship.

The government has established Industrial Estate zones in districts such as Samtse, Gelephu, Samdrup Jongkhar, Mongar, Tsirang, and Thimphu. These zones provide land, electricity, and water, creating a conducive environment for new and innovative ventures. Additionally, special fiscal incentives are offered, and these zones benefit from better market access due to their proximity to neighboring India.

The Ministry of Industry, Commerce, and Employment (formerly the Ministry of Labor and Human Resources) has initiated various programs to promote entrepreneurship awareness and development. These include:

- EDP Training: Conducted with Dzongkhags, NGOs, and other institutions to foster entrepreneurial skills.
- Student Business Seedling Programme: Encourages young students to explore entrepreneurship.
- Training of Trainers in New Business Creation: Builds capacity among trainers to support new entrepreneurs.
- Counseling and Mentoring: Provides guidance and support to budding entrepreneurs.
- Start-Up Weekend: An event to brainstorm and develop business ideas.
- Business Idea Competition of Bhutan: Encourages innovation and recognition of creative business ideas.
- Expanding Horizons, A guide for export growth from Bhutan to Australia: is an initiative by the Ministry of Foreign Affairs and External Trade to help Bhutanese export to Australia by using the success of Bhutan Blossoms as a guideline.

The government also supports entrepreneurs through collaborations with organizations like the Loden Foundation. The Loden Foundation provides funding, mentorship, and capacity-building programs. They organize events such as the Festival of Entrepreneurs in October, in place of Global Entrepreneurship Week, in collaboration with national and international agencies (Bhutan Foundation, 2019). Overall, these policies and initiatives reflect the government's commitment to creating an environment that fosters entrepreneurship, supports small enterprises, and drives economic diversification.

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4.3 Support organizations and networks for entrepreneurs

Several organizations and foundations support entrepreneurs with relation to financing, training, and different programs associated with the building of one's capability in Bhutan. Some of the most prominent associations and networks are as follows:

- i. Bhutan Innovation and Technology Centre (BITC) and the Bhutan Innovation and Technology Foundation (BITF): For the support of Startups in Bhutan, there are new policies and favorable environment exists such as the Bhutan Innovation and Technology Centre (BITC) and the Bhutan Innovation and Technology Foundation (BITF). These institutions assist those willing to bring their ideas to practice by availing of incubation funding and mentorship services (Jain Kai, 2023). (Jain Kai, 2023).
- ii. Loden Foundation: The Loden Foundation is a Registered Civil Society Organization in Bhutan (CSO) and has been in business since 1999. The foundation initially started as an education support group but later supported the ones who studied from Loden Foundation's funding to become successful entrepreneurs through entrepreneur education and funding. Loden Foundation also has a program named Student Empowerment through Entrepreneurship Development (SEED) to empower students to learn about entrepreneurship (Tradition, n.d.)
- iii. Bhutan CSI Association: An association known as Bhutan CSI Association was established by a group of Startups to further advance and develop the cottage and small industries, or CSIs, in the country. The main goal of having this association is to inform the Government of the actual needs of CSI entrepreneurs and recommend implementing policies that help the startups build innovative and robust CSI ecosystems (Dekar, 2023).
- iv. Startup First: CEFE (Competency-based Economies through Formation of Entrepreneurs) Bhutan's Startup First institute provides training for entrepreneurs, conducts research, and offers advisory services to teen entrepreneurs. It also offers capacity development courses for start-up ecosystem stakeholders (CEFE International – Glimpses of Entrepreneurship in Bhutan, 2023).
- v. Bhutan Chambers of Commerce and Industry: Bhutan Centre for Entrepreneurs and Innovators is a non-governmental organization with the vision of promoting entrepreneurship in Bhutan which was set up with the blessing of H.M the King in 1980. Another strategic vision of BCCI is about promoting entrepreneurship since it provides human capital development in the private sector (About Us, n.d.).
- vi. Druk Holding and Investment (DHI): Druk Holding and Investment provides support to organizations and networks of business-oriented through the usage of many programs where DHI funds programs like the Business Acceleration Program (BizAP) under which DHI grants Nu. 500,000 to the entrepreneurs who took part in the acceleration program. This program was developed to assist new businesspersons in establishing networks with professionals in the business industry and getting to understand the proper way of running their business ventures (Zangmo, 2019).

4.4 Challenges and opportunities for entrepreneurs in Bhutan

Challenges:

- i. Financial Constraints: Entrepreneurs face significant challenges in securing funding, regardless of their business stage. Bhutan lacks targeted financial institution packages and

investors willing to support startups. A survey was done of 133 people who attended the entrepreneurship program held by Thimphu Tech-Park In 2016-2017 and the result showed that some of the young minds could not become an official entrepreneur due to the lack of necessary funding (Singh et al., 2020)

- ii. Lack of financial incentives and no weak relations with the banks: Singh et al. (2020) did some research on other research papers and in that research, it was found that individuals who failed at starting a business were mainly due to having no connection with the banks and insufficient financial initiatives by the Government.
- iii. Entrepreneurship and career choice: In a study involving 921 students from different educational institutions in Bhutan, showed that there is a greater number of students wanting to acquire government jobs despite the problem of unemployment rising in the country. This is mainly due to the lack of emphasis on entrepreneurship education and poor instructional strategies in the education curriculum (Utha et al., 2016). While there are opportunities for training and coaching during the initial phases, there is limited support for scaling businesses.

Opportunities:

- i. Supportive Ecosystem: The growing number of incubators, co-working spaces, and startup competitions indicate a supportive ecosystem for entrepreneurs (EBhutan, 2024). Another opportunity lies in the different kinds of programs being held by the government of Bhutan to help individuals get employed and have training to improve their entrepreneurial skills and creativity. For example, the Ministry of Labor and Human Resources introduced a small cottage industry and start-up flagship program worth Nu. 1.2B (Lhamo, 2020).
- ii. Sectoral Focus: Sectors like agriculture, IT/ITES, and tourism offer significant opportunities for innovation and growth. Government initiatives like allowing 100% foreign ownership in agriculture highlight the potential in this area (MoIC, 2023).
- iii. Technological and Educational Integration: Programs focusing on digital skills and freelancing are opening new avenues for tech-based startups, further supported by infrastructure developments like Thimphu Techpark (Daily Bhutan, 2024). In addition, on 9th February 2021 a Memorandum of Understanding was signed by the Department of Employment and Human Resources under the Ministry of Human and Labor Resources and the Royal Education Council under the Ministry of Education to incorporate entrepreneurship-related courses in the education curriculum (Bhattarai, 2021).
- iv. NEHUB and SAWDF: There are many forms of enhancing women's entrepreneurship and such form of opportunities are Nepal Entrepreneurs Hub (NEHUB) and South Asian Women Development Forum (SAWDF) whereby both of these interventions are related to policies and opportunities for women's entrepreneurship in the SAARC region (South Asian Association of Regional Corporation) which includes Bhutan as well (Goodrich et al., 2018).

5. INTERNATIONAL BUSINESS ACTIVITIES IN BHUTAN

5.1 Patterns and trends in international trade

According to the United Nations Conference on Trade and Development (UNCTAD) (2024) report on key statistics and trends in international trade, the following has been observed:

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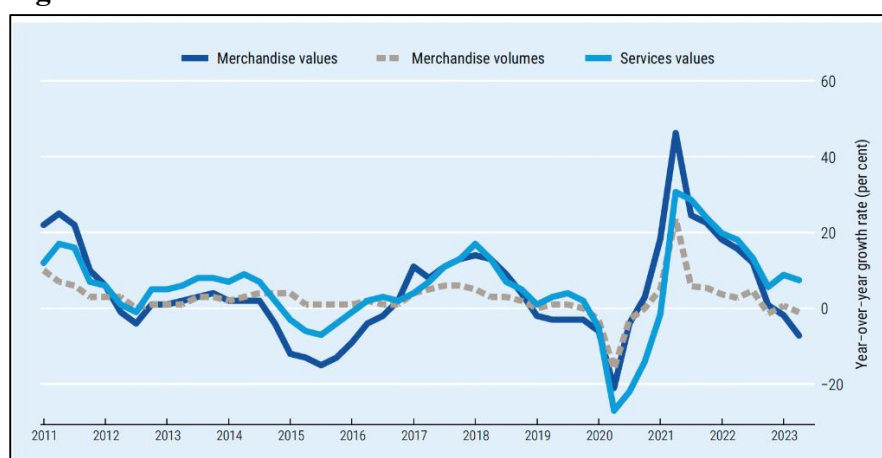
i. Unpredictability and Division:

Since the COVID-19 pandemic began, international trade has shown significant fluctuations. Trade decreased sharply in 2020 but saw a robust recovery in 2021 and 2022, hitting unprecedented levels. However, trade growth reduced in 2023 due to geopolitical issues and economic instability.

ii. Regional Differences:

Trade performance has varied widely across regions. Developed countries saw a smaller decline in trade compared to developing nations. The European Union and the United States, in particular, showed stronger trade performance, whereas East Asia and other parts of Asia experienced larger setbacks.

Figure 1. Global Trade Trends



Source: (United Nations Conference on Trade and Development, 2024)

iii. Regional Trade Agreements (RTAs):

Trade within RTAs has generally been more stable. Agreements such as MERCOSUR, AfCFTA, USMCA, and intra-EU trade have performed better than trade outside these agreements. Nonetheless, intra-RTA trade performance has differed, with some agreements like CPTPP witnessing relatively poorer intra-regional trade.

iv. Developing vs. Developed Countries:

The share of trade between developing countries has grown significantly, from 17% in 2010 to 21% in 2022. BRICS nations have a substantial share in global trade, particularly in goods and services.

v. Commodities and Manufacturing:

Intermediate goods form the largest share of world trade, followed by primary and consumer goods. Manufacturing trade dominates, especially among developed nations, while developing countries have a significant share in natural resources and agricultural exports.

vi. Sector Performance:

Sectors such as chemicals, communication equipment, and energy products (oil, gas, coal) represent a significant portion of global trade. Developing nations have increased their market shares in most sectors since 2015, although some sectors like energy have seen a shift back towards developed countries.

vii. Import and Export Tendencies:

Many developing nations have high import and export tendencies, indicating significant dependence on international trade. Southeast Asian economies, Central and Eastern European countries, and several African countries are particularly export-dependent.

viii. Trade Balances:

In 2022, China, Russia, UAE, Ireland, and Saudi Arabia had the largest trade surpluses, while the United States had the largest trade deficit. Trade imbalances are relatively small in relation to GDP for most countries, but some African countries show large imbalances.

ix. Export Diversification:

Developing countries generally exhibit lower export diversification compared to developed countries. African nations, in particular, have highly concentrated export portfolios, making them more vulnerable to economic shocks.

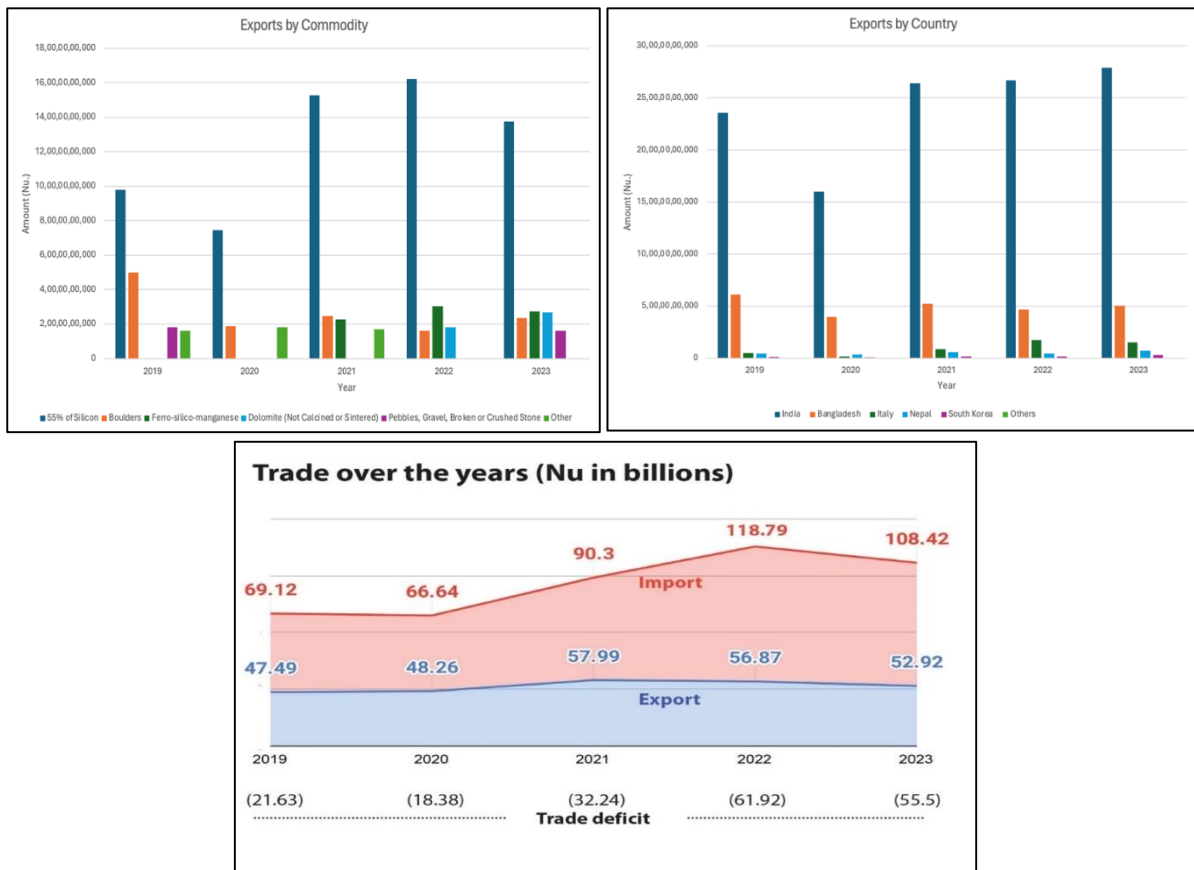
x. Patterns and Trends of Bhutan’s International Trade

Import Trend: There was a steady increase in imports from 2020 to 2022, which indicates higher consumption or dependency on foreign goods. The slight decrease in 2023 could be due to import restrictions due to low foreign reserves in Bhutan.

Export Trend: Exports showed an increasing trend until 2021, after which there was a decrease.

Trade Deficit: The increasing trade deficit from 2020 to 2022 reflects the higher growth rate of imports compared to exports.

Figure 2. Export trend of Bhutan by country and commodity. Trade deficit status of Bhutan



Source: (Ministry of Finance, 2023)

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5.2 Analysis of Bhutan's trade partners and export-import commodities

Export Patterns

Dominance of India as a Trade Partner:

India is by far Bhutan's largest trading partner, both in terms of exports and imports. The export values to India are significantly higher than to any other country, underscoring the strong economic ties between the two nations. This reliance on India is evident across all years, with exports peaking at substantial amounts. Despite a noticeable dip in 2020, likely due to the global impact of the COVID-19 pandemic, exports to India quickly rebounded in subsequent years. This trend highlights the resilience and importance of the India-Bhutan trade relationship.

Exports to Other Countries:

While India remains the dominant partner, Bhutan also engages in trade with Bangladesh, Italy, Nepal, South Korea, and other countries. Exports to Bangladesh are the second largest, although they are significantly lower than those to India. The trade with other nations remains minimal, indicating limited diversification in Bhutan's export markets. This lack of diversification can pose risks and opportunities for expanding Bhutan's trade network.

Key Export Commodities:

- **55% of Silicon:** This is Bhutan's major export commodity, reflecting high export values consistently over the years. The significant dip in 2020 was followed by a quick recovery, indicating stable global demand.
- **Boulders:** Another key export commodity, boulders show relatively stable export values, contributing significantly to Bhutan's export portfolio.
- **Ferro-silico-manganese, Dolomite, and Other Commodities:** These commodities have lower export values compared to silicon and boulders but are essential in diversifying Bhutan's export base.

Import Patterns

Heavy Reliance on India for Imports:

Similar to exports, Bhutan's imports are predominantly sourced from India. The import values from India far exceed those from any other country, reflecting a heavy dependence on India for various goods. This trend highlights the critical role of India in Bhutan's trade dynamics.

Imports from Other Countries:

China emerges as a notable import partner, although the values are much lower compared to India. Imports from countries like France, Singapore, and Thailand are minimal, with some variation over the years. This pattern again points to limited diversification in Bhutan's import sources.

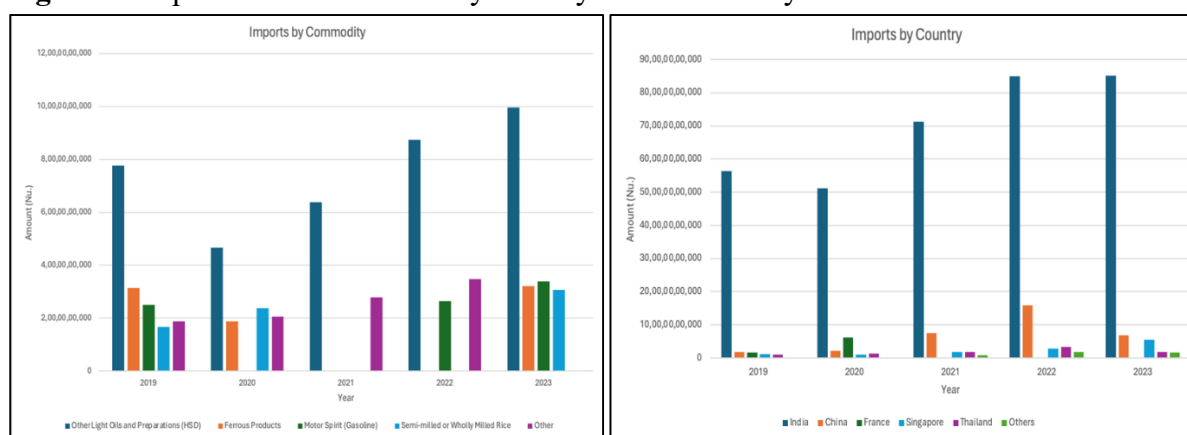
Key Import Commodities:

- **Other Light Oils and Preparations (HSD):** This category is the largest import commodity, showing high import values each year. The dip in 2020, followed by a rebound, aligns with global economic trends during the COVID-19 pandemic.

- **Ferrous Products and Motor Spirit (Gasoline):** These are significant import commodities, showing variations that could reflect changes in global prices and domestic demand.
- **Semi-milled or Wholly Milled Rice:** This commodity consistently shows notable import values, indicating its importance in Bhutan’s food security.
- **Other Commodities:** Various other commodities contribute to the import basket, providing some level of diversification.

Analysis of Trends

Figure 3. Imports trend of Bhutan by country and commodity



Source: (Ministry of Finance, 2023)

Impact of COVID-19:

The year 2020 shows a noticeable dip in both exports and imports, reflecting the global economic disruptions caused by the COVID-19 pandemic. However, Bhutan’s trade appears to have rebounded quickly, showcasing resilience in its trade practices.

Heavy Dependence on India:

Bhutan’s trade is heavily dominated by India, which poses both opportunities and risks. While the strong relationship with India provides a stable trade partner, it also makes Bhutan vulnerable to economic fluctuations in India and potential geopolitical tensions.

Commodity Concentration:

Bhutan’s exports are concentrated in a few key commodities, with silicon being the most significant. This concentration suggests limited diversification, which could be a risk if global demand for these commodities declines. Diversification into other sectors could enhance economic stability.

Limited Market Diversification:

While Bhutan engages in trade with several countries, the volumes are relatively small compared to India. Expanding trade relationships with other countries could provide new opportunities and reduce dependency on a single market.

Stable Import Patterns:

The import patterns show consistency in terms of key commodities like oil, ferrous products, and rice. These stable patterns indicate a steady demand for essential goods, highlighting areas where Bhutan may need to develop domestic alternatives to reduce import dependency.

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5.3 Foreign direct investment (FDI) in Bhutan

Foreign Direct Investment (FDI) refers to when a party invests in a business or corporation in a different country, aiming to establish a long-term stake or interest (Hayes, 2024). In Bhutan, an FDI company is an entity incorporated under the Companies Act of the Kingdom of Bhutan, primarily for conducting commercial activities within the nation. This company must have a minimum of 20% equity held by foreign investors, with individual foreign investors required to own at least 10% equity. For foreign institutional investors, the FDI company must have at least 10% of its equity owned by such institutions (MoICE, 2023).

Key Highlights of Bhutan's FDI Framework:

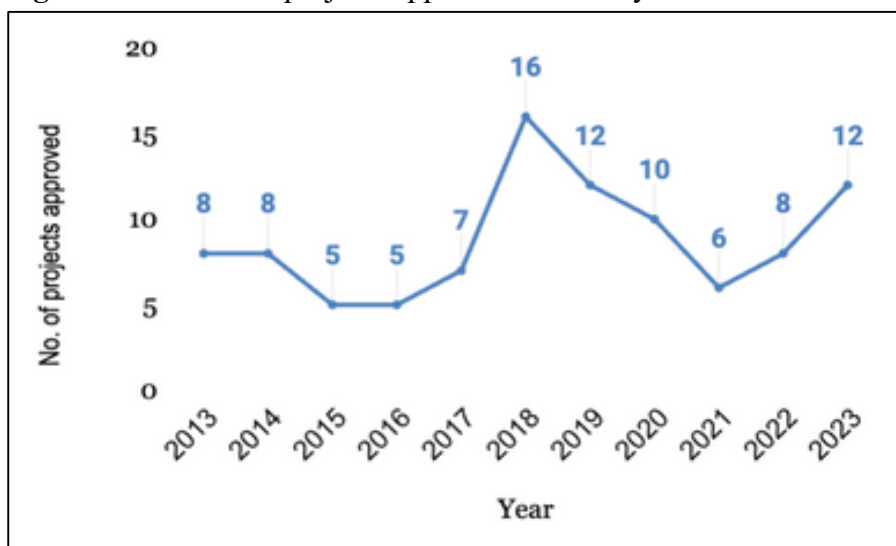
i. FDI Policy Evolution:

Bhutan introduced its first FDI policy in 2002, with significant revisions in 2010, 2014, and the latest in 2019. These revisions aim to create a more investor-friendly environment and adapt to changing economic conditions. The FDI Policy of 2019 notably emphasizes maximizing equity shareholding for foreign investors, allowing up to 49% participation in most sectors, while also permitting 100% foreign ownership in select high-priority sectors (MoICE, 2023).

ii. Sectoral Distribution:

The distribution of FDI inflows in Bhutan reflects a strong focus on the service sector, which includes areas such as hospitality, information technology, and IT-enabled services. However, other sectors are also attracting FDI, including manufacturing, dairy, and agro-based projects. As per FDI Annual Report, 2023, the Department of Industry authorized 12 foreign investment projects worth BTN 7,606.95 million in 2023, out of which seven of the projects are in the service sector, and five are in the manufacturing sector, highlighting the diverse opportunities for investment across various industries.

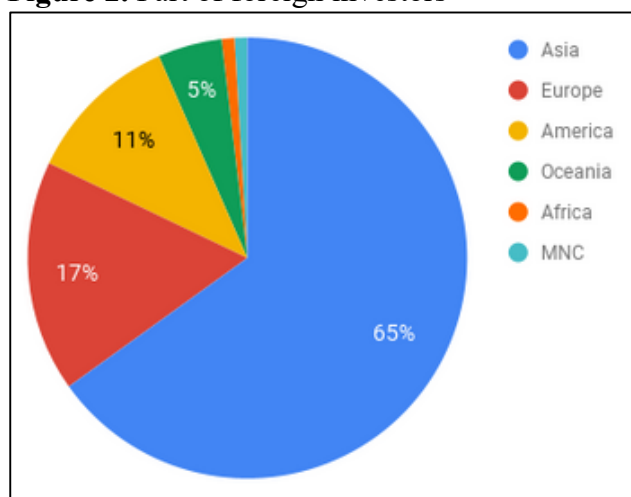
Figure 1. No. of FDI projects approved over the years



Source: MoICE, FDI Annual Report (2023)

The total number of FDIs as of 2023 is 108 projects, in which India remains the major source of investment in Bhutan with a 57 % share followed by Singapore (13 %) and Thailand (10 %). In this overall, Asia accounts for over 65% of foreign investors, followed by Europe (17%) and America (11%) (MoICE, 2023).

Figure 2. Part of foreign investors



Source: MoICE. FDI Annual Report (2023)

iii. Investment Incentives:

To attract foreign direct investment (FDI), Bhutan offers several incentives that create a favorable investment climate. These include a low-emission development environment, political stability, and transparency, along with subsidized electricity (Royal Bhutanese Embassy, n.d.). Additionally, the government has recently announced that it will allow 100% foreign ownership in the agriculture sector for FDI. This decision was made during the opening session of the Bhutan Agrifood Trade and Investment Forum (BATIF) 2024, highlighting the government's commitment to enhancing investment opportunities in key sectors (World Bank, n.d.).

iv. Regulatory Framework:

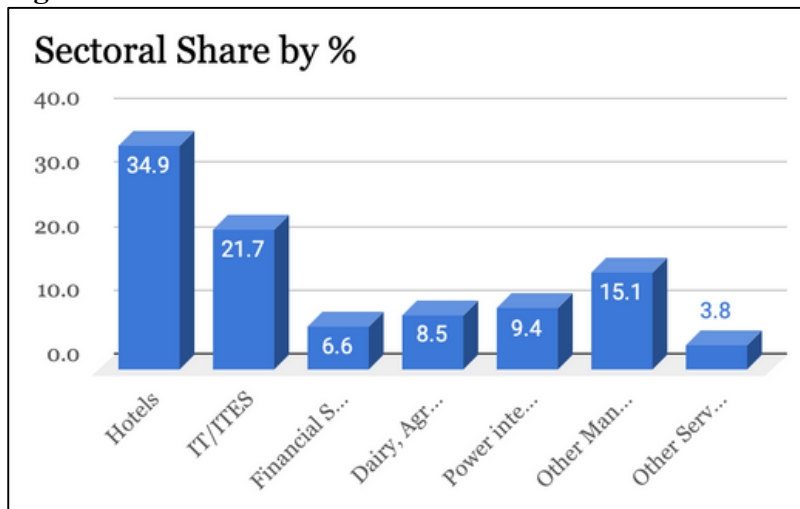
All businesses engaging in FDI must incorporate under the Companies Act of the Kingdom of Bhutan, which ensures that they comply with the local corporate governance standards. In 2019, the Ministry of Economic Affairs established an FDI Division specifically to promote investment and provide single-window services to investors. Whereby, under the FDI Policy 2019, a maximum equity shareholding of 49% is allowed to foreign investors by the government with a minimum project cost for small-scale production and manufacturing sectors set at Nu. 5 million (MoEA, 2019).

v. Geographical Distribution and Employment:

Foreign investment projects in Bhutan are primarily concentrated in the Chukha, Paro, and Thimphu Dzongkhags. As of December 2023, these projects directly employed 4,327 Bhutanese individuals, with a gender distribution of 47% female and 53% male (Royal Bhutanese Embassy, n.d.; MoICE, 2023). The highest number of FDI received is in the hotel sector with 34.9 % followed by IT sector with 21.7% as per the FDI Annual report, 2023.

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Figure 3. Sectoral share of FDI



Source: MoICE. FDI Annual Report (2023)

vi. Agriculture Sector Focus:

To enhance the production of six key agricultural commodities—mandarin oranges, quinoa, rainbow trout, black pepper, asparagus, and strawberries—the government will allow 100% foreign ownership in the agriculture sector. Bhutan has set ambitious targets to increase the agriculture sector's contribution to the GDP, aiming for \$365 million in 2022, \$625 million by 2029, and \$854 million by 2034 (World Bank, n.d.).

However, despite the conducive policy environment, Bhutan's FDI inflows have been relatively modest, averaging less than \$20 million annually since 2010 (World bank, n.d.). However, Bhutan's unique selling points, such as its commitment to Gross National Happiness (GNH) and clean, green environment, offer a unique investment appeal. Bhutan's policies aim to attract responsible and sustainable investments that contribute to the country's long-term development goals.

5.4 Trade policies and regulations affecting international business

Bhutan's trade policies and regulations are designed to foster international business while maintaining sustainable development and economic stability. The key elements influencing international trade and business in Bhutan include its trade deficit, membership in regional trade agreements, and sector-specific regulations.

Trade Deficit and Economic Overview

Bhutan has consistently registered a trade deficit since 2008, primarily due to higher imports compared to exports. In 2023, Bhutan exported BTN 52.9 billion worth of goods and imported BTN 108.4 billion, resulting in a trade deficit of BTN 55.5 billion. The primary trading partner is India, which accounts for over half of Bhutan's total exports and nearly 80% of its imports. Other significant trade partners include Bangladesh, Italy, Nepal, China, Singapore, and Thailand (Lloyds Banks, 2024).

Trade Policies and Regulatory Framework

Bhutan's trade policies are influenced by several regulatory frameworks:

i. Customs Rules and Regulations of Bhutan: Revised Edition 2023:

The Customs Rules and Regulations of Bhutan govern the import and export of goods, ensuring adherence to both national and international standards. These regulations include various provisions related to the valuation, classification, and clearance of goods, as outlined by the Ministry of Finance (MoF, 2023).

In accordance with the Customs Duty Act of Bhutan 2021, customs duty is levied on imported goods during international business. This duty is applicable during the importation process, reinforcing the need for compliance with established customs regulations to facilitate smooth trade operations.

ii. Bhutan Trade Information Portal (BTIP):

The BTIP provides essential trade information, including market analysis, export-import procedures, and strategic resources for entrepreneurs. It serves as a one-stop-shop for all trade-related information and is managed by the Ministry of Economic Affairs (MoE, 2023).

iii. Sector-specific policies:

The government of Bhutan has introduced various sector-specific policies to enhance economic growth and development. In the agriculture sector, the government has recently allowed 100% foreign ownership, which aims to boost production of key commodities. This initiative is a part of the broader goal to increase the sector's contribution to GDP (World Bank).

In addition, the service and manufacturing sectors have also seen significant developments. In 2023, 12 foreign investment projects worth BTN 7,606.95 million were authorized, with a significant focus on the service sector (hotels, IT/ITES) and manufacturing (MoICE, 2023). These initiatives reflect the government's commitment to attracting foreign investment and fostering growth in key industries.

iv. Investment Regulations

Foreign Direct Investment (FDI) in Bhutan is governed by the FDI Policy 2019 and the Companies Act, some of the rules include minimum of 20% equity must be held by foreign investors in FDI companies. Specific incentives for various sectors, including full foreign ownership in high-priority areas like agriculture and IT services (MoICE).

v. Regional and International Trade Agreements

Bhutan is a member of several regional trade agreements which facilitate international business, whose rules and regulations also apply when engaging in international trade:

- South Asian Association for Regional Cooperation (SAARC)
- Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)
- Agreement on South Asian Free Trade Area (SAFTA)
- World Trade Organization (WTO)

These memberships aim to enhance economic cooperation and trade liberalization within the region, offering Bhutan access to larger markets and potential trade benefits (Lloyds Banks, 2024).

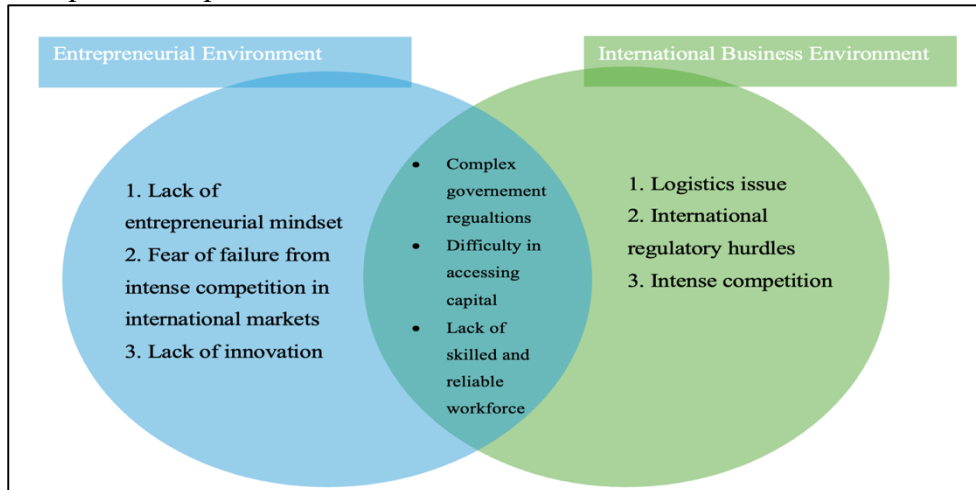
5. Analysis and Findings

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Identification of key factors influencing the relationship between entrepreneurship and international business in Bhutan

As per the data analysed from various sources, the key factors influencing the relationship between entrepreneurship and international business in Bhutan can be classified into two categories i.e. from the side of the entrepreneurial environment and the international trade environment:

Figure 4. Prepared by group. Venn diagram on key factors influencing the relationship between entrepreneurship and international business in Bhutan



7. Discussion

7.1 Synthesis of findings and comparison with existing literature

The study reveals multiple issues that entrepreneurs in Bhutan face, which align with findings from existing literature. According to Fujita, Lhendup, and Thinley (2022), challenges faced by entrepreneurs in Bhutan are related to the complex and lengthy process of establishing businesses, difficulty in accessing finance, and lack of entrepreneurial mindset with many preferring government jobs.

Furthermore, Bhutan's ranking of 89th out of 190 countries in the Ease of Doing Business (EOB) index, as reported by the World Bank (2020), shows the presence of complex government regulations and procedures. These factors contribute to a challenging business environment characterized with complex administrative procedures, difficulty in accessing finance, and a lack of business culture. The importance of nurturing an entrepreneurial mindset is emphasized by Cooney (2012), asserting that having an entrepreneurial mindset and upskilling is important for business growth. The OECD SME and Entrepreneurship Outlook Report (2019) further highlights the significance of nurturing an entrepreneurial culture to drive innovation and economic growth.

Access to capital remains a critical challenge for entrepreneurs, as noted by the Asian Development Bank (2022). They identified that lengthy loan processes and difficulties in accessing credit facilities hinder financial support for businesses in the country. According to Dolkar (2022), small and medium enterprises (SME) have complained of needing to know the bank officials personally to get the loans sanctioned during the sensitization of credit lending

schemes between private sectors and financial institutions meeting in July, 2022. This aligns with the observations made by Giudici, Sannajust, and Auken (2021), who state that access to finance is essential, as SMEs play a significant role in the international business landscape.

Lastly, logistical issues present another hurdle for businesses in Bhutan. Warr (2012) points out that landlocked countries historically face challenges in adopting export-oriented development strategies, often resorting to inward-looking approaches. Supporting this, Business Bhutan (2019) states that the lack of railways and waterways, huge dependency on Port of Kolkata, limited air travel poses hurdles to businesses in Bhutan. Overall, these findings highlight the interconnected challenges that must be addressed to foster a more conducive environment for entrepreneurship and international business development in Bhutan.

7.2. Implications for entrepreneurship and international business development in Bhutan

The findings reveal that there are multiple hurdles for initial business establishment and then for that business to grow and become internationally capable. If no interventions are carried out, the development of entrepreneurship and its contribution to economic development may continue to be very little. Cooney (2012) states that the relevance of entrepreneurship to economic development has been established by multiple studies. Entrepreneurship drives innovation, creates jobs, and fosters economic growth. In the context of Bhutan, overcoming these hurdles is crucial to harness the potential of entrepreneurship for national development.

Regulatory challenges pose significant obstacles, as complex and lengthy processes of establishing businesses and accessing finance create barriers for entrepreneurs. Without regulatory reforms that simplify and streamline these processes, new businesses may struggle to survive, limiting their ability to grow and expand into international markets. More entrepreneur-friendly regulatory reforms are essential to create a more conducive environment for business operations.

Financial accessibility is another critical issue, as many entrepreneurs face difficulty in securing the capital needed to start or expand their business. Without improvements in financial accessibility, many potentially viable business ideas may never materialize. Policies that facilitate easier access to credit and financial resources are necessary to foster entrepreneurial ventures. The lack of an entrepreneurial mindset and preference for government jobs over entrepreneurship stifle innovation and business creation. Fostering an entrepreneurial culture through education and awareness programs can encourage more individuals to consider entrepreneurship as a viable career path. Developing entrepreneurial skills at an early stage through educational reforms will be key to shifting societal perceptions.

Inadequate infrastructure and logistical challenges hamper the ability of businesses to operate efficiently and engage in international trade. Improving transportation networks, digital infrastructure, and connectivity are essential to enhance connectivity and reduce the cost and time of doing business. Government support is crucial for addressing challenges related to regulations and international trade. Complex government regulations and insufficient knowledge among officials can discourage both local and international business activities. Government support in the form of trade agreements, export advisory services, and participation in international trade organizations can help businesses overcome these challenges and access new markets while boosting their competitiveness.

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Finally, the availability of a skilled workforce is another significant hurdle. Many businesses struggle to find employees with the necessary skills to meet their needs. Providing vocational training and skill development programs aligned with industry demands can ensure that the workforce meets the demands of modern businesses and supports their growth and internationalization.

7.3 Policy recommendations for promoting the internationalization of Bhutanese entrepreneurial ventures

i. Regulatory Reforms

Simplify and streamline business registration and licensing processes by adopting best practices from countries like Singapore, which consistently ranks among the top five in the Ease of Doing Business (EOB) index. Singapore's "GoBusiness Licensing" portal offers a single registration window for new business registration and fee payments, providing a seamless experience for entrepreneurs. In addition, Singapore's corporate income tax (CIT) at 17%, one of the lowest in the world, has contributed to establish its pro-business environment, benefiting local businesses and attracting international businesses (World Bank, 2019).

In contrast, Bhutan's CIT stands at 30% for fully tax-liable firms and 25% for limited tax-liable companies, which may discourage business growth. Therefore, the government could explore reducing CIT to encourage business establishments and allow firms to retain larger profits. This would enable companies to increase retained earnings, facilitating growth, expansion, or reinvestment in research and development.

ii. Development of entrepreneurial mindset and capacity building

Incorporate entrepreneurial studies into the national syllabus to foster an entrepreneurial mindset from an early stage. Additionally, provide seminars, training programs, and mentorship opportunities to equip individuals with practical skills and knowledge. Furthermore, popularize success stories of Bhutanese entrepreneurs, such as Bhutan Blossoms, to inspire and motivate aspiring entrepreneurs.

iii. Sensitization of relevant government agencies

Improve coordination and efficiency, by making it mandatory for relevant government agencies to meet regularly and collaborate. Additionally, establishing a common web portal will streamline access to information and provide updates on any changes in service delivery rules. Furthermore, setting up an entrepreneurship development and international trade office, along with a customer complaints division, to address discrepancies and ensure seamless access to trade-related information.

iv. Enhance Financial Accessibility

Develop specialized financial products for SMEs and startups, and establish government-backed loan guarantee schemes like the National Credit Guarantee Scheme launched during the pandemic but later discontinued (Dolkar, 2023).

v. Launch more initiatives like the Expanding Horizons guidebook

vi. Skill Development Programs

Offer vocational training aligned with industry needs and foster collaborations between educational institutions and businesses.

8. CONCLUSIONS

8.1 Summary of the study's key findings

The study revealed several factors contributing to Bhutan's 89th position in the Ease of Doing Business (EOB) ranking out of 190 countries. Key challenges include complex government regulations, coupled with a lack of awareness among government officials. Limited access to finance and inadequate infrastructure, compounded by the country's geographical challenges, further restrict business growth. Additionally, there is a shortage of a skilled workforce and an entrepreneurial mindset, limiting innovation. Moreover, Foreign Direct Investments (FDIs) are predominantly concentrated in the hotel sector, signaling a need to diversify investments. The study emphasizes the importance of policy reforms and enhanced capital access avenues to facilitate entrepreneurial growth and facilitate international trade.

8.2 Contributions to the Field of Entrepreneurship and International Business

This research makes several significant contributions to the fields of entrepreneurship and international business. It applies both case studies and comparative analysis to provide insights by drawing parallels between Bhutan's entrepreneurial landscape and those of other economies. Through longitudinal studies, the research tracks changes and trends in trade balance and economic growth, offering a broader understanding over time. It also sheds light on the entrepreneurial ecosystem of small developing economies like Bhutan, revealing how regulatory, financial, and cultural factors shape these ecosystems.

Moreover, the study identifies key barriers hindering business growth and internationalization, such as complex regulations, limited financial access, logistical issues, and a lack of entrepreneurial mindset. With these, policy recommendations which can be used to stimulate entrepreneurship and facilitate international business development include, simplifying regulatory processes, improving financial accessibility, promoting entrepreneurial culture, and developing infrastructure to support business growth. In addition, the importance of financial accessibility for small and medium enterprises (SMEs) is also highlighted, with suggestions for improving credit availability and fostering financial inclusion. The study underscores the need for education reforms to integrate entrepreneurship at all stages, thereby nurturing an entrepreneurial mindset from an early stage. Furthermore, briefly highlights the impact of government policies on entrepreneurship, evaluating the existing regulatory environment and system.

8.3 Suggestions for Future Research

This study identifies several areas for future research. Future studies with proper data collection can help strengthen the understanding of the link between entrepreneurship and international business in Bhutan. Additionally, the impact of regional trade agreements on Bhutan's international trade dynamics along with the effects of specific government policies, such as high taxation, on entrepreneurship and trade can be further examined. Another scope for future research involves analyzing how FDIs influence Bhutan's trade and entrepreneurial environment, helping policymakers craft more effective strategies to attract and manage foreign investments.

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