

Role of private and public sectors in bhutan



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The public sector is that part of the economy owned and controlled by the state and local governments. The word 'public' signifies the government or state. The part of the economy that is concerned with providing basic government services, such as the police, public roads, primary education and healthcare. These services benefit whole society rather than just the individual who uses the service such as public education that is the benefits are collectively consumed and are non-excludable that is, no one is excluded from enjoying the benefits by application of charges or fees and equal opportunities are given to the society.

Wilson & Clark defined private sector as "that part of economy that is owned by individual and operated for their personal benefits." (1997, p. 76). The producers in this sector receive compensation for the full opportunity cost of production. Here all the activities are controlled by the individual and the profits are solely owned by the owner of the firm, as their main aim is maximize the profit. There is perfect competition in this sector and the private individual make no hindrance to their business either shortage of resources or complete exhaustion of resources in the future, therefore, the resources are efficiently used.

Thus to produce or provide certain goods and services for public sector, the governments usually hire private firms. For example construction, manufacture, recreation areas and so on.

Therefore this assignment will be mainly focusing on role of private and public sectors play in economic development of modern Bhutan, history of both the sectors development in Bhutan, indicators of economic

development of Bhutan, contribution of both the sectors towards GDP (Gross Domestic Product) of Bhutan, employment contribution from both the sectors, and the difficulties in development of both the sectors in Bhutan.

Role of Public and Private sector in Bhutan.

The economic development of a country depends upon the size of the role of public as well as private sector.

Social overheads

It is the role of public sector to create social overheads such as technical institutions, hospitals, schools, etc. whereas the private sector cannot be expected to put his capital in such projects where no money return can be expected. The returns in the form of better health and higher education accrue to whole society rather than to the individual investors.

Economic overheads

The investment in economic overheads like roads, hospitals, etc. is too large to be within the reach of any individual investor. Moreover, the return from such is not only low but it involves long development period. Thus, only the governments can effort to invest in economic overheads which create external economies for the other industries and accelerate the economic growth.

Optimum allocation of resources

Public sector plays a vital role in bringing about optimum resource allocation so that economic development is promoted. But due to their profit motive,

private sector misallocate the resources like private sector invest on the production of non-essential goods for rich, whereas the public sector invest for masses. Thus, public sector promotes social welfare and economic justice.

Balance of regional development

The private sector will not take a risk of investing in underdeveloped regions because these regions does not ensure high economic and commercial returns due to lack of infrastructure facilities but the government can create infrastructure in these regions and quicken their growth.

History of Private and Public sector development in Bhutan.

Bhutan is landlocked country and its developmental activities are in slow process due to lack of entrepreneurial ability, small domestic market, lack of skilled Bhutanese workers and lack of good transportation. Before private sector was relatively underdeveloped, the only private sector activity was the agriculture in Bhutan. Bhutan stepped into modernization in 1950s and the transformation of the economy has been started.

From the beginning of 1st Five Year Plan (FYP) in 1961 till 6th FYP more was focused on the development of public sectors like infrastructure, construction of roads, schools. During those years public sector had been significantly developed in the urban areas whereas, the development of private sector was started only during 7th FYP. Since then, the Royal Government has privatized the tourism industry, transport services and road infrastructure and maintenance, and divested a significant portion of its

holdings in many public sector enterprises. Over the years, economy has developed significantly and that fostered private sector.

Today, Bhutan's private sector is operating in a wide range of activities from power intensive industries such as cement, ferroalloys and calcium carbide.

Indicators of Private and Public sector development of Bhutan

Followings are some indicators of public and private sector development of Bhutan;

Gross Domestic Product (GDP)

According to National Statistical Bureau, 2010, the real GDP in 2008 was Nu. 38, 087. 98 million and it increased to Nu. 40, 650. 64 million in 2009. The growth rate in 2009 was 6. 73% while it was 4. 70% in 2008. There was an increase by 2. 03%.

And the nominal GDP rose to Nu. 61, 223. 46 million in 2009 from Nu. 54, 712. 88 in 2008 showing an increase of Nu. 67460. 77 million. The sectors which mainly contributed to the growth in 2009 are Social, community, and personal services with 28. 59% and construction with 16. 53%, transport and communication with 9. 23%, Manufacturing with 6. 68% and Trade and Finance with 6. 20%.

Poverty

Literacy level, employment and income level and quality of life indicate the level of poverty. One of the aims of 10th Five Year Plan is to reduce poverty

level, by giving more employment opportunities, education and infrastructural development especially in the rural areas. Thus, both the public and private sector has more important role in reducing the poverty level in the country.

Literacy rate

Education is the most important indicator which when more people are educated more will be the contribution in the economic development of the nation. Thus, higher quality of education and literacy rate is the spot of socio economic progress of the country. In 2005, with a total population of 558, 522 persons of age 6 years and above, 332, 194 are literate resulting to a national literacy rate of 59. 5%. Among the male population, 69. 1% are literate while the female literate population is 48. 7%. The overall literacy level for Bhutan is 59. 5 %.(Population and Housing Census of Bhutan, 2005)

Contribution of Public and Private sector towards GDP (GNI) of Bhutan

Private and Public sector contribution to economic growth in Bhutan is very significant. When we look at the overall contribution of the private and public sector towards the GDP of our country, private sectors contribution is more. Even the growth rate of private sectors is increasing in the recent years and the capital formation as well, as the profit maximization is their main aim, that is when they get profit they go for further investment which leads to more capital formation.

Employment contribution from both the sectors

Though employment data is weak in Bhutan, as per the Bhutan Private sector Survey, 2002, it is estimated that around 60, 000 people of the population are employed in the private sector and around 22, 000 are in the public sector out of which 14, 258 are employed in the civil service. This implies that around 60% of total sector jobs are in the private sector, and estimated 50% of the total private workers are held by non-nationals. The share of non-nationals in public sector institution is likely to be very small and majority of them works in private sector.

Agriculture being the predominant sector provides employment to around 65. 37% of the labor force. The important emerging sector generating employment opportunities for the rapidly increasing labor market is the private sector. Out of the total projected population of 679, 700, total of 312800 were found employed and 12, 900 were found to be unemployed in from the total labor force of 325, 700. A labor study found that 63% of the Bhutanese population is employed in the private sector and followed by the government with 24% and 10% in public sector and 3% in non-governmental sector. While the unemployment rate of at the national level is found to be 4% with reference to the Labor Force Survey 2009.

Difficulties in development of Private and Public sector in Bhutan

The difficulties in the development of private and public sector are as follows,

Lack of skilled Bhutanese workers; even if there is a rapid advancement in the field of education, skilled Bhutanese workers are extremely limited because Bhutanese are not willing to undertake the low cost unskilled work. Thus, the lack of skilled Bhutanese workers and unwillingness to work has forced our private and public sector to remain technically rearward leading to incredibly slow growth rate.

Lack of Infrastructure; because of the lack of infrastructure, entrepreneur will depend on the human recourse which is expensive thus, it is the core hindrance in the development of private sector in Bhutan

Landlocked country: Bhutan being landlocked country, it is costly for the entrepreneur to set a firm, as they would not set a firm where there is less population and no profit.

Lack of entrepreneurial talent due to the very new nature of most private sector activities in Bhutan

Lack of market: due to small domestic market, the private entrepreneur faces difficulties in setting a firm.

Limited institutional and regulatory capabilities to make effective use of credit facilities.

CONCLUSION

Public sector is the part of economy that is controlled by the government where as the private sector is not controlled by the government but owned by the private individuals who aims for profit maximization. To produce or provide certain goods and services the public sector overlaps with the

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private sector. Public sector plays many roles in promoting the economic development but the private sector is in growing stage. With the passage of time now Bhutan's private sector is operating in a wide range. And the employment contribution is more from the private than public sector; we can find more employees in private sector. Again private sector is the one who contribute more towards GDP so as to maximize their profit for capital formation.

Improvement must be made in the access of public sector firms to capital, technologies and knowledge and encourage foreign direct investment to enable them to acquire the technologies required for further economic and industrial development. It should also be encouraged in those areas which result in the sustainable creation of high quality employment and the transfer of the skills and knowledge required to increase the nation's further development and also the obstruction such as small domestic market, lack of entrepreneurial talents, lack of infrastructures and domestic skilled and unskilled workers.