

Private sector contribution to gdp



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Introduction

Private sector can be defined as “ the part of an economy that is owned by individuals and operated for their personal benefit. It is made up of private citizens” Wilson& clark (1997, p. 76) though the private sector is not managed by the government and their motive is to make profit and to invest it and help us to make more money if we have talent and education there by equalizing the accountability. Under private sector producer receive a compensation for the full opportunity cost of production, provides benefit only to the individual who consume the goods and to no one else.

Whereas the public sector can be defined as ” the public sector is the part of an economy that is owned by and operated of the whole benefit of economy” Wilson & clark (1997, p. 77) in some countries of the developed world and not the developed world of organization such as manufacturing plant is part of the public sector. The public sector has more resources and its disposal and carries out the projects with the public money. For example that is collected from tax. Their main motive is to seek the well being of the country and to help the citizens in the economic development.

As the Bhutanese economy is amongst the worlds smallest and least developed, since it is based on agriculture, fisheries and farming and forestry which provides for the livelihood for more than 60percent of the general populace. Its economy is closely aligned with India’s through strong exports and imports, monetary links and dependence on India’s financial aid as a result the industrial sector is technologically backward with most production of cottage industry type. However hydropower exports to India have boosted

Bhutan's Gross Domestic Product (GDP). Again New hydro power project will be the driving force behinds Bhutan's ability to create employment and maintain growth in the coming years.

This assignment contains the analysis of the history of private and public sector in Bhutan, its indicator for the economic development, its contribution towards GDP, employment contribution from both the sectors, and difficulties in the development of private and public sector in Bhutan.

History of private and public sector

The commencement of first five year plan (FYP) had transformed rural barter economic system to modern economy by ending the age old policy and brought the country into international mainstream. The privatization in Bhutan began in the 6th (FYP 1987-1992) with the privatization of public sector Undertaking Corporation of government agencies and disinvestment of government equity with the objectives to increase the productive employment within the country, the private sector development committee was formed in the year 2000 and was reconstituted in 2009. The royal government of Bhutan had issued over 9000 industrial licenses and 12000 trading license and 124 companies were registered. Since most of the Bhutanese private sector is dominated by medium, small size companies and which have less than 10 employees and around 8.5 percent of them are classified under mini industries. By the end of 10 FYP private sector is expected to take all the commercial activities where the government would remain as the facilitator and the regulator of the private sector. Although Bhutan has made progress in modernizing its economic structure and reducing poverty. The public sector especially the hydro power has long

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been the main source of economic growth, still government recognizes that developing private sector is crucial. Until a few decades ago our country had remained agrarian country with few roads, little electricity and no modern hospitals. But recent interregional economic cooperation particularly in area of trade with Bangladesh and India has helped to encourage economic growth . Bhutan has moderate income tax and corporate tax rates. The top income tax is 25 percent, and the corporate tax rate is 20 percent. In the most recent year total government expenditure including consumption and transfer payment decline slightly to 34. 6 percent of GDP, public spending is targeted towards transportation infrastructure and hydro power. External borrowing from India for hydro power is responsible for high public debt, but the fiscal balance remains stable although there is currently no frame work for them. (Economic development policy of the kingdom of Bhutan)

Indicators of the economic development

The main indicators for the economic development in Bhutan include social, economic, and the human development index. The level of education and the availability of and the access to education facilities, quality of health and availability, cultural life, the harmony among the different communities indicates for the economic development. In the Bhutanese economy real GDP growth was higher at 6. 7 percent in 2009, up from the previous year growth of 4. 7 percent driven by the accelerated performance in the construction and service sectors. Reduction in the incidence of poverty, progressive improvement in the standard of living , extent of freedom in choice of vocation and mobility among geographical areas for the pursuit if gain employment openness of the economy to the international trade and

capital flows, lower incidence of corruption, transparent competitive markets and transparent regulation of markets, and extent of free enterprise. The human development represents a measure of the quality of life. Such as the life expectancy with the provision of a clean water supply and adequate nutrition and the adult literacy combined with the years of schooling. Indeed Bhutan has almost coverage of these facilities and thus it shows as the indicator for the economic development in Bhutan.

Contribution of public and private sector towards GDP

Since the government has been and had remained the driving force behind the development of a modern sector of the economy. It has acted as the principal producer and the source of demand through infrastructure projects. With the expanding range of government development services within the traditional sector has stimulated to increase in production and development. Similarly private sector has led as an engine for the economic growth. The policies have been implemented to maintain macro-economic stability by liberalizing the financial system. Thus both the sector has contributed a lot in GDP which is shown in table;

It is estimates that around 60, 000 people are employed in the formal sector and about 22, 000 are employed in public sector of which 14, 258 are employed in the civil service. 60 percent of total formal sector jobs are in the private sector and 50 percent are held by non- nationals. The share of non-nationals in the public sector institution is likely to be very small and about 30, 000 non-nationals workers are employed in the private sector. Over the decade 2001-2010, it was projected that approximately around 90, 000 school leavers and graduates will be produced by the school system. At

present the current formal sector work force is only 60, 000 and the creation of an additional 90, 000 jobs appears as a formidable challenge. (Labour force survey 2010)

Difficulties in development of private and public sector

According to World Bank's second investment climate assessment survey, 2009 states that Bhutan has a small, new and relatively underdeveloped private sector. Prior to opening up the economy in the 1950s the only private sector activity was agriculture supplemented by some trading activities, since that date the transformation of the economy has been dramatic with a rapid growth in urban centers, establishment of basic set of infrastructures services, and the development of hydro power sector over the years the economic growth has in turn encourage private and public sector development but however there are some difficulties in the development of these sectors in our country which are as follows.

In the development of private sector training emerged as an area of considerable weakness given the linkages between worker training, work productivity and firm growth. It is important to ensure that a correct set of incentivizes are putting place to encourage firms to undertake more training.

Another difficulty in the development of private sector is lack of equipment and processes. Private sector most of the private sector are operated with outdated and in effective equipment. In order to be competitive and grow they need to adapt with international best technologies.

A management capability is one of the most problems in the construction of firms in Bhutan. Since in our country most of the managers are being

technically unqualified and inexperienced one. At present around half of the managers came from the civil service background which indicate that very small share of total had any work experience with a foreign firm and those are mainly in India as a result they do not know what skills to employ to support their business activities and they often unfamiliar with the best practices and relevant technologies required for their line of operation.

The unwillingness of Bhutanese workers to undertake the blue collar jobs as a result the gap between demand and supply had continued to decrease. Beside that the strict regulation for hiring the foreign laborers has become an issue for the private as well as for the public sector development. In order to bridge the gap satisfactorily and to increase the productivity of the both sectors the government should revise them where necessary and also government should pursue the promotion of mechanization and to offset the lack of required domestic manpower.

Lack of clarity and systematization is not only a difficulty in the development of public sector but as well to the private sector because lack of good information system opens the same doors to corrupt and other bad business activities.

High rate on interest between 7 to 10 percent shows that cost of capital is exceedingly high in Bhutan which results to serious implication for any policy and seeks to promote increased capital intensity and mechanization in production processes.

In the public sector founding a credit information is not only a problem of coordination among the lending institutions. If the lending institutions do not

have good records of the credit history of their own borrowers then a joint credit information bureau is unlikely to succeed. (Ministry of planning commission)

Recommendations

The development of private sector is partly constrained by the shortage of domestic capital as well as by indigenous entrepreneurial capacity and technological. The government should therefore continue with its current policy of foreign equity participation.

Since Bhutan is experiencing a shortage of skilled and semi skilled labor which is expected to continue in future too. In order to gap between the demand and supply government should review its procedures for the employment of expatriate labor and pursue the promotion of mechanization to offset the lack of required domestic manpower.

After carrying out the relevant studies government should promote divestiture of public sector where ever it is appropriate and is feasible.

Government should give high priority to human resource development for the private sector in order to have domestic entrepreneurship, management and associated skills, and training in technical fields,

Conclusion

Public sector and private sector enterprises were given priority during 6th and 7th FYP. The public sector especially the hydro power has been the main source of economic growth, still government recognizes that developing private sector is crucial. Today Bhutan private sector is opening in a wide

range of activities. It is found that both the sector has contributed a lot in employment about 60, 000 people are employed in the formal sector that is about 22, 000 are employed in public sector and around 60 percent are employed in the private sector. The real GDP growth has accelerated to 6. 7 percent during 2009 which shows a progressive in economy. The per capita income was recorded at us &1852 at the same time unemployment has gone to 3. 7 percent in 2008. Reduction in the incidence of poverty, increase in life expectancy, improvement in the living standard, openness of the economy to the international trade is some of the indicators of the economic development in Bhutan. Although within a short span of time public and private sector have contributed much towards economic development still our country has left behind as compared to other country due to some draw backs in both the sectors. However privatization is necessary in developing countries like ours as its privatized institution and companies worked well and care about customer satisfaction in the good way where as the public sector is so good that there is no need to think about privatization.