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Public and Private Sector in Bhutan

Anil Kumar

Associate Professor in Economics

Govt. P.G. College

Una, Himachal Pradesh, India

Abstract - On the onset of the process of economic development, least developing countries depend upon the public sector to take initiative for changing the economic condition of their economies. The Private sector of such countries is largely found in least developed stage because of the poor economic conditions of the people, high illiteracy rate, lack of entrepreneurship, and basic infrastructural facilities. The governments of least developing countries underwrite the ventures and network of prerequisites to boost their economic development. It makes huge investment in social as well as economic infrastructural facilities like education, health, water supply, network of roads, railways and airports, electricity, different kinds of industries, automation of agriculture and research and development which facilitate and boost the economic growth and raise the living standard of the people. As the infrastructural network is set up, different industries and public utilities enterprises starts come up under the control of state. They start getting payments against the services they render in the production of various goods and services. After having met their consumption expenditures, they start savings on the account of an improvement in their economic conditions. It begets the spirit of entrepreneurship among common people which develops the private sector. It increases the size of the gross domestic savings of the least developing countries, which leads to gross domestic capital formation, production, employment, and income in these economies. When people starts getting more income after working in public enterprises and government institutions, they plan to start their own business activities by setting all kind and size of industries. The origin and growth of private sector together with public sector expedite the economic activities and revolutionize their economy.

INTRODUCTION

“Public sectors are defined as the production owned and controlled by the public hand. The public here refers to nationals, state, or provincial and local government”.¹ As per the Encyclopedic Dictionary of Economics (1986), public sector refers to the entire system of production and distributions which is managed, owned, controlled, and financed by the state. In a simple form, it can be termed as the part of the economy concerned with providing basic government services. In most of the countries public sector includes services like police, military, public roads, public enterprises, primary education and health care for all individuals in a country. The part of national economy which is made up of resources owned by the private enterprise may be termed as the private sectors. Private sector enterprises are characterized by the

¹ Richard G. Lipsey et al., 1982, p. 35.



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ownership and management in private hands, personal initiatives and profit motives.² These usually includes corporations (both profit and non-profit), partnerships, and charities. An easier way to think of the private sector is by thinking of organizations that are not owned or operated by the government. For example, retail stores, credit unions, and local businesses will operate in the private sector. According to Wilson & Clark, Private sector is that part of economy that is owned by individual and operated for their personal benefits. The private sector consists of business activity that is owned, financed and run by private individuals. This business can be small firms owned by single proprietor, or large global business that work around the world. In the case of large business, there might be many thousands of owners involved. Usually private sectors are not controlled by the government and their main objective is to make profit. Tashi Company, Silicon factory, Dungsam cement factory, Fruit factory are some of private industries in Bhutan.

ROLE OF PUBLIC SECTOR IN BHUTAN

The public sector is playing a dominant role in the development of Bhutanese economy like other developing countries. The pioneering role of the public sector is required because of its late journey for modernization as it remained in self-imposed political isolation until 1961 which did not allow it to be modernized like other economies of the world, a weak private sector, the high cost of infrastructure and the need to provide numerous public services that are indivisible. Government related expenditure (including Expenditure in hydropower projects) accounts for almost half the GDP, whereas donor financed capital investments represent almost half the government expenditure. The civil service is a major source of formal sector employment and the construction sector is dependent on contracts related to government or donor-funded activities. It is for this reason that the country is dependent on state-led economic development and change. The hydropower sector, which is the major engine of economic growth, is entirely financed and managed by the government. Government made investment in various sectors such as health, education, communication, forestry, agriculture, banking, road etc. during the planning period. The public sector initiative towards the generation of hydro-electricity by setting Chukha hydropower plant (336 MW), Basochhu hydropower plant (64 MW), Kurichhu hydropower plant (60 MW), and Tala hydropower plant (1020 MW) has proven to be catalytic to increase the economic growth. The government prioritized the roads construction work to promote other economic activities which were forsaken in the virtual absence of them. It has also played an appreciable role in the expansion of education, health facilities and improvement of agriculture sector by starting market outlets for the farm products under rural enterprise and industrialisation development policy and programs. The government developed the telecommunication sector and started telephone facilities in 1963 while mobile telephone services were introduced in 2003. The public sector has played a major role in the all-round development and also overcome the economic and social backwardness of the country. Due to limited capital and entrepreneurial capability of the private sector, the government played a central role in establishing most of the industries, as shown in Table 1.

² Ruddar Datt & K.P.M. Sundharam, 1965.



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Since the 65 Year Plan (1987–1992), the government has either privatized most of the industries or divested its majority shareholdings in the firms that are economically viable. For example, the government has fully privatized the tourism, Bhutan fruit product Ltd, Bhutan Polythene Company, Sha Slate Mines and transport sector. Though tourism has been successful in private hands, the government was compelled to provide support for the transport sector, especially on non-profitable routes due to low passenger volumes.

Table 1: Government Share In Industries As June 2002 (In Percentage)

Company & Year Of Establishment	Initial Government Share	Current Government Share	Share Divested	Private Share
Bank Of Bhutan (1968)	80	80	NIL	-
Bhutan Fruit Product Ltd (1973)	100	0	100	100
Penden Cement Authority Ltd (1974)	100	42.68	57.32	57.32
Bhutan Tourism Corp Ltd (1974)	100	6.67	93.33	93.33
Bhutan Board Products Ltd (1983)	80	23.90	56.10	76.10
Bhutan Polythene Company (1986)	100	0	100	100
Bhutan National Bank (1997)	67	27.51	40	72.78
State Trading Corporation Ltd (1969)	100	51	49	49
Sha Slate Mines (NA)	100	0	100	1

Source: Ministry Of Trade And Industry

Several public sector agencies have been corporatized to function as commercial entities and enjoy greater autonomy and flexibility to achieve long-term sustainability. It is hoped that this would allow them to provide improved services for the public. Although these agencies are expected to function along commercial lines, the chairman of the Board of Directors is often a government minister or a senior civil servant and the chief executive is a civil servant on deputation. The enterprises listed in Table 6 have been kept in public control for reasons related to natural monopolies (Druk Air, power corporations, Bhutan Post); to serve social welfare functions (Druk Seed, Post, Food Corporation); for environment conservation (forestry development) or commercial non-viability (Bhutan Agro Industries).



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All the regulated enterprises are important from point of view of raising the welfare of the society. They are unlikely to be given in the hand of private sector. However, some of the public enterprises like Kuensel, wood craft centre, Druk Seed Corporation, Druk Air Corporation may be privatised to make them more competitive which is more necessary for increasing the welfare of society. Private sector has already insinuated in regulated sector as the Tashi Company opened its network in telecommunication through initiating its Tashi cell facilities. Royal government of Bhutan must take initiative to open most of the areas for private sector because it supplements the convenience of the people by providing them more goods and service at competitive price.

Table 6: List of Public Sector Enterprises

	Agency	Main Activity
1	Kuensel Corporation	Print media
2	Bhutan Telecom	Telecommunication
3	Bhutan Post	Postal services
5	Forestry Development Corp Ltd	Timber logging and marketing
6	Druk Seed Corporation*	Agriculture
7	Army Welfare Project	Distillery alcoholic beverages
8	Wood Craft Center	Furniture
9	Bhutan Agro Industries Ltd*	Food processing
10	Druk Air Corporation Ltd*	Airlines
11	Food Corporation of Bhutan	Food distribution
12	Bhutan Power Corporation	Electricity transmission and distribution
13	All Hydropower Corp.	Electricity generation

* Firms that receive some form of subsidy from government

Source: different statistical year book of Bhutan. (NSB)

ROLE PRIVATE SECTOR IN BHUTAN

According to a Bhutan 2020 document of Vision for Peace, Prosperity and Happiness:

The private sector will be much more broadly based, with new enterprises having emerged to take advantage of an environment that encourages and rewards entrepreneurship and innovation. The image of the private sector will have changed dramatically, with our young people well prepared to work within it, associating the private sector with opportunity and advancement.



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Private sector in Bhutan is not only regarded as the major engine of growth but also an important partner of the government in the development of the country. It is seen as the driving force behind employment growth, which is expected to generate increased levels of productive employment to absorb the rapidly growing labour force. In view of the limited employment growth opportunities in the public sector, the Royal Government has strongly emphasised the need to enhance the attraction for youth to take up work in the private sector.

The private sector in Bhutan broadly refers to the business sector and does not necessarily include all activities that are outside the direct influence of the public sector. It includes various medium and small enterprises, as well as micro and informal businesses that may or may not be registered. It further includes all enterprises wholly owned by private individuals and institutions where government ownership does not exceed 50%. The agriculture sector, other than agro based industries, is normally not regarded as part of the private sector.³

The Bhutanese private sector has expanded rapidly over the last four decades of development but is still relatively small and underdeveloped. Before the onset of planned development activities and the recent modernization of the economy, private enterprise was mainly limited to petty trade of small agricultural surpluses and a few handcrafted products. To a large extent, this explains the lack of a truly vibrant commercial culture and strong traditions of entrepreneurship and professional management, all of which have been identified as prevailing weaknesses of the private sector today. Private sector development as a core objective of planned development received a major impetus during the 6th Plan period (1987-92), although earlier Plans also included ad-hoc programmes and activities to support private enterprises. 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. It also has corporatized airline and postal services, telecommunications and media services, and the commercial operation of power utilities. The Royal government of Bhutan has undertaken various initiatives to create an enabling and business-friendly setting for the development of private sector. The steps are taken by the government as below:

- A. The liberalization of Foreign Direct Investment policy
- B. The liberalization of trade regimes
- C. The wide-ranging reforms in the financial sector like the establishment of a stock exchange, liberalization of interest rates and the removal of foreign exchange restrictions on current account payments and transfers.

³ Bhutan National Human Report - 2005



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All these efforts are directed toward the long-term objective of the Royal Government. It is gradually withdrawing from all commercially viable areas of economic activity to focus on the provision of social services and basic infrastructure.

In view of limited data, it is difficult to provide a complete picture of the size, structure, coverage and overall composition of the private sector in Bhutan. I have calculated a data for the most of the activities which are performed in the private sector. The Table 1 shows that the share of the private sector is less than 50% expect in the year of 2000 when the agriculture proper alone contributed 12.5% in the GDP. The share of the agriculture has been falling since the infrastructural changes are taking place in the economy. The construction sub-sector is alone contributing nearly one-sixth of the gross domestic product.

Table 1: Percentage Share of GDP by Economic Activity at Current Prices (2000-2012)

Sectors	2000	2005	2010	2012
Agriculture proper	12.5	9.5	9.01	9.98
Livestock	8.7	6.1	4.29	4.02
Mining and quarry	1.5	2.2	2.23	1.97
Manufacturing	8.3	7.6	8.72	8.98
Construction	13.3	14.8	14.22	15.97
Whole sale and retail trade	5.2	5.7	5.18	6.27
Hotels and restaurants	0.5	0.7	0.84	1.39
Real estate and dwellings	3.1	3.1	2.08	1.96
Total	53.1	49.7	46.57	49.57

Source: National Accounts Statistics, NSB

The Table 2 demonstrates the picture of the entire industrial structure. The private sector has outsized the public as well as joint sector as it has more industries than other sectors. The private sector had 9016 industries in 2000 which increased to 37177 industrial units in 2012. The percentage share of private industries in the entire industrial sector remained above 99%. The growth of the private sector is attributed to fast growing infrastructural facilities in the economy. However, its 90% licensed commercial entities are cottage and small enterprises, and having a handful of medium-sized enterprises. The size of the private sector from the point of view of its total number of industries appears to be gigantic which gives an impression that it would be larger contributor in the economic development. However, its share in the gross domestic product accounts for less than 50%. It is largely constituted by tiny, cottage, and



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small scale industries which are largely controlled by single proprietors and some of them are run by the family members. The wholesale and retail businesses are also incorporated in it which enlarges its size.

Table 2

Number Of Industries By Sector					Percentage Share Of Different Sectors					
Sector	2000	2004	2008	2010	2012	2000	2004	2008	2010	2012
Private	8959	15489	27972	32218	37155	99%	100%	100%	100%	99%
Joint	23	15	14	46	27	0%	0%	0%	0%	0%
Public	34	50	87	96	100	0%	0%	0%	0%	0%
Total	9016	15554	28073	32360	37282	100%	100%	100%	100%	100%

Source: National Accounts Statistics, NSB

According to the statistical information of Table 3, the total licensed commercial activities in 2000 were 20243. These included 11727 trade licenses, 5212 construction contractor licenses, 3281 service-based licenses and 523 licenses in manufacturing. These numbers have changed significantly by 2012, but the growth of manufacturing, trade, construction, and service –based activities has remained more or less constant. The private sector faces several challenges in its successful development due to small size of market, remote location, and various other structural and regulatory constraints, including the lack of skilled labour and technology. The policy of holistic development with cultural preservation and environment conservation also creates some constraints in the process of development of private sector and industrialization. Due to structural and policy constraints, Bhutan must focus on the development of niche industries that deal in ‘high-value low-volume’ products and services in the long –run.

Table 3: Number Of Industrial Establishments By Sector

Number Of Industries By Sector				As A Percentage Of Total Industries				
Type	2000	2005	2010	2012	2000	2005	2010	2012
Production And Manufacturing	523	985	1717	2240	3	3	3	4
Service	3281	6753	19231	22365	16	19	38	39
Construction	5212	9519	11352	12677	26	27	22	22
Trade	11727	17948	18892	19423	58	51	37	34
Total	20243	35205	51252	56705	100	100	100	100

Source: Department of Industry, Ministry of Trade and Industry



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In Table 4, mining and manufacturing industries of public, joint and private sector has been shown separately from 2003 to 2012. The share of private industries in manufacturing and mining has remained high in the total industrial units of the manufacturing sector. The large number of manufacturing industries is of tiny and small scale. Their employment elasticity is very low. The large scale and small scale industries are needed to be established for the realization of self reliance. Lack of relative progress in the expansion of the manufacturing sector is mainly attributed to the lack or high cost of investment capital to start up industrial ventures, as well as the lack of appropriate industrial infrastructure. This is compounded by low economies of scale, high cost of raw materials, distance from markets and low labour productivity, all of which significantly affect the private sector's competitiveness. Stringent environmental considerations have also affected some sub-sectors' output and productivity, most notably the ban on the export of timber and semi-finished wood products.

In addition to formal manufacturing enterprises, several non-classified and informal manufacturing enterprises exist, a large number of which are home-based on local handicraft and textile production. Although output and employment data for the latter are not available, they are known to be significant as they provide a secondary source of employment and supplementary income for many households. This category of mainly self-employed and home based enterprises also enjoys a high level of value addition and most notably is not dependent on expatriate workers.

It shows that royal government of Bhutan is liberalizing its policy to encourage private sector. Royal government of Bhutan has reduced its shareholdings in some of the public sector undertakings (PSUs) and some of them have been privatised by following a 100% disinvestment measures. Government of all the countries is undertaking various those ventures that require huge investment and are not economically accessible for the private sector. For instance public utilities services like electricity, road construction, railways civil aviation, postage, and the goods which are considered to be important from security and strategically standpoint are kept by the government under its control. The size of the private sector from the point view of its number of industries is showing a positive sign towards the expeditious economic development of the country.

Table 4: Number Of Firms In Mining And Manufacturing Industries In Different Sectors

Industries	2003				2012			
	Public	Joint	Private	Total	Public	Joint	Private	Total
Mining	0	0	12	12	19	3	72	94
Manufacturing	6	5	549	560	27	9	2141	2177
Food Processing/	4	1	150	155	7	0	316	325



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Milling								
Textiles And Clothing	0	0	1	1	0	0	26	26
Woods And Paper Products	2	2	337	341	3	3	948	954
Mineral Products	0	2	41	43	6	3	164	173
Others	4	0	244	248	11	1	687	699
Total	10	5	785	800	46	12	2213	2271

SCOPE OF EMPLOYMENT OPPORTUNITIES IN PRIVATE SECTOR

The production and manufacturing sector in Bhutan, which comprises less than 5% of the licenses issued, is dominated by agro-mineral and wood-based industries (see Table 3). These industries have low employment elasticity and are engaged in producing intermediate goods, which are bulky in nature. These industries are also capital-intensive and have minimal forward and backward linkages in the local economy. The employment status in private and other industries is shown in Table 5. The private owned industries are not able to provide more jobs to the people because their small size. The Government seems to be the main, and virtually only, employer in Bhutan. However, the private sector has increasingly emerged as a small but growing employer. Although most demand for labour are generated by the Government, the private sector requires overriding attention since the number of jobs advertised by the Government is decreasing and those in the private sector are consistently increasing. This signifies a steady growth of the private sector relative to the Government sector. While recent data on labour demand are not available, figures from 2003 in Table 6 reveal that over the period 2003-2012, more jobs were advertised by the Government. The private sector was not able to provide jobs in the beginning as the government sector had given but in recent years it is showing a stable growth in creating a job opportunities as in 2012 it has created 2929 job opportunities which are higher than 2038 jobs given by government sector.

CONCLUSION

The economic development of the all economies of the World needs to have strong public as well as private sectors. Among these two sectors, private sector is considered as a real incubator of the economic growth of the country. The size of the private sector is emerging swiftly, as the Royal Government of Bhutan has started various programmes to promote and foster its growth. The Royal government is providing financial support and fiscal rebates to set-up different scale of industries in the country. Though Royal Government is taking all kind of initiatives like expansion of social and economic infrastructure, investing in all long –gestations projects which are economically inaccessible to private sector, relaxing cumbersome licensing rules and procedures, extending financial help, granting tax holidays to budding enterprises and relaxation of export and import duties, private sector is facing with many constraints that



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precludes its growth. The shortage of labourers is a serious concern of the private sector because the labour cost is very high to execute any economic activities in the private sector. The lack of raw material and modern technology is one of the serious catastrophes for the people to setting-up industries and promote the development of private sector. The narrow market structure is also playing a revolting role in repelling the growth private sector as well as overall industrial development of the country.

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