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**SUBSIDIES, COMPETITION AND TRADE – Contribution from Bangladesh**

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More documentation related to this discussion can be found at: [oe.cd/sctr](https://oe.cd/sctr).

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## *Subsidies, Competition and Trade*

### - Contribution from Bangladesh -

1. Increased use of competition-distorting subsidies destabilizes the value of investment flows, tariff binding and other market access obligations that weaken public support for open trade. Wide disparity in subsidies contributes to global trade tensions affecting growth and living standards.
2. The rehabilitated drive toward industrial policies to promote strategic sectors may mutilate universal competition, particularly against small, financially obliged countries. With the frequency and complexity of distortive subsidies expanding, the subsidies and debate related subsidies have brought noteworthy friction to the global trading system.
3. Though subsidies are common in all sectors, used by countries at all stages of development, take many forms, and affect all countries. Recent policy discussions have debated whether governments should adopt equal policies towards state-owned and private enterprises. Even when the government has the choice to differentiate subsidies across firms in an industry, the optimal policy subsidizes the state-owned firm and all the private firms equally. The reason is that the efficiency gains from equalizing the playing field across firm types exceed the potential distortionary effect of the equally applied subsidy. This result suggests that even though a universal subsidy is costly to the government, it is theoretically preferable to a policy which targets only state-owned firms.
4. Various subsidies are expressly aimed at the critical task of rectifying market failure and may do this well. Many others are planned in ways that do very little to progress their desired objectives, or do so at high domestic cost or with destructive impacts on the other nations worldwide, especially the least developed countries and the most vulnerable countries. International participation can diminish the overall use of subsidies and progress their plans.
5. Subsidies don't always behave anti-competitive; rather it sometimes helps to make a more competitive environment. However, some subsidies may ultimately prove well-founded, fulfilling worthy public objectives that improve citizens' welfare or addressing market failures, while others may be a costly and wasteful use of public money.
6. On the environmental sector, most often subsidies are used to support public and private-sector pollution prevention and control activities, the cleanup of contaminated industrial sites, farming and land preservation, consumer product waste management, alternative energy fuels, clean running cars and municipal wastewater treatment facilities. Subsidies to mitigate environmental pollution and to confront climate change have positive impact on the economy and don't have any impact on anti-competition.
7. The need for agricultural subsidies in the least developed and developing world can't be ignored. Even it is very usual practice in many developed nations. For global food security, agricultural subsidies have been a very popular policy option for many nations around the world. Subsidies to research and development (R&D) into superior farming techniques have improved welfare worldwide. Superior farming techniques and increased production have led to relief of dearth in places in Africa and Asia.
8. An even much stronger case can be made for subsidies in the energy sector. In the United States, a lot of subsidy goes to the energy sector. A Renewable Energy Policy Report, published in 2000, reports a 50-year cumulative Federal subsidy to wind, solar and

nuclear energy at about \$150 billion. Of this amount, about 95 percent of it went to support nuclear technology. This has led to a lopsided technological development in nuclear energy at the expense of the renewable energy component – wind and solar. There is need for increased support to improvement of superior techniques for renewable energy. Although the Government of Bangladesh is also providing subsidies for the energy Sector, initiatives are taken to lessen the burden of subsidies from the energy sector by encouraging people to the solar energy and renewable energy.

9. In most developing countries, the most useful subsidies are in the provision of health and educational services. For example, in Ghana, under a ‘Compulsory Education Law’ legislated in 1961, primary education was made free and compulsory for all. For secondary and tertiary education, the Government also provided tuition free. However, most Ghanaians could never have been able to afford education. Today Ghana boasts of a high quality educated class.

10. Bangladesh government is subsidizing the primary and secondary education by providing books at free of cost to help promote education countrywide. Secondary school enrolment rates in the developing countries are usually lower for girls than boys, especially in rural areas. In the mid 1990’s, a female school stipend program was introduced to promote secondary education of girls in rural areas of Bangladesh. The country's literacy rate was only 22 percent for females in 1989, compared to 47 percent for males. In 1991 only 5 percent of rural girls completed the 10th grade compared to 12 percent of boys. As higher women’s education has been shown to be strongly related to reduce fertility and greater human capital investment in children and these effects are more distinct for secondary than for primary education of women, Bangladesh government has decided to provide subsidy for both primary as well as for secondary education to increase the literacy rate and promote education. Besides, the government is providing primary and secondary education books at free of cost which is encouraging poor students and students from lower income families to get educated. The Government has also made primary education free for all students.

11. Similarly, health services were made available to the public at heavily subsidized rates. Furthermore, provision of water and electricity enjoyed huge subsidy from the government. These subsidies took a heavy toll on the public budget, and have been the root cause of the economic malaise that the country has found itself in.

12. Bangladesh government is also subsidizing the public health sector all through the country. Patients are getting healthcare facilities at the minimum cost from all government hospitals. Also, they are getting medicines and other healthcare related services such as medical check-up, medical tests, ICU support at the least cost. Every year, a major portion of the annual budget is provided for the healthcare sector. In the fiscal year 2022-2023, the government has allocated Tk. 36,864 crore (\$368.64 Billion) for the health sector which is almost 6% of the annual budget.

13. Subsidies can be put to bad use as well as to good. Subsidies are generally well intentioned and can stimulate economic growth and improve human welfare. There is therefore the need to carefully scrutinize through the different kinds of subsidies so as to retain the useful ones.

14. It is observed that subsidies in the service sectors like Education, Health care, Social Safety Net Program etc. don’t behave anti-competitive. Rather it increases human and social welfare and promotes human development which, on the other hand, enhances the efficiency and social safety of the citizens. Moreover, subsidies on green economy, the Research and Development Sector (R&D), Renewable Energy Sector help to mitigate environmental pollution and promote green revolution.

15. The government of Bangladesh is also providing farmers up to 50% subsidies (70% in case of the haor regions) on purchasing prices of machinery such as combined harvesters, reapers, transplanters etc. under the project that started in 2010, aiming to increase the use of machinery at various stages of farming for the modernization of agriculture as well as to boost agricultural production and achieve self-sufficiency in agriculture. The Bangladesh government has worked out an action plan for 2022-23 fiscal for the agricultural sector to ensure food security as the world faces pressure in food production due to Covid-19 pandemic and Russia-Ukraine war.

16. Moreover, the government will execute actions such as subsidies to keep agricultural input prices with fertilizer and seeds as low as possible at the farmer's level. **The government has decided to increase fertilizer subsidy to Tk 15,000 crore (\$150 Billion) for fiscal year 2022-23, aiming to boost domestic food production.** Despite a 58 percent hike in fertilizer price in the global market, the government wants to avoid price hike as a stimulus to the farmer to ensure more crops production and control the price of food items in the local market. In the last 13 years from 2008-09 to 2020-21, the government subsidized around Tk 82,000 crore (\$820 Billion) for the single sector. It is also noted that, the government is also providing pesticides at a subsidized rate to farmers to boost agricultural production for food security.

17. Besides agricultural and educational sector, Bangladesh Government provides approximately 16.75% of the annual budget for the fiscal year 2020-2021 for the social safety net program which is almost 2.5% of the total GDP of the country. Expansion of the social safety net program is an important part of the government's economic recovery efforts to address the impact of the Covid-19 pandemic. Social safety net program in Bangladesh have been contributing to the reduction of poverty and vulnerability by addressing a range of population groups through different forms of assistance. These include the provision of income security for the elderly, widows and persons with disabilities, generating temporary employment for working age men-women and supporting the healthy development of young mothers and children. A free emergency food aid, arrangements have been made to distribute rice, relief (cash) and baby food to the poor who have suddenly become unemployed due to the outbreak of the coronavirus pandemic. The World Bank (WB) has been supporting the Government of Bangladesh since 2010 to maximize the impact of these Social safety net programs on the poorest households particularly.

18. During the COVID-19 Pandemic, Bangladesh Government has taken several steps to maintain the growth momentum of the economy. The Government of Bangladesh with the collaboration of the Bangladesh Bank has announced a series of stimulus packages and refinance schemes equivalent to BDT 1284.4 billion (\$11.3 Billion) which is 4.59 percent of GDP to recover from the Covid-19 related economic losses. The government provided Support of BDT 50 billion for export-oriented industries to pay the salaries and allowances of workers and staff, increased Export Development Fund (EDF) from USD 3.5 billion to USD 5.5 billion to tackle the slowdown in export and resurgence of the Covid-19 affecting export productivity. Moreover, the government provided support of BDT 600 billion (\$5.31 Billion) as working capital loan facility for large industries and CMSMEs, support of BDT 95 billion (\$0.85 Billion) as subsidies and incentives and BDT 50 billion as refinance scheme for the agriculture sector. All of these stimulus packages are taken as grants and subsidies to recover the economic losses. Besides these, social safety net programs like direct cash incentive of BDT 12.0 billion, pay allowances among 0.7 million beneficiaries and allocated BDT 21.30 billion for homeless people, BDT 32 billion as low-interest credit for the poor farmers, migrant workers and trained youth and unemployed youth in the form of incentives and subsidies. In addition, the government has also full funded the COVID

vaccination program of BDT 1000 cr (\$10 Billion) as health subsidy to recover the COVID-19 shock.

19. Another major subsidized sector of the Government of Bangladesh is the Open Market Sale (OMS) Program for the poor and vulnerable section of rural people by the Ministry of Food. Trading Corporation of Bangladesh (TCB) under the Ministry of Commerce has been supplying daily necessary goods like rice, pulse, edible oil, sugar, onion etc. to the poor and lower income people at a subsidized rate than the market price.

20.

21. It is time for economists and non-economists, governments, policy makers, politicians and civil society to recognize that there can be good as well as bad subsidies. Current international disciplines on subsidies are based on trade distortion. But trade distortion is not the most relevant criteria for evaluating the role of subsidies to increase welfare. However, subsidies impact human livelihoods mostly than just trading interests. This means that we need more sophisticated processes to balance different interests and strike the tough negotiations that are inevitable as subsidies invariably benefit some and harm others.

22.

23. Countries must get together and agree on a superior subsidy policy than we currently have. Different organizations can help, providing much needed suggestion that helps governments focus their efforts on improving those support measures that are the most damaging to global competition. Trade and investment decisions by firms can push countries and local jurisdictions to engage in subsidy competitions, whereby authorities compete with one another to attract investment or win contracts by way of grants, tax incentives, and other deal sweeteners.

24.

25. Although some progress has been made to decrease government support that distorts markets, subsidies still amount to hundreds of billions of dollars spent every year by governments to subsidize selected businesses or sectors. This is effectively money taken out of taxpayers' pockets that could otherwise be used, for example, to fund pensions for an ageing population, provides a better education for future generations or help combat climate change.