
NOTES

Non-equity forms of TNC participation in Bangladesh

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Since the late 1960s and particularly the early 1970s, perceptible change in the realm of international investment has taken place. Side by side with traditional foreign direct investment (FDI), which was normally on a wholly or majority-owned basis, "new forms of investment" have emerged [Oman, 1984]. They refer to international business operations which lie in a grey area between traditional FDI and traditional export operations. Examples would include less-than-majority-owned joint ventures and various contractual forms, such as technical licensing, technical assistance and management agreements, marketing assistance, turnkey operations and international subcontracting etc. The new forms of investment, including non-equity participation, have elements of both investment (in the sense that they may involve risk, control, continuing involvement and a sharing of the returns from the investment) and sales of investment-related services [Oman, 1984]. Although it is not easy to distinguish clearly between them in practice, the fact remains that, for many developing countries, the new forms are assuming an increasing importance.

In Bangladesh, the dominant mode of TNC participation remains traditional, wholly (or majority-) owned FDI. Nevertheless, there are instances of new forms. The present article seeks to examine those trends in non-equity forms of TNC participation in Bangladesh and to draw some policy conclusions.¹

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¹ All types of equity participation, including less-than-majority-owned joint ventures, are kept out of the purview of this paper.

Trends in non-equity forms

Owing to the lack of any systematic record-keeping by the concerned agencies, it has been extremely difficult to determine in any meaningful way trends in non-equity forms of TNC participation in Bangladesh. Intensive efforts to obtain the relevant information from scattered official files have at best generated only a partial picture in this regard. It has been possible to identify a total of 65 such non-equity agreements in the private sector since 1976. No records of such agreements appear to exist for previous years. However, since pre-1975 industrial policy severely discouraged private-sector investments in Bangladesh, it is very unlikely that any significant TNC participation even in non-equity form had occurred before that period. Discussions with relevant officials suggest that the list in this article is representative enough to shed some important light in this area.

Table 1 gives an overview of the number and nature of non-equity agreements made in Bangladesh on an annual basis since 1976. No clear pattern emerges from the table, although possibly there has been a rise in such new forms of investment in Bangladesh since the introduction of the Revised Industrial Policy in 1986. The bulk of such agreements appears to be of the licensing, technical know-how and assistance types, although some companies have entered into marketing and management contracts (besides turnkey arrangements). It should be noted that the predominant forms of non-equity participation in Bangladesh, particularly up to the mid-1980s, appear to have been in the realm of licensing, technical know-how and collaboration. Since 1987, however, agreements in some new areas have been concluded, such as management contracts, project preparations, machinery design and installation services and marketing assistance. While sufficient time has obviously not passed to confirm any qualitative change with regard to non-equity participation, these forms appear to have become more diversified than in the past.

Distribution by sectors

Table 2 presents data on non-equity participation by TNCs by broad industrial groups. Apart from the miscellaneous category, which includes some services besides manufacturing items, the im-

Table 1.
Non-equity forms of TNC participation in Bangladesh, 1976-1989

Year	Number of agreements	Nature of agreements
1976	1	Licensing and technical collaboration
1977	—	—
1978	5	Licensing, technical know-how and technical assistance
1979	5	Licensing, technical collaboration, technical assistance and know-how collaboration
1980	—	—
1981	2	Licensing, technical know-how and technical collaboration
1982	5	Licensing, technical know-how collaboration and technical assistance
1983	6	Licensing, technical collaboration, technical know-how, technical assistance and project preparation services
1984	9	Licensing, technical collaboration, technical assistance, technical know-how and technology transfer
1985	4	Licensing, technical collaboration and know-how and technical assistance
1986	2	Technical know-how and assistance
1987	10	Licensing, technical know-how, technical collaboration, technical assistance and management contract
1988	12	Licensing, technical know-how, project preparation, quality control and production method, machinery design, layout agreements and technology transfer, technical assistance and machinery installation service, marketing assistance
1989 (up to mid-December)	4	Licensing, technical services, leasing technique

Source: Government of Bangladesh, Board of Investment, unpublished documents.

Table 2.
Non-equity participation by industrial groups, 1976-1989

Year	Number of agreements							
	Food-processing	Tobacco	Textiles	Pharmaceuticals	Other chemicals	Electronics	Machinery, spare, and equipment	Miscellaneous
1976	—	—	—	—	1	—	—	—
1977	—	—	—	—	—	—	—	—
1978	—	—	1	2	1	—	—	1
1979	1	—	—	1	1	—	2	—
1980	—	—	—	—	—	—	—	—
1981	—	—	—	—	—	1	—	1
1982	—	1	—	—	3	—	—	1
1983	—	—	—	1	—	2	1	2
1984	—	—	—	1	2	1	4	1
1985	—	—	—	—	—	3	—	1
1986	—	—	—	—	1	—	—	1
1987	—	—	—	—	1	4	4	1
1988	—	—	1	4	4	—	—	3
1989 (until mid-December)	1	1	—	—	—	—	—	2
Total	2	2	2	9	14	11	11	14

Source: Government of Bangladesh, Board of Investment, unpublished documents.

portant industries in which a relatively large number of non-equity agreements have been made are chemicals, electronics, machineries and pharmaceuticals. This is in sharp contrast to high equity participation in such other industries as textiles and food-processing in which new non-equity forms of investment appear to be of insignificant magnitude. Perhaps in industries such as chemicals, engineering and electronics, where the country offers a limited domestic market and does not compare favourably with its neighbouring

countries as an export base, non-equity participation is designed to reap technological rents by TNCs while avoiding market risks. Also perhaps, though these industries are apparently more technology-intensive, the level of technology involved in the operations in Bangladesh is not high enough to warrant the desire of TNCs to exercise control over the technological assets through ownership. In the more traditional industries, with a larger domestic market, greater equity involvement is possibly also dictated by other considerations, including the availability of cheap labour and fiscal incentives.

Trends in outflows

In Bangladesh, detailed figures are not available on royalty payments and other fees which are remitted out of the country on account of non-equity participation by TNCs. Data on total remittances, including profits and dividends earned by foreign firms, however, is clearly indicative of a rising trend in such outflows. Total remittances, which stood at only Tk 753 million in 1978-1979, sharply increased to Tk 5,487 million in 1988-1989.² Since, over the same period, the amount of equity investments increased substantially, a large part of the increase in total remittances can be explained by such equity inflows. All the same, as a rising trend is also observable in non-equity participation by TNCs, at least a part of the total outward payments from Bangladesh may be explained by an increasing outflow of royalty and other similar payments. During this time period, the rates of payment do not appear to have changed, so that it is the absolute increase in non-equity agreements which probably explains the increasing trend in remittances which may be ascribed to royalty and other fees. The change in sectoral composition of investment had probably very little to do with this trend, although its future impact cannot be completely ruled out.

Some policy conclusions

As noted above, TNCs seem to be showing greater interest in non-equity forms of participation in relatively technology-intensive

² Bangladesh Bank, *Annual Balance of Payments*, various issues.

products. It is hypothesized in the present article that this may be prompted by the desire to avoid market risks. Policy-makers should closely scrutinize the underlying motivations of TNCs and assess the extent of technological or other benefits flowing to domestic enterprises from these arrangements. In particular, efforts should be made to elicit the interest of TNCs in creating an export market for these goods through subcontracting, marketing contracts or even joint ventures.

Another interesting aspect of non-equity TNC participation in Bangladesh is that although the United Kingdom, the country with which Bangladesh has had economic relationships from colonial times, accounted for nearly one third of such arrangements, a relatively large number of agreements have been made with enterprises originating in India and the Republic of Korea. Such non-equity participation by firms from relatively larger developing countries, as well as newly industrialized countries (NICs) may be expected to continue in the future. At the policy level, this warrants more intensified efforts to explore possibilities of greater non-equity collaboration with firms from countries in the region. Those firms may be agreeable to better terms and conditions and more willing to transfer technology than the established TNCs from the developed world. It is noteworthy that a more diversified geographical source may also help improve the bargaining position of Bangladesh *vis-à-vis* TNCs from the industrialized countries.

As noted before, payments on account of non-equity transactions seem to be rising. It is generally assumed that an increase in the payment of royalty and other service charges implies an increase in the transfer of greater amounts of technology and other know-how; in reality, in most cases, the collaborating firms are only producing the semi-processed goods using the brand name of the foreign firms. A recent study noted that, in actuality, a very insignificant amount of technical know-how has been transmitted to local producers in terms of process/product design [APCTT, 1986]. There is, therefore, an urgent need to explore ways and means to improve the qualitative content of non-equity agreements in Bangladesh.

Finally, the Government should set up an institutional infra-

structure to gather data on non-equity arrangements, analyse the terms and conditions of those arrangements and evaluate the benefits accruing to the national economy therefrom. The establishment of such an infrastructure is the basic prerequisite for the formulation of policies that can augment the benefits of non-equity participation by TNCs in Bangladesh. ■

References

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