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MULTINATIONALS IN LESS DEVELOPED COUNTRIES: A CASE STUDY OF DRUG MULTINATIONALS IN INDIA

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INTRODUCTION

Operations of multinational corporations (MNCs) in the less developed countries (LDCs) have been a matter of intense debate during the recent past. There are protagonists of MNCs who feel that MNCs are a new vehicle of international (North-South) cooperation. They argue that MNCs, with their ability to innovate technologies, to operate on a large scale, and to exploit advantages of the international division of labour, alone are capable of utilizing global resources most efficiently. Antagonists of MNCs, on the other hand, believe that MNCs inter alia perpetuate the dependence of LDCs on the developed countries; hinder the development of local technological capabilities of the host LDCs; deprive the people of their occupations by bringing in inappropriate technologies; extract the LDCs resources for their profiteering, and contend that these represent a new form of imperialism, or what is termed Neo-colonialism[1].

Many LDCs, including India, welcomed foreign capital in the belief that it would help ease constraints on their savings and supplement their local investments, technology, and foreign exchange, and enable them to import capital goods and raw materials necessary for accelerated economic development[2]. With all these expectations, foreign capital in India, was given an at par status with local capital, with freedom to remit profits and to repatriate capital, and was assured against nationalisation, with "fair and equitable" compensation provided in the exceptional case of acquisition[3].

This paper attempts to examine if the above expectations of the Indian Government were realised, with the help of a case study of the drugs and pharmaceutical industry, a sector in which MNCs are most powerful in the Indian

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economy. The conclusions arrived at, it would be apparent, would be relevant to other LDCs adopting similar policies towards MNCs.

Section I describes the reasons of MNCs hold over the Indian drugs and pharmaceutical industry, with special reference to the role played by the policies of the government. Section II exposes some of the particular features of MNCs operations in this industry. Section III examines the extent to which various expectations of the Government of India (regarding foreign capital) have been materialised. Finally, Section IV draws some conclusions from the analysis presented in this paper.

I.

The Indian drugs and pharmaceutical industry is one of such sectors where MNCs are most dominant. A government appointed committee, popularly known as the Hathi Committee which submitted its report in April 1975, studied the reasons for the hold of MNCs over this industry. The Committee observed that at the time of Independence, MNCs were supplying their products manufactured abroad to the Indian market either through local agents or through their own branches. After Independence, enhanced degree of import restrictions and tariff protection, induced MNCs to import bulk drugs and to get them processed into formulations on a 'job work' basis by the Indian concerns, without direct investment in factories or employment of technical personnel[4].

Between 1952 and 1965, MNCs in the drug industry received "a big impetus to boost their turnover" as "permission letters" to produce 36 formulations and 4 bulk drugs were granted to 15 leading foreign units. These formulations included even household remedies like tonics, health salts, cough mixtures, eye drops, gripe waters and so on, "which could have been easily manufactured by the Indian sector"[5]. Apart from these, 12 foreign and 5 Indian companies could get 'carrying on business' (COB) licences for 215 formulations and 20 bulk drugs, and thereby regularise the excess capacities created as a result of the liberalisation of licensing policy, which followed the devaluation of the Indian rupee in 1966[6].

The above policies, in the view of the Hathi Committee, were mainly responsible for the foreign hold over the Indian drugs and pharmaceutical industry. This resulted in an outflow of foreign exchange amounting to about Rs. 260 million towards payment of dividends, royalties and technical fees during the period 1969 to 1973 alone. This figure does not include the outflow of foreign exchange for the import of bulk drugs and intermediates by the foreign companies at the prices determined by their foreign principals. "These prices", the Committee observed, "bear no relation to either the cost of manufacture of the final products or international prices"[7].

The Hathi Committee also highlighted the fact that the MNCs in the drugs industry "usually discourages" their research and development staff from developing "technology on their own ...". These practices made "our industry permanently dependent on overseas expertise and technology"[8].

In view of the above facts, the Hathi Committee pointed out that the

> Continued presence ... of the highly profit motivated multi-national sector can but promote only the business interests of this sector. Their presence in India, as a part of their global effort to capitalize on human suffering in an organised manner, must therefore cease as early as possible.

The majority in the Committee therefore "strongly recommend(ed) that the multinational units in ... drugs and pharmaceuticals should be taken over by Government and managed by the proposed National Drug Authority"[9]. All members however agreed, that the drug industry should not be eligible to preferential treatment as specified in the guidelines of Foreign Exchange Regulation Act, 1973 (FERA), as it was included in the Appendix I of the Industrial Licensing Policy of February 1973. The Committee recommended that the foreign drug units should not only "be directed to bring down their equity to 40 % forthwith ... (but should) further reduce it progressively to 26 %". Moreover, it was recommended that the dilution of foreign equity

> "should not take the form of dispersed holding(s) ... by a large number of Indian nationals ... because such widely dispersed holding will not in any way, reduce the effective control of the foreign equity shareholders"[10].

The Hathi Committee consisted of 15 members and included, apart from its Chairman Jaisukhlal Hathi, three other influential Congress Members of Parliament: Yashpal Kapur, Vasant Sathe and C.M.Stephen (the last two now being Cabinet Ministers). Nonetheless its major recommendations, as enunciated above, were not implemented by the Government.

FERA and drug MNCs

The FERA was enacted in 1973 "for conservation of the foreign exchange resources of the country and the proper utilization thereof in the interests of the economic development of the country"[11]. The objective of FERA therefore was not so much regulation of foreign capital per se, but the conservation of foreign exchange, though a section of the Act concerns itself with companies with direct foreign equity more than 40 per cent and with foreign branches. Under FERA all corporate bodies with up to 40 per cent foreign held equity are considered indigenous concerns. Yet, the Reserve Bank of India has defined a company as foreign controlled if 25 per cent or more of

the shareholding was held by a single foreign company[12]. Even in the USA, now the leading protagonist of the 'rights' of foreign capital, all companies with 10 per cent or more foreign equity are considered 'foreign'. In Canada, the criterion is as low as 5 per cent[13]. In the West, definitions of foreign control take into account the fact that a block control of 10 per cent of equity, where shareholdings are dispersed, and when financial participation is accompanied by restrictive collaboration agreements, is quite sufficient to ensure control of an undertaking. Thus the FERA definition is an extremely liberal definition of foreign control. It has indeed facilitated the expansion of foreign companies by recognising them as Indian after a relatively insignificant reduction in foreign equity. A company with 51 per cent foreign equity is categorised as a foreign subsidiary under the Companies Act, 1956; it, however, becomes an Indian company if the foreign shareholding is reduced to 40.0 per cent.

Moreover, with dilution proposals foreign companies are being given liberal expansion licences even in low technology areas[14]. For instance, Colgate Palmolive which is engaged in production of the "lowest of low priority and low technology activities has been granted a licence to manufacture a sweetening agent used by the pharmaceutical industry for manufacture of tonics"[15].

Foreign concerns that complied with FERA, generally stipulated in their Articles of Association, the right of the parent company to appoint or to remove the top management. For instance, May and Baker, U.K., retains the right to appoint or remove one third of the directors including the managing director in May and Baker (India) as long as it holds at least 26 per cent equity; whereas Schering, USA, will appoint or remove one third of the directors, as well as the chairman and managing director(s) in Fulford (India), even while retaining a mere 10 per cent equity share[16].

To sum up therefore, the cumulative effect of FERA, has been to disguise continuing foreign control, thereby allowing the expansion of foreign capital in India. The enforcement of FERA to the drug firms has been affected by the influence of pro-MNC lobbies, inside and outside Government. Despite the unanimous recommendation of the Hathi Committee discussed above, the New Drugs Policy of 1978 provided that groups of companies producing drug intermediates for production of high technology bulk drugs; and high technology bulk drugs from the basic stage and formulations based thereon, with an overall ratio of bulk drug consumption (from own manufacture) to formulations from all sources of 1:5; could retain upto 74 per cent foreign equity.

To identify the companies producing high technology bulk drugs and hence eligible for the concession of retaining more than 40 per cent foreign equity, the Government appointed a Committee on High Technology which submitted its report in October 1979. The criteria adopted by the Committee in the definition of "high technology" included inter alia, use of toxic materials in

the process, purification and seperation by sophisticated techniques, careful on-line process controls, degree of sophistication employed to ensure health safety and quality and so on[17]. On the basis of these, virtually any bulk drug producing company could be considered by the Committee as 'high technology' company. Because of these extremely liberal criteria, the High Technology Committee concluded that excluding two foreign companies, which did not have any bulk drug manufacturing activity, all the 24 firms studied employed high technology. Hence most of these companies have been allowed to retain more than 40 per cent foreign equity, if they so desired[18].

Further substantial concessions were granted to the drug industry through subsequent modifications in already liberal New Drugs Policy. For instance, in the sphere of industrial licensing, the New Drugs Policy had stipulated that the criterion for the regularisation of capacities would be the highest production actually achieved in any year during the three year period ending March 31, 1977[19]. The foreign drug lobby represented by Organisation of Pharmaceutical Producers of India (OPPI) however, wanted regularisation on the basis of actual production in 1980[20]. The Government has recently decided to regularise all existing installed capacities as of September 4, 1980, in disregard of earlier stated policy[21].

II.

The drugs and pharmaceutical industry is considered one of the most multinational of modern manufacturing industry with the leading firms exercising "great oligopolistic power"[22]. In 1974, the top 30 multinational companies accounted for 52 per cent of the total world market economy pharmaceutical sales[23]. The degree of dominance by individual giants is not so apparent over the drug market as a whole, because of the extremely heterogenous nature of the pharmaceutical market. Individual enterprises tend to specialise in sub-markets leading to concentration within product classes[24]. For example in 1973, according to Roche's own estimates, their two main tranquillizer formulations, Librium and Valium, held more than a third of the entire world tranquillizer market[25], while G.D.Searle's two formulations, Aldactone and Aldactazide, accounted for 20.3 per cent of the world diuretics market[26].

This oligopolistic position obtains despite the fact that the drugs industry "enjoys practically no economies of scale in production ... (as) the active ingredients are normally manufactured in relatively small volumes ...". Therefore in production, the large MNCs have no particular superiority over smaller companies, and the economies of scale argument cannot be used to justify the operations of the large foreign drug companies[27]. The 'superior' market performance of the drug MNCs is due, as the Hathi Committee noted, to

> "high pressure sales techniques coupled with distribution of medical samples on a liberal scale to the medical profession ... (which together with) attractively got-up medical literature and international brand names of drugs appearing in advertisements in foreign medical journals with which top consultants in the medical profession were acquainted, played their part in popularising the drugs of foreign companies."

The oft made claim by foreign drugs companies that their products contain 'something plus' over products of identical composition marketed by Indian units was found to be just so much salesmanship[28]. In fact, as we shall see below, their products are sometimes found to be of dubious therapeutic value, if not positively dangerous.

In the case of India, the oligopolistic nature of the operations of foreign concerns is disguised by the apparent competition between undertakings which are actually affiliates of the same MNC. Table I gives an illustrative list of MNCs which controlled more than one affiliate in the drug industry. However, the Government seems to be ignorant of these facts, as far as the implementation of FERA and the drugs policy is concerned.

Foreign companies promote a culture of product differentiation under which the same basic drug is marketed under different brand names. Ranga Rao found that as many as 406, 308, 155, 126 and 115 formulations (under different brand names) are marketed for Vitamin B Complex, Multivitamin Tablets, Chloramphemicol, Vitamin B 12, and Tetracycline, respectively[29]. Such instances can be multiplied. Product differentiation of this type is not only illusory, but because of the marketing techniques employed by foreign concerns, strengthens market imperfections even in the presence of many companies formulating the same basic drug. Since, according to one estimate, drug companies in India spend as much as 18 per cent of turnover on an average on sales promotion, this product differentiation leads to socially wasteful expenditure, costs on which are ultimately transferred to the consumer through high prices[30]. Some foreign companies spend even more, e.g. Pfizer spent more than 20 per cent of total net sales on sales promotion in 1975-76[31].

Moreover the large bulk of these formulations are of little additional therapeutic value. The WHO Expert Committee on the Selection of Essential Drugs estimated that out of the 30 000 formulations sold under various brand names, a range of just 200 active drugs could cover the health needs of a majority of developing nations. The Hathi Committee recommended a list of just 116 essential pharmaceutical products, including bandages, plasters, phenyl etc. The tremendous wastage of national resources caused by these activities of pharmaceutical firms can be imagined. Phadke[32] has shown that some of the most popular analgesic-antipyretic formulations produced by MNCs and sold under the brand names like Aspro, Anacin, Avedan plus and Powerin, all contain Aspirin in combination with other analgesics. Yet standard books of

Table 1: Illustrative list of MNCs having more than one affiliate in Indian drug and pharmaceutical industry

Multinational	Affiliates
1. American Cynamid, USA	a) Cynamid India Ltd. b) Colfax Laboratories Ltd.
2. American Home Products, USA	a) Geoffrey Manners b) Wyeth India Pvt. Ltd. c) Wyeth Laboratories Ltd. d) John Wyeth and Brothers Ltd.
3. Glaxo Holdings, UK	a) Glaxo Laboratories Ltd. b) Biological Evans Ltd.
4. Hoechst AG, FRG	a) Hoechst Pharma. b) Roussel Pharma.
5. Warner Lambert, USA	a) Warner Hindustan Ltd. b) Parke Davis India Ltd.

Source: Nagesh Kumar, "Regulating Multinational Monopolies in India", Economic and Political Weekly (Bombay), May 29, 1982, Annexure I, pp.914-916.

pharmacology e.g. Goodman and Gilman's categorically state that:

> Many mixtures of Aspirin with actamenophen, or phenacetin and often with caffiene and other drugs are promoted with claims that they provide more analgesia. None of these claims withstand critical scrutiny. In most clinicals trials, relief of pain by an analgesic mixture has not been superior to that of Aspirin alone[33].

However, whereas Aspirin costs only 2 paisa per tablet, Anacin, Avedan plus, Aspro and Powerin retail at 8, 8, 10 and 20 paisa per tablet, respectively. Thus the consumer suffers by paying more, the drug companies earn more, for products involving "pure waste" of these extra ingredients.

The Hathi Committee, in an effort to curb the social wastage incurred by the sales of such irrational and spurious formulations, recommended a phased abolition of brand names. Predictably, the OPPI and other drug lobbies protested against the acceptance of this recommendation[34] which turned out to be quite successful. In the New Drugs Policy Statement only five drugs were notified whose single ingredient formulations could no longer be sold under brand names: (i) Analgin; (ii) Aspirin; (iii) Chlorpromazine; (iv) Ferrous Sulphate; and (v) Piperazine and its salts (para 71). The notification for the same was issued only on January 17, 1981, almost three years after the

policy decision. Hoechst, the manufacturer of Novalgin and Pfizer, the manufacturer of Piperazine went to court and the order has been stayed by the Delhi High Court[35]. Thus a policy enforcing the use of generic names that would save resources spent on marketing and would render standardisation of pharmaceutical products easier, has only been hesitatingly implemented; and that too, has been 'stayed' by the judiciary. Moreover, on the issue that no newly introduced single ingredient formulation would be allowed to bear a brand name under the New Drug Policy, the representatives of the West German, Swiss, British and the American pharmaceutical companies have, in a memorandum, threatened the Indian Government with the dire consequences if this policy measure is not withdrawn[36].

Dumping of Banned Drugs

It is well known that a significant number of formulations which have been banned, severely restricted or discarded (as obsolescent) in Western markets, are still being sold by MNCs in LDCs like India[37]. For instance, most anti-spasmodic combinations sold in India contain amidopyrin, a very toxic drug banned the world over. Yet India imports amidopyrin[38]. The popular antidiarrhoel formulation Lomotil manufactured by G.D. Searle is still widely sold in India, although the British Medical Journal has published articles since 1976 warning that the drug is highly dangerous for young children[39]. Similar is the case of Dimethisterone which is banned in Sweden, Finland, Belgium, the U.K. and the USA, but is sold freely in India[40]. The Bangladesh government has recently banned the manufacture, import and sale of a large number of MNC - produced drugs like Ciba-Geigy's Entro-Vioform, Mexaform; Hoechst's Novalgin, Baralgin and so on which are still being freely sold in India[41]. Recently, the Reagan Administration has lifted a 44 year old prohibition on the export of drugs that the U.S. Food and Drug Administration has not approved for domestic sale. Now it will be possible for a large number of American MNCs to dump drugs banned in the US, in LDCs[42].

LDCs: The Testing Ground

People in LDCs, have been used by the MNCs as guinea pigs, for human trials of their drugs. For this, MNCs with their pervasive influence, have been able to utilize services of prestigious bodies like the WHO. For instance, in India, the WHO and the Indian Council of Medical Research (ICMR) imported, for human trials in India, a cholera vaccine, Fanasil, manufactured by a MNC, which was not included in any pharmacepoeia, without the permission of the Drugs Controller[43]. There are also the infamous cases of the Genetic Control of Mosquitoes Unit (GCMU) Project, the bird migration and arbovirus studies at the Bombay Natural History Society, the Ultra Low Volume Spray experiments

for Urban Malaria Control at Jodhpur, the Pantnagar Microbial Pesticides Project, as well as some other projects undertaken in West Bengal in collaboration with the John Hopkins University, USA, in the early seventies all of which were severely criticised by an Indian Parliamentary Committee[44]. Recently Hoechst Pharmaceuticals had sought sanction from the Drugs Controller of India to conduct human trials of a new drug, HL 725, for hypertension. This drug however, according to Hoechst itself is only "in clinical phase I trials in West Germany."[45] Though hypertension is the "No. 1 killer" in the West, human trials are to be carried out first in India, even before clinical trials are completed in the West.

Compliance with Host Country's Regulations

One of the very important aspects of the performance of an MNC operating in a LDC, could be its compliance with the host country's regulations and plan priorities. What is the case with drug MNCs?

According to the provisions of the Companies Act, 1956, every company is obliged to provide information about product-wise production and capacities in its Annual Reports. But actually most of the drug MNCs consistently avoid providing this information. They provide this information under the vague general categories of 'injectibles', 'liquids', 'tablets', 'granules', 'powders', 'creams and ointments' and so on. Thus the real nature of their production even at the therapeutic group level is not known. In the absence of this vital information, regulation and monitoring of industrial licensing becomes a formidable task. Despite the obvious limitations of such data, there is substantial evidence of production in excess of licensed capacity[46]. The present authors have, elsewhere[47], cited some evidence on production substantially in excess of licensed capacity by MNCs. Further the government admitted in the Parliament recently that MNCs like Pfizer, Glaxo, and Warner Hindustan were producing about 31, 26 and 23 items without proper authorisation, respectively[48]. These included widely consumed analgesics, Multivit Forte and Livogen (tonic) produced by Glaxo, Becosule Capsules, Beconex Tablets, Multivitaplex Forte and Terramycin Capsules produced by Pfizer. Thus, MNCs in the drugs and pharmaceutical industry have shown only scant respect to India's industrial regulations.

III.

Myth of Transfer of Advanced Technology

Since the basic interest of MNCs is to maximise global profits, they are interested in marketing formulations under brand names rather than in the production of the less profitable bulk drugs in LDCs. For example, the share of MNCs in the manufacture of many vital drugs in bulk form in India, (before the announcement of the New Drugs Policy), like Tetracycline HCL, Analgin, Thiacetazone, Aspirin, Diphtheria Toxoid and Tetanus Toxoid, was almost insignificant. But at the same time they marked about 80 per cent of the total formulations of antibiotics, vitamins, cough syrups, analgesics and anti-rheumatics, and over half the tonics sold[49]. The situation has not changed with the New Drugs Policy. In 1978-79, the FERA drug companies produced only 16.7 per cent of the total bulk drugs consumption, whereas the public sector, the Indian private sector and the small scale sector produced 14.6, 22.3 and 5.9 per cent respectively. 40.5 per cent of the bulk drug requirements amounting to Rs. 1500 million, had to be imported. On the other hand the FERA companies alone accounted for the production of 43.8 per cent of formulations, while the corresponding figures for the public, Indian private and small scale sectors were 5.7, 32.4 and 18.1 per cent respectively[50].

Furthermore, the foreign drug companies have resorted to curtailed production of vital formulations whose prices have been fixed by the Drug Price Control Order of 1979. Currently a number of formulations used for the treatment of major diseases like tuberculosis, asthma, epilepsy, dysentery etc. are not easily available in the market because MNCs producing these drugs are steadily discontinuing their production. One foreign drug company has reportedly closed down its entire department making a group of six formulations used for the treatment of tuberculosis, on the ground of 'continued losses' . On the other hand the production and prices of drugs not covered by the Drug Price Control have increased constantly[51]. The case of Pfizer reveals similar tendencies. While Pfizer manufactured considerably less than its licensed capacity of two vital basic drugs: INH and PAS and its salts, its production far exceeded the licensed capacity for its branded formulations Terramycin and Protinex[52]. Instead of producing vital bulk drugs, the drug MNCs are increasingly entering into the production of low technology and low priority consumer goods, e.g. Warner Hindustan produces Chicklet chewing gum, Halls vapour action losenges; Reckitt and Colman produces Robin Ultramarine dyes, Cherry Blossom shoe polish, Johnson and Johnson produces Carefree sanitary napkins, baby powder, baby shampoo, and so on. It seems that the thrust of these companies production efforts is not towards the manufacture of technology-intensive bulk drugs, but is instead increasingly directed towards maximising sales of low-technology based formulations and consumer goods for the elite market.

Secondly, the R and D undertaken by MNCs is generally confined to, and relevant for, the parent countries. The Conference Board Survey noted that "only a negligible share of US (MNC's) overseas R and D found its way to the Developing Countries of the World."[53] This is only to be expected, since for obvious reasons, MNCs seek to perpetuate the technological dependency of the developing countries. In the case of the drug industry, the Hathi Committee had found that the MNCs actually discouraged independent R and D by the Indian staff (see above). The Sandoz Group, for example, spends nearly 9 per cent of its world wide turnover on R and D, whereas its Indian subsidiary spent only 1.4 per cent of its turnover on R and D in 1975[54]. According to an information furnished by the government in the Indian Parliament, 27 out of the 43 foreign drug companies in the country were spending only one per cent or less of their turnover on R and D, with only 4 companies spending more than 3 per cent[55]. Even these figures which are dismally low despite a number of tax incentives and high profitability, are inflated as they sometimes include expenditures on marketing research and quality control in order to realize tax concessions. Furthermore, there is a little evidence to show whether even this R and D activity is relevant for India's needs. Moreover, whatever technology is actually transferred by a MNC to its affiliate, remains a closely guarded secret, and hence it can at best be termed a private transfer and not a national transfer.

Thirdly, the foreign companies actually hamper the indigenous development of technology by local drug companies. Chaudhuri has shown how the Bengal Chemicals and Pharmaceutical Works Ltd. (BCPW), a pioneering Indian firm, which by the fifties succeeded in developing technology for the production of many vital drugs without any foreign help e.g. Thiacetazone, Nikethamide, Nicotinamide, Nicotinic Acid, Dapsone, Chlorpropamide, was harassed by Pfizer[56]. The BCPW patented its own process of manufacturing Chlorpropamide, an antidiabetic drug and sought an industrial license to produce it. Then Pfizer, which was importing and selling this drug under the brand name Diabnese, filed a suit in the Calcutta High Court that the BCPW's process constituted an infringement of a patent held by Hoechst, F.R.G., under which Pfizer had been given a license to manufacture Chlorpropamide in India. The case dragged on for 8 years and finally the court found that Hoechst's patent did not relate to the manufacture of Chlorpropamide at all.

A similar case is that of another foreign company viz. Franco India Pharmaceuticals which was reported to the Parliament recently[57]. This firm which extracts haemoglobin from animal blood produced in slaughter houses, has only a meagre capital of Rs. 50,000 but sells Rs. 50 million worth of haemoglobin preparations. The blood requirements of the company can be met with blood of only one slaughter house of Bombay, but to ensure that no other Indian unit comes to compete in the market, the company has reserved all slaughter houses of the country for its blood supply, which is six-seven times the company requirements.

Table II: Activity Distribution of High Income Employees of Foreign and Local Firms in the Drug and Pharmaceutical Companies: 1979

	Absolute Figures					Percentages				
	Production	Marketing	R+D	Others	Total	Production	Marketing	R+D	Others	Total
1. Local Companies										
a) No.of Employees	34	20	14	62	130	26.2	15.4	10.8	47.7	100.0
b) Wages + Salaries (Rs.'000)	1 776.1	906.5	743.0	3 202.8	6 628.4	26.8	13.7	11.2	48.3	100.0
2. Foreign Companies										
a) No.of Employees	859	744	41	1 000	2 644	32.5	28.1	1.6	37.8	100.0
b) Wages + Salaries (Rs.'000)	45 509.6	35 828.6	2 180.3	52 500.2	136 018.7	33.5	26.3	1.6	38.6	100.0
3. Grand Total										
a) No.of Employees	893	764	55	1 062	2 774	33.2	27.5	2.0	38.3	100.0
b) Wages + Salaries (Rs.'000)	47 285.7	36 735.2	2 923.3	55 702.9	142 647.1	33.1	25.8	2.0	39.0	100.0

Source: Based on Data Compiled by the Corporate Information System, Indian Institute of Public Administration, New Delhi

In indigenous development of technology, a number of Indian concerns apart from BCPW, are doing commendable work inspite the unfair competition given to them by MNCs. For instance, Lupin Laboratories, a wholly owned Indian firm, successfully developed a process for the manufacture of a vital drug Triamcinolone at its R and D centre, where work on developing technology for production of some of the latest corticosteroids was also in an advanced stage[58]. Similarly Ranbaxy Laboratories Ltd. successfully produced Doxycycline, an important new antibiotic, on a pilot plant scale, and was undertaking research to develop indigenous technology for the manufacture of 6 Amino-Penicillinic Acid and some other drugs[59].

Finally, an indication of the actual quality of production technology employed and the R and D undertaken, is provided by an analysis of the qualifications and training of the high income employees (earning Rs.3 000 per month or more) in these companies. Such an analysis of 7 leading foreign pharmaceutical concerns: Reckitt Colman, Boots, Glaxo, Pfizer, Richardson-Hindustan, Sandoz and Bayer, reveals that out of the total of 1695 high income employees in 1978-79, 435 (25.7 per cent) did not have any University degree. As many as 1 300 (76.7 per cent) had first University degree or less qualification[60]. When high income employees of foreign companies were classified in categories like Production, Marketing, R and D and others (including accounts, administration, personnel) and this distribution was compared with that of local companies, a picture as is shown in Table II emerges. It shows that while foreign companies deployed 28 per cent of their high income employees in marketing, only 1.6 per cent of high income employees were employed in R and D. The comparable figures for local concerns are 15.4 per cent on marketing, and 10.8 per cent on R and D[61]. This analysis, thus, indicates that basic thrust and strength of MNCs in LDCs is not their R and D or technological capabilities, but their marketing efforts.

Myth of Supplementing Domestic Investment Resources

The claim that foreign capital supplements domestic savings through capital inflows, was another illusion the Indian government had, while welcoming foreign investment. Chaudhuri, in an analysis of top 51 MNC subsidiaries in India, finds that only 5.3 per cent of the growth of their operations during 1956-75 was financed from foreign resources, the rest was financed with local sources[62]. Similarly, an analysis of capital structure of 8 leading foreign drug companies shows (Table III) that the total actual capital inflow through subscription of equity was merely 13.51 per cent of present share capital in contrast to 64.38 per cent equity held abroad[63]. The rest of the share capital included either capital raised through bonus shares, or was subscribed to by local public sector financial institutions, or the Indian

public. Moreover, a large part of this capital inflow was in fact an inflow in kind, not in cash. And, as is well known, MNCs tend to export obsolescent machinery to their affiliates at inflated prices. In the case of one company, Cynamid, the actual inflow, after accounting for the sale of shares in 1979, by the parent company to general public as a measure to dilute foreign equity at a premium of Rs. 12 per Rs. 10 share was negative.

Myth of Foreign Exchange Inflow

Operations of MNCs were expected to ease the foreign exchange constraint, initially by capital inflows, and later exports, which they were expected to maximise through their supposedly vast international marketing capabilities. What has been the actual experience? According to an official report, 26 foreign drug companies remitted dividends amounting to Rs. 208.9 million during 1978-80. In addition, they imported Rs. 1000 million worth of raw material etc. from their principals and from elsewhere. Their total earnings of foreign exchange on account of exports etc. were only Rs. 282.8 million, thus leaving a gap of Rs. 926.1 million, adding to India's already very severe balance of payments (BOP) deficit[64].

The question of imports and exports by the MNCs in the LDCs, apart from their impact on BOP, is not as simple as it appears to be. In India, some of the most reputed MNCs like Glaxo, Boots have been found to be indulging in unauthorized imports of Trithene and Ibruprufen, respectively[65]. Apart from this, since most of the imports and exports of MNCs are intrafirm (from one affiliate to another) transfers, there is every possibility of manipulation of prices charged in these transactions, to the detriment of the host LDC. This manipulation of prices has been confirmed by Vaitsos[66] in the case of Columbia and by Lall[67] in the case of Sri Lanka, and is referred to as transfer pricing. In India too, a number of cases of transfer pricing have come to light. For instance, Roche introduced Librium in the Indian market at a price exceeding Rs. 5,455 per kg while a Delhi firm could import it at Rs. 312 per kg. Another foreign subsidiary charged Rs. 60,000 per kg for Dexamethasone, which was later reduced to Rs. 15,000 per kg at the intervention of the Controller of Imports[68]. Hoechst and Merck, Sharp and Dohme were found to be importing Indomethacin, Prenylamine Lactate, Furesemide etc. from their principals at prices higher than that of the world market. Moreover, Merck, Sharp and Dohme refused to utilise the stocks of these basic drugs imported by the government canalisation agency[69]. Similarly, subsequent to the canalisation of Gentamycin its price was brought down from Rs. 45,000/kg (c.i.f.) to approximately Rs. 1,000 per kg (c.i.f.)[70]. The differences between the pre-canalisation and post-canalisation prices are obviously due to transfer price manipulations by foreign drug firms. Chandrasekhar and Purkayastha have attempted a highly tentative estimate of outflow of foreign exchange due to

Table III: Relative Importance of Capital Inflow in Total Equity for Leading Foreign Companies (Rs.'000)

S.No. Company (year)	Total Present Share Capital	Equity Held Abroad	Total Actual Inflow of Equity Capital	Total Out-flow (Re-patriation) of Equity Capital	Net Inflow	Net Inflow as % of Total Share (Equity) Capital	Net Inflow as % of Equity Held Abroad
1. Cynamid India (1979)	45 595	25 077 (55.0)	4 560	10 031	(-)5 471	-	-
2. Bayer (I) (1978)	81 100	41 362 (51.0)	19 315	-	19 315	23.82	46.70
3. Boots (1979)	22 642	12 000 (53.0)	2 999	-	2 799	13.25	25.00
4. Pfizer (1977)	100 458	75 600 (75.3)	20 000	-	20 000	19.91	26.46
5. Warner Hindustan (1980)	29 812	14 906 (50.0)	3 500	-	3 500	11.74	23.48
6. Richardson Hindustan (1978)	15 000	8 250 (55.0)	2 750	-	2 750	18.33	33.30
7. Nicholas Labs. (1980)	14 636	6 600 (40.9)	100	-	100	0.68	1.50
8. Glaxo Labs. (1980)	144 000	108 000 (75.0)	18 000	-	18 000	12.50	16.67
Total	453 243	291 796 (64.38)	71 224	10 031	61 193	13.51	20.58

Note: Figures within brackets indicate percentages.
Source: Based on Corporate Information System (I.I.P.A.) New Delhi, Data.

transfer pricing in the case of imports from their associates by 29 foreign drug companies in 1977[71]. On the assumption that the minimum price at which anyone commodity was imported was equivalent to the actual minimum prevailing price in international markets, they calculated that the outflow due to inflation of the import prices by these companies amounted to Rs.40.14 million out of their total import bill of Rs.189.92 million in 1977. Apart from imports, transfer pricing is resorted to in the case of exports. For instance, Kumar has found that in an export oriented pharmaceutical concern with 49 per cent foreign equity, 70 to 80 per cent of the produced drugs were exported to the parent company, at prices that were so low, that the firm would have run at a loss, but for export subsidies provided by the Government[72].

Now, a case of 5 US MNCs joining hands and concertedly fixing monpoly prices for exports to India and three other countries has come to light[73]. India has filed an anti-trust suit in the US Court, against MNCs viz. Pfizer, Bristol-Myers, Cynamid, Upjohn and Olin for charging exorbitant prices for broad-spectrum antibiotics, which, it is claimed, have caused damages of 32 million dollars to India alone.

IV.

Conclusions

In the foregoing analysis, we have examined some aspects of the operations of drugs MNCs in LDCs like India. We discussed how the government policy pursued during the last three decades, has helped MNCs acquire a position of dominance over this industry. MNC's interests in global profit maximisation have resulted in the promotion of illusory brand competition, coupled with high unnecessary outlays on marketing, at the cost of consumer. Evidence on the dumping of banned drugs in the LDCs, and the use of LDCs as testing grounds for their drugs, along with cases revealing the MNC's scant respect with the host country's regulations, have been presented.

Since foreign capital was welcomed by the Government of India with some specific expectations, it was thought worthwhile to examine whether those expectations were fulfilled. For instance, MNCs were expected to provide the foundations for technological self-reliance. In this regard, they have actually been found to be interested in the production of soft technology formulations and over-the-counter luxury items, rather than in technology intensive bulk drugs. They have, in fact, concentrated more on the marketing side, than on research and development, and have been found to be attempting to hamper indigenous development of technology by local firms. Far from supplementing domestic savings, drug MNCs have utilized local capital resources to strengthen their stranghold over the industry. Finally, the operations of MNCs were

found to be having a markedly adverse impact on India's BOP, contrary to the earlier expectations. They have been found to be indulging in unauthorised imports and transfer pricing to the detriment of Indian interests. In a word, the balance sheet of drug MNCs in India presents a grim picture.

Notes:

1) For references on the subject see United Nations Centre on Transnational Corporations, Bibliography on Transnational Corporations, New York: UN 1979.

2) See Prime Minister's "Statement on Foreign Investment Policy", Constituent Assembly Debates, April 6, 1949.

3) See Industrial Policy Resolution, 1948.

4) See India, Ministery of Petroleum and Chemicals, Reports of the Committee on Drugs and Pharmaceutical Industry (Popularly known as Hathi Committee Report), Delhi 1975, p.86.

5) Ibid.

6) Ibid.

7) Ibid. p.90.

8) Ibid. p.96.

9) Ibid. p.97.

10) Ibid. p.98.

11) See Foreign Exchange Regulation Act, 1973, Delhi: Govt.of India, 1975, p.1.

12) See Reserve Bank of India Bulletin, March 1978, Bombay.

13) See Benjamin Cohen, Multinationals and Asian Exports, New Haven, Yale Univ. 1975, p.9.

14) See Sudip Chaudhuri, "FERA: Appearance and Reality". Economic and Political Weekly, April 21, 1979, p.739 for an illustrative list of capacity expansion. Also see S.K.Goyal, "Multinational Corporations in India: The Need for a Realistic Policy Frame Work". Corporate Studies Reprint No.2, New Delhi, Indian Institute of Public Administration (I.I.P.A.), for an analysis of futility of FERA.

15) Economic and Political Weekly, "Expansion through FERA", Dec.3, 1977, p.1991.

16) From prospectuses of the respective companies available with the Corporate Information System, I.I.P.A., New Delhi.

17) Cited in J.S.Majumdar, "Instruments of Policy", Paper read at the Seminar on "The Drug Industry and Indian People", A.I.I.M.S., New Delhi, Nov.7-8, 1981, mimeo.

18) A few of these companies like Warner Hindustan, Parke Davis etc. have, however, opted to dilute their foreign equity to 40 per cent to get themselves recognised as Indian concerns and expand.

19) New Drugs Policy Statement, by the Minister of Petroleum and Chemicals, in the Lok Sabha, March 29, 1978.

20) Economic Times, February 13, 1981.

21) Indian Express, October 18, 1981.

22) Sanjaya Lall, "International Pharmaceutical Industry With Special Reference to India", Oxford Bulletin of Economics Statistics, August 1974, p.143.

23) H.G.Grabowski and J.M.Vernon, "Structural Effects of Regulation on Innovation in the Ethical Drug Industry", in: R.J.Mason and P.D.Qualls (ed.), Essays on Industrial Organisation, Cambridge 1976, p.195.

24) Cited in Nagesh Kumar, "Evaluation of Direct Foreign Investment in India: A Case Study of Drugs and Pharmaceutical Concerns", unpublished M.Phil. Dissertation, Delhi School of Economics, Delhi, June 1980, Chap.3.

25) Lall, op.cit., p.145.

26) U.N. Centre on Transnational Corporations, Transnational Corporations and Pharmaceutical Industry, New York: U.N. 1979, Table 4, p.110.

27) Lall, op.cit., p.145.

28) Hathi Committee Report, op.cit., p.87.

29) B.V.Ranga Rao, Indian Drug Industry - Its Status and Perspective, Centre for Studies in Science Policy, Jawaharlal Nehru University, New Delhi, 1975.

30) Sanjaya Lall, "Multinational Companies and Concentration: The Case of the Pharmaceutical Industry", Social Scientist, March-April, 1979, p.16.

31) Economic Times Research Bureau Study in Economic Times, August 27, 1977.

32) A.R.Phadke, "Scientific Scrutiny of Some Over-the-Counter Drugs", Paper read at the Seminar on Drug Industry (see Note 17), mimeo.

33) Cited by Ibid.

34) See Economic Times, May 28, 1980.

35) Economic Times, July 22, and 30, 1981.

36) Financial Express, August 8, 1979.

37) A large number of cases of dumping of banned drugs in LDCs have come to the light. The following recent books report a large number of instances: Robert Richter, Pills, Pesticides and Profits, New York: North River Press, Jan. 1982, and Milton Silverman et al., Prescriptions for Death: The Drugging of the Third World, University of California, 1982.

38) W.V.Rane and A.R.Patwardhan, "Priorities in Drugs Manufacture", Paper read at the Seminar on Drug Industry, mimeo.

39) Patriot, November 30, 1981.

40) Business Standard, March 2, 1982.

41) See Bangladesh Gazette Extraordinary dated 12th June 1982. Dacca: Govt. of the People's Republic of Bangladesh.

42) See Multinational Monitor, July 1982, Washington, D.C. Also given there is a list of US MNCs which exported banned items since October 1980.

43) Patriot, May 26, and June 6, 1981.

44) See Public Accounts Committee (Fifth Lok Sabha), Foreign Participation or Collaboration in Research Projects in India, 167th Report, Delhi, 1975.

45) See Hoechst's Advertisements in Economic Times, November 6, 1981.

46) In a study done by the Corporate Studies Group, it has been found that MNCs as a group indulged in most cases of violation of licensing norms. See the Corporate Studies Group, Functioning of Industrial Licensing System: A Report, Studies in National Development: Number One, New Delhi: Indian Institute of Public Administration, January 1983.

47) Nagesh Kumar and Kamal Mitra Chenoy, "MNCs in the Indian Drug and Pharmaceutical Industry", Paper presented at the Seminar on Drug Industry, mimeo.

48) Times of India, July 20, 1982.

49) See N.I.Joseph, "Multinationals in the Indian Drug Industry". Social Scientist, March-April 1979, p.82.

50) Gouri Pada Datta, "Drugs, Drug Industries and Indian People". Paper read at the Seminar on Drug Industry, mimeo.

51) Economic Times, Nov.28, 1981.

52) Majumdar, op.cit.

53) Daniel Creamer, Overseas Research and Development by United States Multinationals, 1966-1975, Conference Board (USA) 1976, p.6, parenthesis added.

54) Annual Report 1980 of Sandoz India Ltd. and Statement laid on the Table of Parliament No.LT - 1196/77.

55) Ibid.

56) Sudip Chaudhuri, "Bengal Chemical: 1892-1977. Growth and Decline of an Indigenous Enterprise", Calcutta: Indian Institute of Management (mimeo).

57) Economic Times, May 6, 1961.

58) Times of India, Nov.19, 1981.

59) Ranbaxy Laboratories Ltd. Annual Report 1980.

60) Based on data compiled by Corporate Information System, I.I.P.A., New Delhi.

61) Results of this analysis may, however, be treated as tentative since it is based on only 22 companies for which data was readily available. One is not sure if the sample was biased.

62) See Sudip Chaudhuri, "Financing of Growth of Transnational Corporations in India, 1956-75", Economic and Political Weekly, August 18, 1979, pp.1431-35.

63) S.K.Goyal has found that the BOP impact of all foreign subsidiaries as a group was unfavourable to India. See S.K.Goyal, "The Impact of Foreign Subsidiaries on India's Balance of Payments", A Study prepared for the Joint CTC-ESCAP Unit, Bangkok, 1979 (mimeo).

64) See a UNI Report reproduced in Financial Express, Oct.10, 1981.

65) Times of India, December 22, 1981.

66) C.Vaitsos, Inter-country Income Distribution and Transnational Enterprises, Oxford: OUP, 1974.

67) Sanjaya Lall, The Multinational Corporations, London: Macmillan, 1980.

68) J.Majumdar, Multinationals in the Drug and Pharmaceutical Industry in India, Calcutta, 1979, p.44.

69) Answer to Question No.6163, April 15, 1975, Lok Sabha Debates.

70) Answer to Question No.365, Nov.21, 1978, Lob Sabha Debates.

71) C.P.Chandrasekhar and Prabir Purkayastha, "Transfer Pricing in the Indian Drug Industry: An Estimate and its Implications". Social Scientist, Jan.1982, pp.3-10.

72) See Nagesh Kumar (1980), op.cit., Chap.5.

73) Economic Times, June 8, 1981.