MULTI - DIMENSIONAL LOOT AND THE GREAT DRAIN

It is impossible to calculate the great drain from India due to imperialist exploitation. Its ways, legal and illegal, known and unknown, are multi-dimensional. India is fleeced in hundreds of ways. As we have seen the published figures of the Government of India through the Reserve Bank on the repatriation of capital, profits, royalties, and technical knowhow, are a monstrous underestimation. Even the amortisation of loan capital and interest payments do not include service charges to the I.M.F. or payment of interest and capital on the rupee loans from P. L. 480. Its impact on the budgets of both Central and state governments, due to innumerable tax concessions given to them in the form of exemption from income-tax and exemption from motor vehicles tax, are incalculable. Foreign capital and foreign loans thurst on our country innumerable *'experts'* in all walks of social, administrative and economic life, draining the country for their huge salaries and other perquisites aggregating to crores of rupees.

What exactly is the amount paid in excess, for example, to the commodities we have been purchasing from the U.S.A. at extraordinary prices, over and above the international markets, due to tied loans? What is the excess amount the country has been paying to the American bottoms in excess of international transport rates due to the conditional nature of loans that at least 50 per cent of the commodities should be transported only in US ships? What is the excess amount we have been incurring (forced to pay) in the transport, oil, chemical and other industries due to the source of supply being a condition laid down in the collaboration agreements? What is the loss to our country due to overinvoicing and underinvoicing, carried on by foreign companies in their transactions with the outside world? Can it ever be calculated, the amount of loss incurred due to unfavourable terms of trade imposed on all developing countries, including India by imperialist finance ? Has the country ever been told - if the government has an account for it - as to what exactly are the amounts paid in the form of interest and repayment of capital to the *'mother company'* by the branches in lieu of the so-called loans incurred by the later?

What is the amount paid by the branches and subsidiaries in the nature of pro-rata charges on head office expenses? What are the amounts paid in the name of service charges on exports ?

Such are the myriad ways of foreign finance capital. A short study of some of these means of loot would show that the *'Great Drain'*, about which the grand old liberal nationalist the late Dadabhai Naoroji spoke, has been continuing even today - only in different forms, but in greater intensity, reducing the country to a state of pauperism. It is unfortunate that not even a sincere attempt is made to evaluate the total amount of loss to the nation by even the so-called Left parties.

I am aware that an exercise of this nature is an impossible task to be undertaken by any one from within the four walls of the jail. Yet a few examples to show the immensity of the drain is a necessity.

Un-accounted Repatriation

(1) Even though it is not possible to evaluate the total amounts paid to foreign personnel working in various capacities in our country - in agriculture, in industry, in education, health, etc. - in official and semiofficial positions, the following item from the Central budget will open a chink in the window to throw a hazy light on the problem.

On Page 42 of the budget memorandum there is a provision under Miscellaneous Expenditure (3) accounting for an amount Rs. 427 lakhs. It is explained that, *"non-Indian employers of Ford and Rockefeller Foundations are entitled, under their terms of service, to the payment of tax-free salaries. The income tax payable in respect of their salaries is charged under the head"*. It is clear from the above explanation that it is a book adjustment made. If the income-tax payable comes to this huge amount, we can as well imagine what would be the amount of salaries being paid for their extraordinary services in India, along with many other unaccounted for emoluments, such as free housing, free medical services, charges to and fro to visit their homes in America, and so on.

These are not the only foreigners on tax-free salaries, with various other tax-free services - such as tax-free motor vehicles - we have noted in the previous chapter that salaries of the technical personnel working in private and public sectors are also tax-free.

Some thousands of them must be working in these various hundreds of foreign collaboration industries in our country. We have also noted in a previous chapter how costly these white elephants are, the salaries and other services to each of them amounting to a lakh and more.

Can any one calculate and announce the crores of rupees being paid to them and the immense loss to the treasury due to this tax-free salaries? As per the few examples I had given in the previous chapter, *'Foreign Private Capital'*, we will find that only 14 of the foreign directors or managing directors belonging to a score of companies are drawing Rs. 32 lakhs as salaries with free perquisites as car, house, medical expenses, including in one case a special fee of Rs. 900 per month for children's education. It is my opinion that there are more Westerners drawing and repatriating the total amount of their salaries in India today than in the period of colonial India, under direct British rule.

It is certainly very difficult to calculate the number of European or American directors manning Indian industry. And other than directors and managing directors, there should be many other technical personnel in the industry. If we remember that there are 529 Branches and 225 Indian subsidiaries of foreign companies, and if we suppose there were only 3 foreign personnel drawing high salaries in each one of them on an average, the amount of salaries paid to them at the rate of only one lakh of rupees per year, it amounts to nearly Rs. 22.50 crores. There are hundreds of other collaboration companies in the country, which are not subsidiaries but which include either managers, directors, technical personnel, or all the three of them. And the amount paid to them must also be equally high. We have seen how even the so-called public sector industries, such as Madras, Cochin, Haldia refineries, and the other 7 or 8 public sector industries such as Lubrizol in the oil industry, or in the fertiliser industry in Madras, include more than half the board of directors and a few technicians of Western origin paid very heavily. How many more there are in industries under construction in anybody's guess. Therefore, even in the corporate sector alone - both public and private - there would have been a few thousand of foreign personnel in charge of various departments.

The amounts paid to them is generally not calculated and accounted for in the accounts prepared by the Reserve Bank of

India or the Government, since it is not part of either profit, royalty, capital repatriation, or payment for technical knowhow.

Kidron records : *"Most foreign firms insist on staffing the major technical posts in any joint venture. Works managers are almost invariably foreign ; research departments, in so far as they exist, are normally under foreign direction. In non-technical fields, the foreign collaborator often insists on appointing the general manager and company secretary."*

According to Government of India's figures, one can see that Indianisation is taking place - only in the lower scales. *"At the top, say above Rs. 3,000 per month, Indians are still a minority, some 31 per cent of the total on January 1, 1963; and at the very top above Rs. 5,000 they are very rare indeed - 7.8 per cent on January 1, 1959, when last reported on. Expatriates are tending to concentrate more and more on these higher brackets; the proportion earning Rs. 3,000 rising from 22 to 59 per cent between 1954 and 1963"* (Page 294 : Kidron).

India has lost the civil service manned by the British. The governor general, the governors, secretaries, and distric officials, have left the country by the front door, to return again through the back door in different guise - as directors, works managers, research specialists, technicians, and various other important - sounding capacities in the corporate sector, along with Rockefeller and Ford foundation specialists in hundreds to help boost agriculture, a few hundreds more to hlep to increase educational efficiency, and a few hundreds more in various other departments including home science, family planning, and poultry development.

As to how much is a loss to the exchequer through tax concessions given to them is unaccounted. As to how much is spent on them in the form of salaries and other perquisites is unknown. In my opinion, it should be running into a few hundred crores of rupees.

Let me quote from the grand old man, Dadabhai Naoroji, and conclude this section :

> *"When a European is employed, he displaces a native whom nature intended to fill the place. The native coming in his place is natural. Every pie he eats is, therefore, a gain to the country, and every pie he saves is so much saved to the country for the use of all its children. Every pie paid to a foreigner is a complete material loss to the country. Every pie paid to a native is a complete material saving to the country".*

(2) There is another item which is generally not accounted for in the repatriation accounts of the corporate sector by the Reserve Bank of India in its annual reports on foreign private capital. All the branches established in India repatriate huge amounts in the name of *'head office expenses'*. The country, a few years ago, had heard of crores of rupees of repatriation per year by the oil companies in India to their *'mother companies'* as head office expenses. No effective steps, to my knowledge have been taken by the Government of India, to stop or even reduce this drain.

The plunder of India by such unaccounted for repatriation of huge amounts can be seen from the following example which came to light a few months ago; the following news as reported in the press (Hindu, June 14, 1970) can only help us to understand the nature of the great drain from India, even though no full account of the amount of the drain on this account is available anywhere in the country - probably not even with the Government of India. The following exceptional story of the grand loot is the success story of 'Coca-Cola'.

The operations of Coca-Cola export corporation of U.S.A. started in India with the setting up of a branch in 1958 with a capital investment of only Rs. 6 lakhs.

The foreign remittances of the corporation, consisting of profits, pro-rata charges on head office expenses, and service charges on exports by the company, rose from Rs. 6.35 lakhs in 1964 to Rs. 75.16 lakhs in 1969.

They have 22 units in India, with an annual turnover of 1,400 million bottles, valued at over Rs. 30 crores, sold through 200,000 dealers all over the country.

TABLE : 8.1

(Rs. lakhs)

Year	Profits remitted
1967	41.46
1968	21.65
1969	75.16

"Part of the expatriated amounts consists of pro-rata charges on head office expenses, and these had risen from Rs. 1.49 lakhs to Rs. 19.84 lakhs between 1961 and 1969. The other elements included in the expropriated profits is the service charge on exports, and this had risen steeply from Rs. 2.07 lakhs in 1965 to Rs. 22.38 lakhs in 1969" (Hindu, June 14, 1970).

"The firm's contention seems to be that such remittances" (as prorata charges on head office expenses) *"are not peculiar to the Coca-Cola Export Promotion Corporation alone. Foreign branches of companies abroad always have to pay for technical and managerial services rendered by their principals, especially in cases where there are impressive export performances. This was done with the full concurrence of the governments in these countries".*

According to the firm's own expectations *"its operating profits which amounted to $ 330,000 in 1962 would have gone upto $ 3.8 million by 1972"* – that means, by 1972, its profits would be Rs. 2.85 crores.

What an excellent commercial success this is ! With an investment of only Rs. 6 lakhs, it has remitted Rs. 136 lakhs of profits in 3 years. And it has planned to make a profit of Rs. 2.85 crores in 1972. The firm's contention is that it is in no way exceptional that the company repatriates Rs. 19.84 lakhs on pro-rata charges on head office expenses and other Rs. 22.38 lakhs on service charge on exports, other than Rs. 32 lakhs as profits in 1969, since all foreign branches of companies adopt this method of paying the head office for its expenses incurred for their business in India. And the most important of all is that *"this was done with the full concurrence"* of the government! And yet, one cannot now charge this government in a court of law for the most

conscious breach of trust and criminal conspiracy against the people except to wait for the day, when it can be charged in people's court!

(3) Foreign private investment has least foreign exchange inflow but has an increasing exchange outflow.

We have noted that, between 1948 and 1968, private foreign investments increased by Rs. 1,300 crores. Not all the amount invested is in the form of actual inflow of foreign capital. Quite an amount of capital invested is either in the form of retained profits, or through loans from P. L. 480 counterpart rupee funds known as Cooley loans, or in the form of shares allotted in lieu of transfer of technical knowhow, or for engineering fees, or for other services and charges. We have noted as an example how Montecatini, the Italian firm, was allotted Rs. 1.20 crores as share capital for certain services rendered and for technical knowhow. Even though there is no foreign exchange gain the above investment, there is a continuous loss in foreign exchange due to repatriation of profits on that investments.

The following table, from *"Foreign Investments in India'* by Kidron (Page 310), clearly shows that *"during the 15 years for which data exist in which foreign investment stake has more than doubled, foreign investors as a whole have taken out of the general currency reserve nearly three times as much as they contributed directly".*

TABLE : 8.2

Foreign Capital Sector's Balance of External Payments 1948-61

(Rs. crores)

Foreign exchange losses :	
(1) Repatriation of capital	141.1
(2) Profits paid abroad	381.0
(3) Royalties, fees etc.	196.3
Total	718.4

Foreign exchange gains :

(1) Gross investment in cash		60.2
(2) Gross investment in kind		186.9
	Total	247.1

Total debit balance : Rs. 471.3 crores

It is clear from the above table that foreign investment exacerbates the imbalance in the balance of payments accounts, and only helps to deepen the crisis the country is facing in the foreign transactions account.

(4) **Foreign investment increases imports, obstructs exports :** we have noted how foreign capital - both loan capital and private investments - are intended mainly to create a sustained climate for the export of commodities and spare parts to underdeveloped countries. An industry or a particular machine imported, is a sweetener demanding further imports for the same - for its maintenance. Most of the imports, tied to a particular source and tied to a particular loan, are costlier in various forms. This has been well described by Ronald C Health in the Indian Express (June 19, 1971) in his short article, *"World Bank tractors Bonanza".* He says that import of complete tractors for mechanisation of agriculture is going to create *'chaos'* in three or four years, when all kinds of tractors of all sorts of makes will be lying rusting and immobile for want of spares.

When there are already five or six tractor manufacturers producing in this country with Western collaboration which entitled them to tender the World Bank scheme, why *"in each case has the World Bank called for complete tractors"?*

> *"Why is this ? Let us be very fair. India happens to be the buyer. If it is a question of dictating terms, I feel that we should respectfully point out to the World Bank that we are the buyers and that it is for us to decide the conditions in which we receive the tractors and not for them".*
>
> *"At this very day the tyre companies, wheel rim companies, battery manufacturers, engine manufacturers, radiator manufacturers, instrument manufacturers, sheet metal manufacturers, steering wheel manufacturers, are all looking for work or markets or customers, to say nothing of the young brilliant engineers who are looking for employment".*

Why then this import of complete tractors? There can be no other answer except that *"tractors coming from the West, coming in completely built-up form, helps to maintain full employment in those areas"* and that it helps to knock off the subsidiary profit, like insurance business for export, heavy transport profit for shipping companies, packing and loading charges, and the bank commission, apart from the profits on the tractors themselves.

Indeed, *"Anyone who dares to suggest that the World Bank has not been of real assistance to developing countries would be doing this organisation a great dis-service",* and anyone who dares the patriotic motives of our national self-reliant, independent government, would be hauled up for anti-patriotic activities before a court and the dangerous conspiracy to overthrow the 'garibi hatao' Government would be nipped in the bud.

What is the loss to the nation in terms of rupees, annas, and pies, due to excessive prices that have to be paid owing to the tied nature of these loans other than the interest we pay on the loans. The latter payment comes into the calculation under the amortisation payments account, but the hundreds of crores of rupees the country pays in excess of international market prices of commodities is paid under loan account and is incalculable. Evey year, for the past 10 years, we have been purchasing commodities worth a minimum of Rs. 500 crores from the loan account. Even if a 15 per cent is the excess price paid for them, it is a clear Rs. 75 crores of *'excess'* loot!

Added to this extraordinary exploitation, the foreign capital in our country is a hindrance to earning foreign exchange.

With such phenomenal prices paid for our imports ransom, are we free to export any commodity we wish and to any place we like to reimburse our expenditure on imports and to maintain a balance in the balance of payments accounts. No! this *'Sovereign'* nation is not free to export any commodity it wishes, to any country of its choice.

It is being dinned into our ears that export earnings are the fulcrum in our development plans. *'Export or Perish'* has become a major slogan. Export incentives are unaccountable in number. Yet exports are lagging far behind the need. Various causes are being bandied about for the failure to earn enough from exports. But about one major cause the country hears the least. We have noted previously that foreign collaborators control production, management, prices, and finance. Not satisfied, they control even our export trade. A close study of the agreements arrived at reveals the extraordinary shackles imposed on India's export trade by them.

Let us look into a few examples which have seen the light of day.

(1) The major reason for the failure to achieve the target of exports in the bicycles industry, it was reported in 1962, was the restriction imposed by the Raleigh Company in their agreement that the products of the industry produced under their patents cannot be exported, except to two or three countries.

(2) Eastern Economist's Annual Number for 1963 has published the following clause as part of the agreement between Hindustan Dowidata Tools Ltd. and its foreign collaborator of West Germany. The clause restricts the right of the company to export its goods in the following manner : "The company has also a right to export these tools to Iraq, Viet Nam, Iran, Afghanistan, Burma, Cambodia, and Nepal and such other country **as might be mutually agreed upon** between the company and the foreign collaborator".

(3) Hind Auto Industries, registered in Lucknow, with an authorised capital of a crore of rupees, in its announcement for the issue of capital published in Hindustan Times on June 5, 1963 has the following to say : "The company will have collaboration with Messrs Alfred Sell Autotrilebabrite of West Germany, who are one of the largest manufacturers of automobile components in the country. They have also agreed to participate in the share capital and have given to the company the rights to export its products to all countries **except, Europe, the whole of American continent including Canada and West Indies".**

(4) Even in regard to public sector industries, we are not free to export as we like. The case of Indian Telephone Industry is a glaring example. Due to our friendly relations with Asiatic countries,

some of them enquired from the company in 1957 whether they would be able to supply them with its products. We could not take advantage of this demand because of the restrictive agreement with the foreign collaborator AEI.

(5) The same seems to be the case with Heavy Electricals of Bhopal, with restrictive conditions on its sales to other countries.

(6) It is reported in the Hindu Survey of Industries, 1962, that "except some sporadic attempts by individual units, there has been no serious attempt on the part of the manufacturers in general to export in the case of storage batteries and dry cells. The dry cells industry is one of the oldest in the country. Eveready was established in 1925. Later it was acquired and expanded in 1937-38 by Union Carbide of USA". "The industry's contribution to the foreign exchange resources is not yet enough", even though, "there is good scope for the export of batteries". The reason adduced by the author of the article in the Survey is "the weakness in the ownership and the organisational structure of the industry", which is "a part of the large combine with international ramifications", and naturally, "its problems are different from those faced by the Indian sector" and our national interest.

The following information, recorded by the Report of the Industrial Licensing Policy Inquiry Committee, provides some information regarding restrictions placed on collaborating firms by foreign partners in regard to exports :

TABLE : 8.3

Pattern of Export Conditions in 270 Collaborations

Exports not allowed	*6*	
Exports restricted to specific areas	*76*	
Exports allowed on payment of additional royalty	*72*	
Exports restricted to specific quantity	*12*	
Other export conditons	*9*	
Total	*175*	*64.8%*
Exports freely allowed	*95*	*35.2%*

The following comments in the report are extremely important:

> *"One major reason why foreign firms are interested, under conditions such as those obtaining in India, in entering into collaborations is that with the existing import restrictions the only way in which they* **can have a foot-hold in the Indian market** *is through collaboration. On the other hand, having their own interests to pursue in the markets provided by other countries, they* **would not be normally interested in encouraging** *exports from India of the products whose production develops through their collaboration. In order to guard their interests in foreign markets, most foreign collaborators like to impose export restrictions in the collaboration agreements".*

Exports are restricted by the very nature of collaboration. For example, the very conditions "under which the Indian parties are obliged to purchase from foreign collaborators or their nominees, the requirements of plant and machinery, spares, intermediate products and raw materials", would entitle that, "the prices charged would be unduly high", which "indirectly makes exports difficult". Other than the direct export restrictions to specific areas, "the extra royalty on exports is usually 2 to 3 per cent above the royalty permitted for internal sales. This extra royalty is bound to add to the cost of Indian exports and thus reduce their competitive character". We also find that there are certain agreements that contain vague export restrictions such as exports being subject to the prior permission of the collaborator". (Main Report, Page 135).

According to the Reserve Bank of India Survey, out of 1051 cases, export was totally prohibited in 36. In 149 cases permission of the collaborator was necessary for export, in 197 cases exports were permitted to only certain countries, and in 42 cases exports were prohibited to certain countries (Directory of Foreign Collaborations : Volume 2, Section 4, Page 80).

Thus the Indian bourgeoisie has allowed the foreign collaborator to loot in various forms.

Profits are Exceptionally High

In the process of multi-dimensional loot of the country, the

prices of the commodities produced by the foreign-controlled firms are highest and the profits exceptional.

A Tariff Commission Report on Rubber Tyres and Tubes reported that profits to capital employed for Dunlop Rubber Co., (India) Ltd., averaged 26.8 per cent annually between 1947 and 1953; compared with 17.5 per cent for its principal in Britain over the same period - a difference of over 50 per cent.

The following table gives the comparative figure for 3 companies representative of the largest foreign investors :

TABLE : 8.4

Net Profits as a Proportion of Net Worth : Indian and Parent Companies, 1956 to 1961

Year	UNI-LEVER		ICI	
	Home	India	Home	India
1956	16.4	15.7	7.2	19.0
1957	12.7	14.7	8.1	9.2
1958	13.6	19.0	4.8	3.5
1959	15.2	29.7	8.9	10.1
1960	12.8	25.6	7.1	23.4
Average	14.1	20.9	7.2	13.1

Year	METAL BOX OF INDIA	
	Home	India
1958	9.3	13.9
1959	10.5	16.0
1960	11.2	21.8
1961	8.3	18.3
Average	9.8	17.5

It should be remembered that, even though accounts of other companies are not compared, *"the three detailed here.are representative of the largest foreign investors."* (Kidron, Page 247).

We have previously noted how foreign companies' profits in India were higher than those of the Indian private or public limited companies.

India is one of the poorest countries in the world. According to the latest figures compiled by the World Bank, India ranked 22nd among 27 developing countries in per capita income in 1969. (Times of India, January 7, 1972). Yet, India is the highest priced country - the commodities produced are priced so high, that prices are higher than the international market price, since we have to pay heavily for technical knowhow, components, and industrial raw materials in the name of royalties and patents and above all for loans to purchase the above components, including technical knowhow. We have noted in passing the opinion of the World Bank on prices of motor vehicles being high due to the heavy loan capital in the industry and the opinion of the Tariff Commission about the extraordinary high prices paid for the imported components. Here we shall give the latest example of drugs - the products of this foreign-based industry are the highest priced in the world, and it makes heavy profits.

Prices of Drugs

The Tariff Commission has stated that "the prices charged by foreign companies in India are higher than those of their associates in the foreign countries". For instance, Hoechst sells 50 torbutamide tablets at Rs. 14 in European countries, and at Rs. 27 in India. Pfizer sells 60 tablets of chloropropamide at Rs. 10.68 in Italy, and at Rs. 30.30 in India. Cynamid sells aurcomycin in Argentina at Rs. 9.01 for 16 capsules, while its associate in India, Lederle, sells the same for Rs. 52.42. The same firm sells tetracycline (acromycin) at Rs. 9.01 for 10 capsules in Argentina, and at Rs.. 49.39 in India.

The bigger the firm, the higher the prices - this seems to be the truth about the foreign firms. They seek to cash in on the popularity of the trade mark. For instance, Vitamin B-12 in 5 ml. packing is sold by Theracherm in the retail market at Rs. 1.75, by Cadila Lab at Rs. 2.75, by Gujarat Pharmaceuticals at Rs. 4.50, by Glaxo at Rs. 5.28 and by Alembic at Rs. 5.30 (Patriot, June 1, 1970).

Profits of Drug Firms

The enquiry by the Tariff Commission has revealed that the profits of the pharmaceutical industry are extraordinarily high on invested capital. It revealed that, in 1965-66, manufacturers of the specified basic drugs obtained 32.5 per cent profit on the capital employed. The manufacturers-cum-formulators of drugs, who were included in the enquiry obtained a profit rate of 34.9 per cent.

The Tariff Commission also found that the profitability ratios on capital employed or on sales are the highest for the foreign majority share - holding companies. The companies with foreign majority share holdings paid the highest dividends each year, ranging from 23 to 30 per cent.

> *"The huge profits earned by these foreign - controlled firms can be assessed from the fact that 15 such companies in one year alone produced drugs and pharmaceuticals worth Rs. 64.36 crores, even though their subscribed capital was only Rs. 23.51 crores".*

When the Government tried to bring the profit down to 15 per cent on sales, the Organisation of Pharmaceutical Producers in India threatened the government that "if investments in this sector are discouraged, the capital will make the best alternative choice of going to another leading sector" and "to some other Asian countries". With the monopoly in their hands, strengthened with patent rights they have held the country to ransom.

A report appearing in Times of India reveals that "It has come to the notice of the Government that several drug manufacturers are continuing to make huge profits well in excess of the 15 per cent of turnover ceiling laid down in the Drug Prices Control Order".

"In 1969, Wardner Hindustan made a gross profit of Rs. 72.04 lakhs on sales of Rs. 268 lakhs, giving a profit margin of 26.9 per cent. In 1970, sales rose to Rs. 429 lakhs and the gross profit margin actually increased to 27.5 per cent instead of falling"..

"For the year ended November 31, 1969, Pfizer achieved a gross profit of Rs. 4.45 crores on sales of Rs. 16.35 crores, at a margin of 27.1 per cent. This should have been almost halved as a result of the cut in drug prices. But the latest balance - sheet shows only a slight fall in the profit ratio to 26.4 per cent - gross profits were Rs. 4.59 crores on sales of Rs. 17.34 crores".

"Sandoz had a profit ratio of exactly 15 per cent, the permitted level in 1969". Probably, to spite the Government Drug Prices Control Order and reduce it to its size, "after the cut in drug prices, the ratio went up to 15.3 per cert in 1970. The gross profit in 1970 was Rs. 125.38 lakhs on sales of Rs. 852.20 lakhs, as against a gross profit of Rs. 112.9 lakhs in 1969 on sales of Rs. 762.5 lakhs."

The Drug firms are aware that "there is no provision for any fine or penalty for overcharging by drug companies". They are also aware that the excess profits "will have to be utilised with the prior approval of the Government for (a) research and development (b) adjustments against future profits or losses, and (c) such other purposes as may be specified by the Central Government from time to time."

(Times of India, August 9, 1971)

The all-powerful international monopolies know that the Government of India is incapable of enforcing their own order and that the Order itself is worded in such a way, as to allow **huge profits** to pass through its loopholes openly if possible and surreptitiously if necessary.

Therefore, the huge cost the Indian people are bearing in the interests of the super profits of foreign capital, is not fully evident in the truncated and tarnished accounts of the Reserve Bank of India we have referred to earlier.

Initiating the discussion at a symposium on *'Foreign Investment'*, organised by Forum of Financial Writers in New Delhi, Mr. Kuldip Narang said : "dealing with cost factor, said the British - owned companies in traditional industries like food, beverages, tobacco, chemicals and plantations, not requiring advanced technology, were still taking advantages of sellers market and were continuing to repatriate large amounts in foreign exchange". Such companies, with the advantage of brand names, "in a number of cases had repatriated in foreign exchange an amount equivalent to one thousand times their original investment in one or other".

I would like to question : Is it not true that foreign capital has

a monopoly of all that has to be done, and profits are all profits of foreign capital? Is it not true that the Indian citizens, as in the days of colonial India, are yet in 1972 "hewers of wood and drawers of water" to the British, American and other foreign capitalists?

Terms of Trade

The tie-up of foreign capital with Indian industries is one of the aspects concerning deteriorating *'terms of trade'* - though it cannot be said that it is the only reason. Actual user imports account for 55 per cent of the total imports. Actual user importers, and their associates abroad, were responsible for nearly one-half of the terms of trade equation which moved steadily against India. These adverse terms of trade - increasing prices of manufactured goods and other raw materials - has adversely affected India's export trade so that our debt repayment problem has become serious. How India's share in world exports is getting reduced can be seen from the following table. Indian industry's tie - up with foreign monopolies which already have an established world market and which are not interested in exports from India to the detriment of exports from their own country, is increasing India's problems in this sphere too :

TABLE : 8.5

World Exports and India's Share

(million dollars)

	1961	1963	1965	1967	1968
World exports	118.60	136.00	165.30	190.50	212.60
Indian exports	1.39	1.63	1.69	1.61	1.75
Indian exports at 1961 level	1.39	1.59	1.93	2.23	2.49

Source : **Economic and Political Weekly,** January 1970, Page 246.

It is very clear that India's exports, dependent on cotton textiles, jute, tea, iron ore, and such other traditional and raw materials, exports of which the terms of trade are adverse, have failed to maintain even their percentage in world exports. Dependence of foreign finance capital for the growth of industries will not hlep the diversification of exports. This trade pattern is one of the features of the semi-colonial economy which has got strengthened in the post-'independence' period.

Foreign Banks

Foreign Banks play a crucial role in India. It is not surprising that U. S. banks in India play an important role, as is the case all the world over. As Harry Magdoff in his book "Age of Imperialism" reports :

"The development of banking is a fitting complement to the new role of the United States as the leader and organiser of the imperialist order", and what is more fitting is that, "the biggest growth area of the United States banking today is not in the United States but overseas", since "the dominant position of United States capital in the creation of multinational industrial empires" is unquestioned.

It is easy for the U. S. banks to get a foot-hold in the underdeveloped countries, since the U. S. Government wanted a place to keep its funds. And the U. S. has millions of local currency accumulated to its account, through P. L. 480 Aid. Thus the rupees accumulated in U. S. account for its own use, and those of the Cooley funds, find their way as deposits in these American banks. Thus U. S. banks are never short of deposits to begin with.

Foreign banks in India play a prominent role in the export trade in the mobilisation of necessary resources for the establishment of foreign dominated industries - they "act as magnets of foreign capital investment in India" (Economic Times, February 28, 1970). Nearly 30 per cent of the export trade of India is financed by foreign banks. The bank of America, the First National City Bank, Chase Manhathan Bank, National and Grindlays of U.K. (in which 40 per cent of the share capital is owned by First National City Bank of America) are the most prominent foreign banks operating in India. They play a prominent role in arranging longterm credits as in the case of Kandla Fertiliser Project.

It was the Bank of America which was instrumental in

getting U. S. Steel into the Goa Fertiliser Project (Zuari) of Birlas.

Air India's purchasings of Boeing air craft was substantially financed by the American banks.

Among the foreign banks, the American banks are more important in their new role as magnets of the capital.

Foreign banks of India are being provided more facilities, by the Government and the Reserve Bank of India, to increase their activities widely.

Economic Times of October 2, 1970, reports that foreign banks were helped by the Reserve Bank of India by its allowing them mobilisation of funds through what are known as *'participation certificates'*. By allowing the foreign bank the privilege of paying more interest rates for depositors of 'P' certificates, they could easily tap "Rs. 20-25 crores for three months at 6.50 per cent".

The following table shows the interest rates of newly floated participation certificates by foreign banks and comparable deposit interest rates payable by banks.

TABLE : 8.6

Interest Rates of FNCB 'P' Certificates		Comparable Deposit Interest Rates Payable by Banks	
	(per cent)		(per cent)
30 days	5.30	Less than 15 days	Nil
60 days	6.00	15 to 45 days	1.25
90 days	6.50	46 to 90 days	3.50
180 days	7.00	90 days to less than 6 months	4.00
365 days	7.50	6 months and over but less than 9 months	4.50
		9 months & over but less than one year	5.00
		One year and over but less than 2 years	5.50

The scheme of *'Participation Certificates'*, devised by the foreign banks, led by the First National City Bank, is a major instrument for funnelling in large chunks of short term funds. As Economic Times says : "it is a lucrative alternative to bank deposits" and "the rate of growth is likely to spurt in the coming months." (Economic Times October 2, 1970).

Three points arise in assessing the 'P' Certificates scheme approved by the Reserve Bank of India :

(1) It allows foreign banks to circumvent the ceiling rates of interest payble on term deposits.

(2) Public sector institutions like the L.I.C., and perhaps U.T.I., are bolstering the quasi-deposits of foreign banks.

(3) The scheme is apparently confined to the foreign banks.

By circumventing the ceiling of interest rates, the foreign banks are able to divert the public savings from the Indian bank to itself. They need not resort to the Reserve Bank of India for marginal accommodation. As pointed out earlier, they could easily tap Rs. 20 to 25 crores for three months at 6.50 per cent.

The Economic Times is of the opinion that public institutions, such as L.IC. and perhaps U.T.I. are bolstering up the quasi-deposits of foreign banks. It is no surprise to me that foreign banks are the gainers from the 'Nationalisation of banks' in 1969. In a series of statements I gave at that time, I had warned of such a situation. It need surprise none that L. I. C. and such government financial institutions are *'bolstering'* the deposits of foreign banks. We have previously noted how L.I.C., I.F.C., I.C.I.C.I., have helped to *'bolster'* the foreign private corporate sector to dominate the fertiliser and chemical industry - through NOCIL, Polyolefins, Cawnpore Fertiliser, etc. Foreign capital and bureaucrat capital are functioning like Siamese twins, with a fixed purpose, and well co-ordinated.

Economic Times further reports that this facility to mobilise resources "is apparently confined to the foreign banks", and by allowing this facility "the Reserve Bank of India is giving an indirect subsidy to foreign banks". "The availability of an extra *'non-deposit'* resources of the order of Rs. 15 to 25 crores is by no means small. Just how cheap can be guaged from the fact that the State Bank during 1969-70 busy season paid over 15 per cent for

additional accommodation from the Reserve Bank".

I am unfortunately not in a position to give the total loss India is sustaining due to the functioning of the foreign banks in India.

All loan capital diverted to India is funnelled through them. The counterpart funds for the use of American Embassy in India are a source of deposits to them. They control 30 per cent of external trade. They are the creators of multinational industrial empires in India.

Their control over trade and Indian industries, through quite a number of visible but more through invisible strings, is phenomenal.

Over-invoicing and Under-invoicing in Various Forms

The amount of material loss to India is unaccounted. The functioning of foreign private capital facilitates this corrupt practice to a great extent, in addition to the existence of foreign banks playing the role of a transmitter belt. The way in which foreign loans, foreign banks and foreign big business play a dangerously notorious role, can be seen through the dealings of the Jayanti Shipping Company.

A staff reporter of Economic Times reports (February 21, 1970) that "in an obvious bid to curb excessive foreign exchange outflow arising from the sale of foreign-owned companies in this country to Indians **at deliberately inflated prices,** the Reserve Bank today *'advised'* foreign companies proposing to sell their assets in India to obtain its prior approval, if the sale is likely to involve *'significant repatriations'*, that is more than Rs. 10 lakhs."

This transaction of *'deliberately inflated prices'* indicates, *'the deliberate over-payments'* that are made, on the understanding that the excess amount be credited to the buyers account in foreign banks. Such transactions are many - "inflation of the price has been a feature of many transactions involving foreign company assets in India".

Such over-invoicing and under-invoicing transactions are not limited to the sale of assets alone. Trade has used this method, successfully and continuously year after year. A few instances that came to light, as for instance Jardine Handerson's transactions in early 1960s, are only the tip of the ice-berg.

Such transactions, as those given above, deplete India's resources, reduce to the minimum our capital formation,and are a great drain to our nationl income year after year. The loss to the country has never been even approximately calculated. Unfortunately, even such items of expropriation as could be calculated, such as the drain due to payments to foreign personnel in administration, education, industry, and in various other fields, is not published fully. Even the accounts on payments for royalty, technical knowhow, and profits, are scattered and not fully accounted for. The amounts expropriated and repatriated on account of service charges to the head office expenses, and interest payments on ways and means loans from the head office, are anybody's guess since no proper accounts are ever available even with the Reserve Bank of India.

Indeed, such is the secrecy maintained on the outflow of foreign exchange that even one of the industrialists, Mr. Kuldip Narang, in the Forum of Financial Writers in New Delhi (as reported by PTI on July 26, 1970), had to call on the government "for a full study of the cost in terms of the outflow of foreign exchange involved in the various types of collaboration permitted so far". And Mr. Venkatraman, a spokesman of the Ministry of Industrial Development, had to admit "that there had been no complete study of the impact of foreign collaboration in India so far" and that there were information gaps. "Recently, undertakings with foreign collaboration had been asked to give returns in a proforma and those would provide some material for study".

It is only recently, (June 2, 1970, according to PTI) that the foreign oil companies in India have been asked by the Government of India to review their remittances and "are required to indicate item-wise for the period 1960 to 1969 the annual remittances made in dollars or in sterlings on various accounts ..." in respect of remittances for (1) engineering services, (2) technical information services, (3) royalties, (4) license fees, (5) New York, London or any other foreign office expenses, (6) remittances as dividends, (7) remittances of interest on overseas loans, (8) remittances of depreciation reserve with a certificate that this has been acquired for replacement of plant and machinery and (9) remittances on account of items not specified." (Economic Times June 2, 1970).

Within the limitations listed above - in the earlier portions of this chapter and here - it is now our task to figure out the total amount paid to foreign sources at least in any one year.

We have seen above how some of the firms have been making a profit of more than 100 per cent of the invested capital and yet it looks fantastic that the Reserve Bank Bulletin accounts do not show any increase in the amount of repatriated profits.

According to Reserve Bank of India Bulletin profits of rupees companies which are foreign controlled are as follows :

TABLE : 8.7

Profits of Foreign Controlled Rupee Companies Allocable to Country of Control

(Rs. in crores)

Year	Earned	Distributed	Retained
1964-65	40.6	20.2	20.4
1965-66	39.9	21.2	18.7
1966-67	38.7	23.8	14.9
1967-68	44.0	25.8	18.2

Source : **R. B. I. Bulletin :** March 1971, Page 359.

Out of the amount earned, the larger part i s distributed - i.e., repatriated to home countries. Separate accounts have not been given of the amounts earned and distributed by the branches of foreign companies. But, since total profits of both branches and foreign controlled rupee companies are given, one can separate the profits of the branches.

TABLE : 8.8

Profits of Branches of Foreign Companies

(Rs. crores)

Year	Total Profits of Branches and Rupees Co.s	Profits of Rupees Co.s	Profits of Branches
1964-65	54.6	40.6	14.0
19o5-66	50.6	39.9	10.7
1966-67	43.9	38.7	5.2
1967-68	57.9	44.0	13.9

If we were to assume that the total profits of the branches have been repatriated, the total repatriated profits of both branches and foreign rupee-controlled companies are as follows :

TABLE : 8.9

Repatriated Profits of Branches and Foreign Controlled Rupee Companies

Year	Branches	Rupees Co.s	Total
1964-65	14.0	20.2	34.2
1965-66	10.7	21.1	31.8
1966-67	5.2	23.8	29.0
1967-68	13.9	25.8	39.7

These figures obviously do not include the profits earned and repatriated by foreign capital invested in companies of minority shareholding. Therefore, even the full amount of repatriated profits are not available even for 1967-68, which happens to be latest year for which accounts are published in such a scrappy, truncated, method.

I would request the court to compare these figures with those given in the chapter on *'Foreign Private Capital'* for the same years, and note what an amount of difference there is in the two sets of figures. It is like entering the dark jungle of statistics unable to find one's way out. That is how the country is kept in the dark from about the facts on the immensity of profits exported by foreign capital.

Now let us take the question of technical and professional services. The latest R. B. I. survey on foreign collaborations for 1960-61 to 1966-67 has produced certain figures on the payment of technical fees which amount to as little as Rs. 2.98 crores in 1963-64. In a table in the previous chapter are given the figures for all the years, from 1960-61 to 1966-67, years-wise. The following figures from the earlier survey of the Reserve Bank of India, for 1956-57 to 1960-61, will show that as per the latest survey the technical fees paid have already been reduced. How could it happen? Let us compare and see :

TABLE : 8.10

Technical Fees Remitted during 1956-57 to 1960-61

Year	(Rs. crores)
1956-57	5.5
1957-58	4.7
1958-59	4.4
1959-60	5.8
1960-61	9.2

For the later period, the highest was Rs. 5.61 crores in 1965-66 and the lowest was Rs. 2.63 in 1963-64. It might be said as an excuse that the later survey did not go into the whole gamut of foreign investments. But then, even after so many years, why this failure to record the whole?

Therefore, no full accounts are available about the repatriation of royalty, technical fees, and other payments after 1960-61.

For this reason, we must limit ourselves to the five years of the Second Five Year Plan for a figure for all these.

TABLE : 8.11

Remittances for Royalties, Patents, Head Office Expenses, Technical and Professional Services, 1956-57 – 1960-61

(Rs crores)

Year	Technical and Professional Service	Management Fees, Office Expenses, Etc.	Royalty, Patents Etc.	Others	Total
1956-57	5.5	9.6	1.2	7.3	23.6
1957-58	4.7	10.5	0.9	9.2	25.3
1958-59	4.4	9.2	1.3	13.6	28.5
1959-60	5.8	10.0	1.8	11.1	28.7
1960-61	9.2	11.9	2.5	9.3	32.9
	29.6	51.2	7.7	50.5	139.0

During the Second Five Year Plan alone, the foreign sector has repatriated in the form of profits, capital, royalty, and other charges, Rs. 395.7 crores. After 1960-61 foreign liabilities in the private sector had increased from Rs. 690.5 crores to nearly Rs. 1,542 crores by March 1968. Would it not be true to say that, with increased collaboration and foreign capital investments, the outgo on these counts would be at least double.

From whatever angle one looks at the problem, it is clear that a minimum of Rs. 300 crores must be the outgo as repatriation of profits, capital, royalties, technical and professional service, management fees, home office expenses, and others. From the Reserve Bank of India Bulletin, March 1971, we are informed that, in 1967-68, there was an outflow of 90.9 crores of capital repatriation other than that of repatriation of Rs. 40 crores as profits of branches and rupee companies.

To this Rs. 130 crores should be added the directors' emoluments. We had seen previously as to how just 14 directors of only 10 companies had been allowed - as salaries and percentage of profits - an amount of Rs. 32 lakhs. Payment to some thousands of directors, of about 500 and odd branches of foreign companies and 366 foreign-controlled rupee companies, would amount to nearly Rs. 25 crores - even if these payments are at the minimum. Then there are technical personnel equally high in the numbers to be paid, who would be receiving anything between Rs. 5 to 10 thousand in salaries. Add to these the *'Home'* charges : Just Coca Cola being allowed to repatriate Rs. 41 lakhs in 1969 as *'homoe ofiice service charges'* what would be the total amount repatriated from companies such as Caltex, Burma Shell , ILTD, and scores of such other international companies? If proper accounts are provided to the country - which, of course, we may not expect, from this Government - the multifarious forms of loot from the country should shock any decent person.

This economic drain of the wealth of this country carries away a large part of its potential savings. Even the volume of annual interest remitted abroad, on account of the existing and growing investments, would never allow accumulation of enough capital for a self generating growth.

Though the total volume of foreign capital which is invested in our industry is small in comparison to Indian capital it has overwhelmed it in all major industries - transport, chemicals, pharmaceuticals, fertilisers, electrical, aluminium, petroleum, engineering, and a score of others.

Basically foreign capital cannot but be anti-national. It can only replace and suppress national capital. The history of all nations has shown that foreign capital enters underdeveloped countries not to augment but overwhelm and suppress national capital, not to help and serve but to despoil and to become a master. It is a never - ending process of self-expanding drain, by reinvesting a part of the super-profits appropriated in this country for further and greater exploitation.

To rebuild our country into a strong, powerful, and healthy nation, there is no other way but that of total expropriation of foreign capital.

Chapter 7 –8 APPENDIX

Foreign Collaborations Approved

Year	Total	Technical	Financial	Foreign Capital Rs. Crores
1969	135	106	29	3.62
1970	183	51	32	2.45
1971	245	199	46	5.84
1972	257	220	37	6.23
1973	266	231	34	2.82
1974	359	304	55	6.71
1975	271	231	40	3.20
1976	277	238	39	7.27
1977	267	240	27	4.00
1978	307	263	44	9.41
1979	269	235	32	5.63
1980	526	453	73	8.92
1981	389	332	57	10.87
1982	591	477	114	62.81
1985	1024	786	238	126.07
1986	957	717	240	106.95
1987	852	610	242	107.71
1988	926	644	282	239.76
Total	8098	6437	1661	720.27

Source : **Indian Investment Centre, Delhi.**
Report on Currency and Finance, 1988-89, RBI.

Country-wise Collaborations Approved : Foreign

Country of Collaboration	Number of Collaborations				Capital (Rs. crores)	Total Number
	1985	1986	1987	1988		
1. USA	197	189	196	191	196	773
	(66)	(71)	(57)	(71)		(265)
2. UK	147	130	122	134	34	533
	(26)	(23)	(27)	(36)		(112)
3. W. Germany	180	183	149	178	73	690
	(36)	(40)	(39)	(47)		(162)
4. France	61	39	44	42	22	186
	(8)	(9)	(10)	(13)		(40)
5. Japan	108	111	71	96	46	386
	(15)	(15)	(15)	(16)		(61)
6. Italy	58	58	50	53	40	217
	(11)	(8)	(10)	(18)		(47)
7. Swiss	42	32	31	41	17	146
	(4)	(8)	(11)	(8)		(31)
8. Others	233	215	189	191	155	828
	(72)	(66)	(73)	(73)		(284)
Total	1024	957	852	926	583	3759
	(238)	(240)	(242)	(282)		(1002)

* Figures in brackets indicate financial collaboration.

Source : **RBI, Report on Currency and Finance, 1988-89.**

Country-wise Foreign Collaborations

Country	1957–79	1980	1981	1982	Total
JK	1345	110	79	107	1641
USA	1096	125	85	10	1416
West Germany	998	100	74	110	1282
Japan	502	34	27	51	614
Switzerland	328	38	26	41	433
France	272	24	23	8	327
Italy	179	25	18	37	259
East Germany	113	4	4	2	123
Sweden	104	10	11	15	140
Holland	99	8	9	14	120
Czechoslovakia	68	4	–	5	77
Denmark	58	6	1	4	57
Belgium	50	2	1	4	57
Austria	43	5	8	8	64
Canada	41	–	2	1	44
Hungary	31	2	3	3	39
Poland	24	2	4	4	34
Yugoslavia	17	3	1	2	23
Finland	16	5	2	4	27
Others	332	19	11	61	423
Total	5708	523	389	591	7212

Source : **Indian Investment Centre, Delhi.**