CHAPTER VIII

CONCLUSION

To summarize the study, TNCs transfer surpluses from the LDCs to the parent, to meet the latter's requirements of consumption and investment. The surpluses could also be transferred to meet an affiliate's requirements of investment. Several channels are available to the TNC for transferring surpluses, but transfer pricing is the most important of these channels. In the drugs and pharmaceutical industry in India, TNCs mainly employed the transfer pricing channel for transferring surpluses. They could be several motivating factors for transfer pricing. They include, one, the tax advantages following from it; two, the advantages of moving out funds from a relatively weak currency area; and three, to protect prices and profits in the face of price controls.

Transfer pricing evidence has been found in many countries. This kind of evidence is by its very nature very difficult to unearth but at the same from other studies, such as that of Vaitsos (1974), it is clear that much larger amount of transfer takes place through transfer pricing than through various legal channels. An illustrative study has been done of the drugs and pharmaceutical industry, looking at detailed foreign trade transactions. The purpose of this study was simply to establish that even in India, transfer
pricing is a major channel of taking out surpluses. According to our estimate Rs. 59.26 crores was the amount of surpluses remitted through the transfer pricing channel in 1981, by the TNCs in the drugs and pharmaceutical industry in India. The estimated outflow on account of dividend remittances was Rs. 11.26 crores and that on account of Technical service fees etc., was Rs. 5.33 crores.

Transfer pricing has the following consequences. One, it denies to the extent of the surpluses transferred through the mechanism of transfer pricing, the means for social consumption or investment to the LDCs. Two, it means a loss of valuable foreign exchange to the LDCs. Three, it means a loss of tax revenue to the governments in LDCs.

The earliest studies to give some indication of transfer pricing in India were those of Vedavalli (1975) and Tanzer (1969) for the oil industry. Policy options to check transfer pricing, include scrutinising for transfer prices while issuing import licences or STC handling the trade in inputs or even nationalization.

1 The estimated outflow on account of dividend remittances and on account of technical service fees etc., has been obtained from ratios derived from Table 5.4 in the empirical chapter, and applying to the estimated industry level outflow.

2 As a rule tie-in clauses for the purchase of inputs should not be allowed in technical collaboration agreements.