India-Pakistan Trade Newsletter

Pharmaceutical Special

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Pharmaceutical Trade with India

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When the current government led by Mr. Nawaz Sharif came into power, there was talk about improving bilateral trade relations with India. Despite tensions rising along the Line of Control, cross-border track-II meetings led by the business community on both sides continued, indicating the substantial interest of stakeholders in the trade and peace agenda. It is also interesting to note that the flow of bilateral trade between India and Pakistan has not been affected by recent skirmishes, which might indicate that businesses continue to see prospective markets across both sides of the border.

There have already been numerous studies on the gains from enhanced bilateral trade between India and Pakistan. Yet trade figures continue to be far from encouraging. Moreover, the lack of sectoral analyses has limited the scope for policy advocacy in favour of increased trade. In what follows, we present initial findings from our case study on the prospects of bilateral trade in the pharmaceutical sector.

While geographical proximity provides for a strong case for trade with India, it is also interesting to note that India has now emerged as a global leader in the pharmaceutical sector, gaining from lower costs, higher sophistication in technology, and advanced research capabilities. Our analysis suggests that geographical proximity supplements industrial comparative advantages in the pharmaceutical sector for both India and Pakistan.

Official statistics suggest that Pakistani manufacturers are unable to meet domestic pharmaceutical demands. There is a need to enhance both the quality and quantity of pharmaceutical products. Further, locally manufactured pharmaceutical products are often highly priced (unless available from government hospitals, where the poor are usually clamouring to get hold of medicines), making access to cheaper medicines even more difficult for the vulnerable. Pakistan can cut down its cost of producing pharmaceuticals if more economical intermediate inputs are imported from India. The idea is certainly not new and there are examples from South Asia where such trade in pharmaceutical inputs is underway.

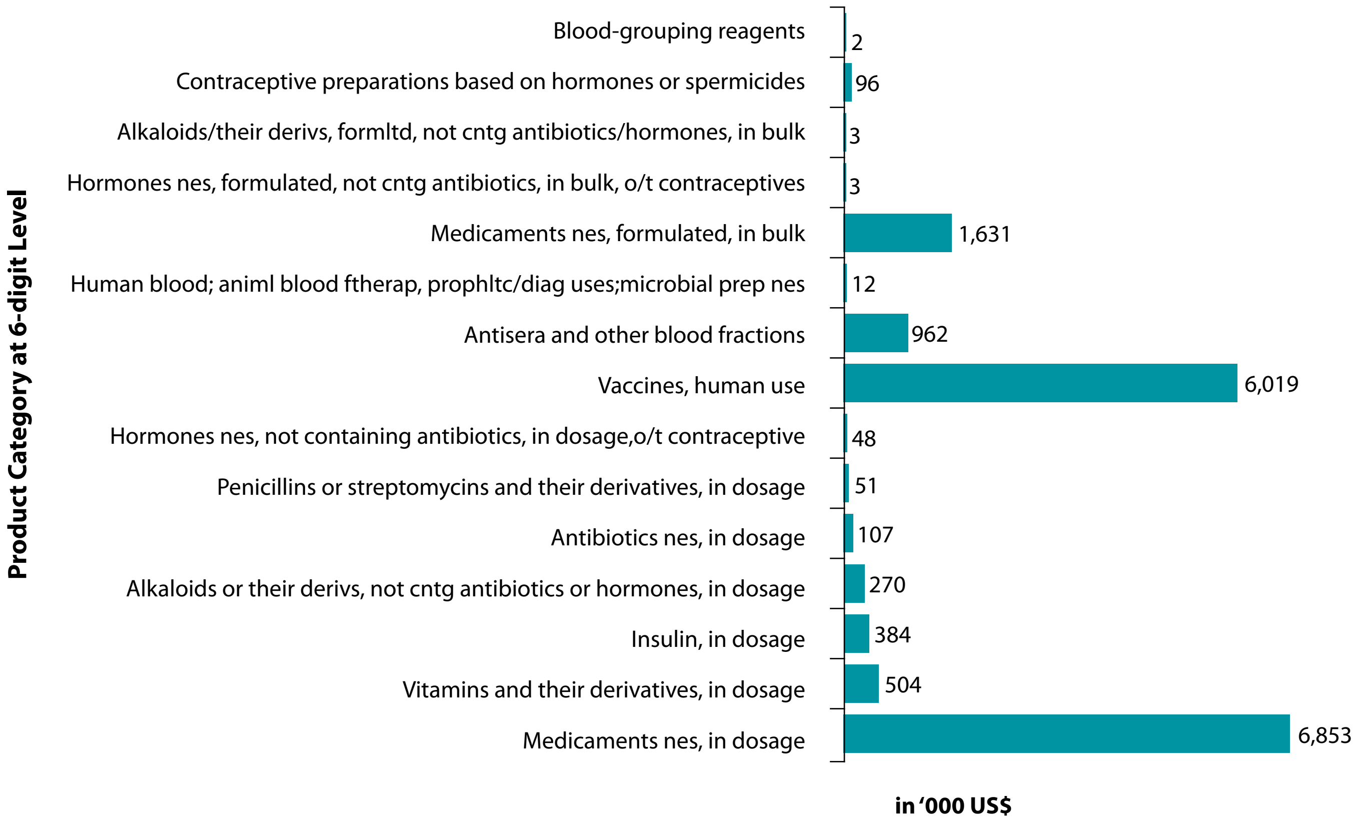
In this issue

Currently, a number of pharmaceutical products are in the negative list of Pakistan, which has so far constricted trading options in this sector. Pakistan has been providing protection to its pharmaceutical industry and has prevented import of several high-demand products from India. Previously, under the positive list regime, pharmaceuticals were also not part of the positive list.

In order to boost bilateral trade, Pakistan replaced the positive list with a short negative list comprising of 1,209 items in 2012. Of these, 49 items were from the pharmaceutical sector. The negative list was to be completely phased out by December 2012. However, that decision did not materialise.

In 2012-13, India-Pakistan trade in pharmaceutical products (chapter 30 of the Harmonised System of Classification) was recorded at US$17 million. The figure below shows Pakistan's pharmaceutical imports from India in 15 categories of chapter 30. However, not every product from these groups is being traded, thereby leaving significant room for exploring cost-effective trading options.

Indian pharmaceutical exports to Pakistan



Source: International Trade Centre, Trade Map 2013

While policy deliberations are currently underway to improve India-Pakistan bilateral trade, the following options, specific to the pharmaceutical sector, can be explored.

Various studies have shown that a substantial amount of Indian pharmaceutical items find their way into Pakistan through informal channels. Indian medicines are easily available across the four provinces. In a city like Peshawar, doctors are seen giving prescriptions of Indian medicine to their patients. It is important for the Pakistani government to recognise the domestic availability of Indian medicine and gradually allow exit of these items from the negative list.

However, keeping in view the apprehensions of the Pakistani pharmaceutical manufacturers, one can also look into the potential for formal trading options in the pharmaceutical sector with the current negative list in place. There are prospects in products from currently under-traded categories, if sector-specific non-tariff barriers (NTBs) in the pharmaceutical sector are removed. There is enough evidence on both sides to suggest that many such barriers are specific to the neighbour.

For India, the trade potential in terms of exporting pharmaceutical products (not included in the negative list) to Pakistan is currently estimated around US$350 million (only for chapter 30 of HS classification). The current flow of informally traded pharmaceutical items from India is valued at around US$60 million annually. Thus, even with the negative list in place, the volume of bilateral trade in this sector can be substantially increased.

On the other hand, Pakistan has a lucrative opportunity for the export of alternative medicines to India. These products from Pakistan are highly sought by both the Indian and Pakistani Diaspora. The Indian pharmaceutical sector has expressed interest in the various formulae developed at the HEJ Research Institute of Chemistry located in Karachi, Pakistan. The institute has done renowned work in the pharmacology of herbal medicines and plant biotechnology.

The research as well as development in livestock and veterinary medicines in India has so far been low. On the other hand, Pakistan specialises in these products and can export to India. Moreover, the surgical industry (in Pakistan), having a close interface with pharmaceuticals, has achieved global accreditation and the products are amongst the most sought after in Western markets.

Now that both governments have allowed foreign direct investment, Indian and Pakistani manufacturers can also consider cross-border options in their production processes. As trade theory suggests, intra-industry trade and vertical specialisation can minimise cost and enhance product quality with each country focusing on the product/service in which it has a comparative advantage. In this regard, one can look at numerous examples globally where industrial joint-ventures have benefitted both trading partners.

Indian investment in Pakistan can take the shape of horizontal as well as vertical FDI. Vertical FDI may be introduced at the South Asian level to develop an integrated trade supply chain in the pharmaceutical sector. The time is ripe for conceiving such ideas given that such collaboration is already being thought out across Indian and Pakistani Punjab, particularly in sectors such as milk processing, cement, leather and fertiliser.

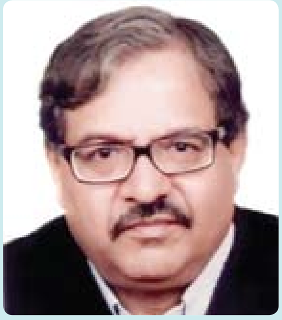
Mutual gains can also be reaped in technology, knowledge and skills transfer by forming industrial research and development (R&D) alliances. For example, Pakistan can extend its research facilities, such as the International Centre for Chemical and Biological Sciences (ICCB), for joint projects with the pharmaceutical sector. Both the countries have similar demographics and a similar consumer base, allowing research from one country to be replicated in the industry of the other.

Going forward, both countries should also explore innovative research in pharmaceuticals such as process intensification technologies, nano-technology, alternative medicine, green manufacturing etc. Designing of plants and related systems can be done by seeking technical consultancy from the much-advanced diaspora in the pharmaceutical sector.

Lastly, the track-II meetings between pharmaceutical manufacturers, service providers and traders must take place to specifically identify areas of comparative advantage. This will help each country to focus on specialised products and services, while importing those in which it is not competitive. This will also give confidence to Pakistan's pharmaceutical sector that is, at present, wary of India being given MFN status.

The authors are researchers at Sustainable Development Policy Institute (SDPI), Pakistan.

Pharmaceuticals: A Positive Catalyst for Enhancing India-Pakistan Trade



Dr. Manoj Pant

Devyani Pande

Contemporary international trade theories have often focused on trade stimulation measures to achieve economic integration between different states. The basic tools for such stimulation have been partial or full abolition of tariff and non-tariff restrictions on trade. Much has been said and done to improve trade relations and achieve increasing levels of economic integration between India and Pakistan. Since the beginning of the trade normalisation process in 2004, both nations have seen a considerable improvement in trade across sectors like textiles, machinery, agriculture and automobiles, barring a few periods. Given the growing importance of pharmaceuticals in the world, in the backdrop of the revolution in research and development and the ensuing growth in manufacturing, India and Pakistan must capitalise on the spurt in growth through trade. The global pharmaceutical market has an annual growth rate of 8 per cent and it will cross the value of US$1.1 trillion by 2014 if the growth continues at this rate.[1]

The World Investment Report 2013 has highlighted the prominence of Indian companies in pharmaceuticals. The Indian pharmaceutical industry is the world's third-largest in terms of volume and stands 14th in terms of value (Kalani, 2011), estimated at US$21.7 billion during 2011. India is also the largest manufacturer of generic drugs and its pharmaceutical industry is expected to grow by 12-13 per cent during the financial year 2014.[2] As opposed to the Indian pharmaceutical industry, Pakistan's pharmaceutical sector is still at a nascent stage. The industry is the 10th largest in the Asia-Pacific region and was valued at US$1.63 billion in 2011.

While examining the impediments to trade in pharmaceuticals between the two countries, three main issues of concern that come to the fore are the grant of MFN (most favoured nation) status to India by Pakistan, fear of India dumping sub-standard pharmaceutical items into Pakistan, and India's relatively strong position with respect to availability of pharmaceutical raw materials.

Granting non-discriminatory access: Benefit, rather than injury to the Pakistan pharmaceutical industry

One of the key reasons for the MFN (most favoured nation) status being stalled has been the objection from the Pakistan pharmaceutical industry. The fear of Indian pharmaceutical items flooding the Pakistan market has led to reluctance to grant India non-discriminatory access. Another reason cited for not opening up the Pakistan pharmaceutical market is the nature of regulation of the sector. The Indian government deregulated its pharmaceutical sector in 1997 whereas the sector in Pakistan continued to be controlled by the government. The Drug Regulatory Authority was also not operational in Pakistan until 2012.[3]

Instead of opposing trade in pharmaceuticals with India, it would be worthwhile to incorporate trigger mechanisms to restrict trade in case of an influx of pharmaceutical items from countries all over the world. Better drug regulations and mechanisms to prevent flooding of the market would go a long way in protecting the pharmaceutical sector of Pakistan rather than the present closed door policy for India. The evolution of both Indian and Pakistan pharmaceutical sector has been similar. Pharmaceutical sectors of both countries have been characterised by domination of MNCs in their initial stages. But, by virtue of being older, the national companies now dominate the Indian pharmaceutical sector. This has led to more competition and reduced cost of drugs. The Pakistan pharmaceutical sector is still growing and in terms of share, the market is almost evenly divided between the national and the multinational companies. Importing cheaper drugs from India would be cost-saving until the Pakistan pharmaceutical sector is able to establish itself.

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1 Mohammad, Aamir and Zaman, Khalid (2011) Review of Pakistan Pharmaceutical Industry: SWOT Analysis. International Journal of Business and Information Technology, p.114

2 "Pharma industry to grow by 10-12 per cent in FY14: ICRA", Business Standard, July 11, 2013

3 An ordinance, dated February 16, 2012, was passed to establish the Drug Regulatory Agency of Pakistan to provide for effective co-ordination and enforcement of the Drugs Act (1976) and to bring harmony in inter-provincial trade in drugs and therapeutic goods.

Protection to vulnerable items and issues of quality

India's sensitive list for Pakistan has 6 pharmaceutical items. The negative and sensitive list of Pakistan for India consists of 49 and 24 pharmaceutical items respectively pointing to the protection provided to the sector. A few items in sensitive list of both India and Pakistan, like ayurvedic, unani, homoeopathic, siddha or bio-chemic systems medicaments[4] (put up for retail sale) are unique to both the countries. Given the cultural similarities and consumption pattern of consumers, these should be removed from the sensitive lists. Since usage of these items is common in both countries, the market access advantages to Pakistan pharmaceutical industry are greater as compared to that for India.

The Indian pharmaceutical sector is definitely well placed as far as research and development is concerned and the Pakistan pharmaceutical sector is bound to gain from collaboration and integration. In fact, Pakistan must exploit India's technology and R&D. Moreover, trade flows from India would merely replace Pakistan's existing imports from the rest of the world. Therefore, reservations that opening pharmaceutical trade with India will have adverse effects on Pakistan's pharmaceutical sector seem misplaced.

Another concern is about the poor quality of Indian medicines that are exported to Pakistan. A feasible option would be to impose regulations in collaboration with WHO (World Health Organization) to make the pharmaceutical industry compliant with good manufacturing practices (GMP). GMP is a pre-requisite for WHO pre-qualification. Quality barriers on drugs would apply not only to imports from other countries but domestic manufacturers too. With such a system in place, access to good quality drugs would be ensured.

India's stranglehold on raw materials

Approximately 80 per cent of pharmaceutical items in Pakistan's sensitive list are bulk and intermediate drugs.[5] The local Pakistan pharmaceutical industry is very competitive; however, India is very well positioned in terms of raw materials. The imposition of tariffs on raw materials from India would defeat the purpose of protecting the Pakistan pharmaceutical industry since it would lead to a lower effective rate of protection for final goods.[6] Hence, bulk and intermediate drugs should be removed from the sensitive list to neutralise the effect of tariffs.

In the near future, prospects of economic integration seem substantial considering the trade potential between India and Pakistan. With the Pakistan pharmaceutical sector growing at a steady state and the Indian pharmaceutical sector set to take the next big leap in the global pharmaceutical scenario, the gains from bilateral trade are more than obvious. The pharmaceutical sector might be the "dark horse", which would bridge the trade gap between the two countries. Non-tariff barriers, mainly technical barriers, and stringent sanitary and phyto-sanitary regimes are major impediments to trade in pharmaceuticals. A natural path in economic integration between both countries would be signing mutual recognition agreements (MRAs) which would lead to harmonisation of regimes and facilitate pharmaceutical trade between India and Pakistan. Lastly, partnerships and collaborations in research and development of pharmaceutical items would open limitless opportunities to trade between both countries. In case of brownfield and greenfield investments in the Indian pharmaceutical sector, 100 per cent FDI is allowed through the FIPB (Foreign investment Promotion Board) approval route for Pakistan. Hence, the Indian government policy regarding FDI in pharmaceuticals is fairly liberal. FDI is another way of doing trade and therefore traversing this path in the case of pharmaceuticals would certainly give a boost to bilateral trade between India and Pakistan.

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[4] HS code 300490 includes ayurvedic, unani, homoeopathic, siddha or bio-chemic systems medicaments, put up for retail sale. Ayurvedic and siddha medicine is a system of traditional medicine native to the Indian subcontinent with siddha's origin in Southern India. Unani medicine refers to a tradition of Graeco-Arabic medicine widely practiced by Muslims.

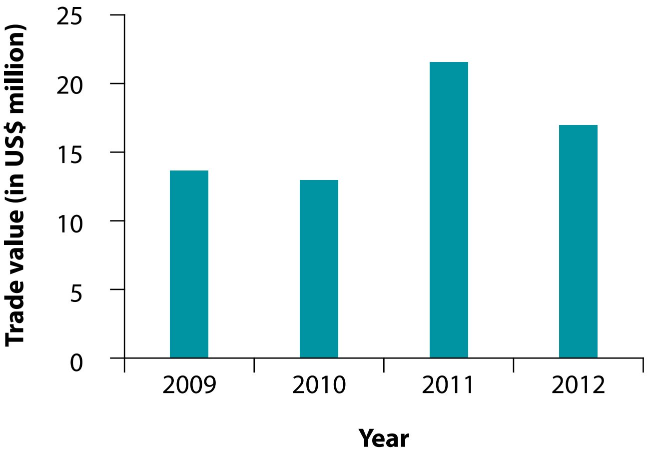
[5] Pakistan's sensitive list for India consists of 20 bulk and intermediate drugs and 4 formulations.

[6] Effective rate of protection = $(T_f - T_i)/ VA_{int}$ where T_f is the total tariff theoretically or actually paid on the final product, T_i is the total tariffs paid on importable inputs and VA_{int} is the value added. Tariffs on raw material would increase the tariff on importable inputs, thus reducing the effective protection intended by a tariff.

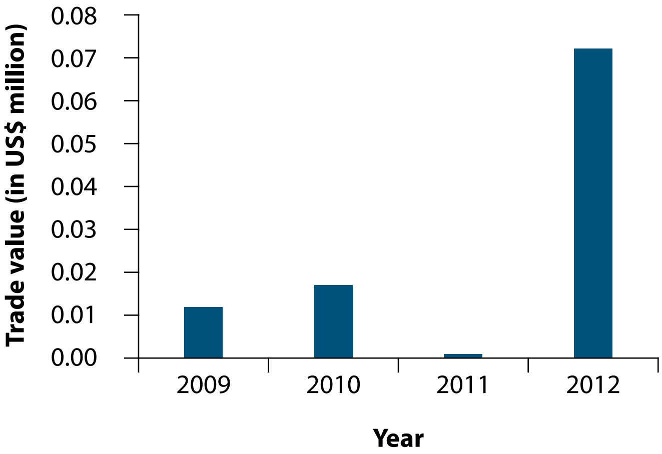
India-Pakistan Trade in Pharmaceuticals

	India's exports to Pakistan	India's imports from Pakistan
Year	(Values in US$ million)	
2009	13.78	0.012
2010	13.07	0.017
2011	21.59	0.0006
2012	16.99	0.072

India's pharmaceutical exports to Pakistan



India's pharmaceutical imports from Pakistan



Source: UN COMTRADE, Calculations based on items in Chapter 30 of HS classification

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India-Pakistan Trade: Top Pharmaceutical Items (2012-13)

Top exports		Top imports	
Commodity	**Value (US$ Million)**	**Commodity**	**Value (US$ Million)**
Medicaments consisting of mixed/unmixed products for therapeutic/prophylactic uses, put up in measured doses	6.85	Medicaments consisting of mixed/ unmixed products for therapeutic/ prophylactic uses, put up in measured doses	0.071
Vaccines for human medicine	6.02	Medicaments consisting of two/more constituents which have been mixed together for therapeutic/prophylactic uses, not put up in measured doses/in forms/packings for retail sale	0.00088
Medicaments consisting of two/more constituents which have been mixed together for therapeutic/prophylactic uses, not put up in measured doses/in forms/packings for retail sale	1.63	Vaccines for human medicine	0.000085
Antisera & other blood fractions	0.96	Human blood; animal blood prepared	0.000051
Medicaments containing vitamins	0.5	Wadding, gauze, bandages	0.000024

Source: UN COMTRADE, Calculations based on items in Chapter 30 of HS classification

Project Activities

7th November 2013, Distinguished Lecture Series

India Habitat Centre, New Delhi

The 2nd lecture in the Distinguished Lecture Series was delivered by Mr. Zafar Mehmood, Chairman, Punjab Public Service Commission, Lahore and Dr. Rahul Khullar, Chairman, Telecom Regulatory Authority of India; who formerly as Commerce Secretaries of Pakistan and India respectively were instrumental in providing significant momentum to the trade normalization process between India and Pakistan.

The event was attended by Mr. Salman Bashir, High Commissioner of Pakistan to India; Dr. Isher Judge Ahluwalia, Chairperson, ICRIER; Mr. Naeem Anwar, Minister of Trade, Pakistan High Commission in New Delhi, Mr. Sharat Sabharwal, India's former High Commissioner to Pakistan, and Mr. Arvind Mehta, Joint Secretary, SAARC, Government of India.

The proceedings of the event are available at:
http://indiapakistantrade.org/events/Lecture_by_Zafar_Mahmood_Rahul_Khullar_7_11_13.html

26th November 2013, Regional Chambers of Commerce Roundtable

Sheraton Hotel, Karachi

The 2nd Regional Chambers of Commerce Roundtable was organized by ICRIER on the 26th of November 2013 at the Sheraton Hotel in Karachi. The roundtable was organized in collaboration with the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Institute of Business Administration (IBA). The objective of this roundtable was to foster dialogue with regional chambers of commerce in both countries while deliberating on four major themes relating to India-Pakistan trade, viz: Agriculture, Textiles, Banking, and Non-tariff Barriers.

The welcome address was given by Mr. Zubair Ahmed Malik, President FPCCI. Inaugural remarks were presented by Mr. Mujeeb Ahmed Khan, Head WTO Cell/R&D, Trade Development Authority of Pakistan (TDAP); Dr. Rajat Kathuria, Director and CE, ICRIER; Dr. Nisha Taneja, Professor, ICRIER; Mr. S.M. Muneer, President, India-Pakistan Chambers of Commerce and Industry (IPCCI); Mr. Syed Yawar Ali, Vice-President, India-Pakistan Chamber of Commerce and Industry; and Dr. Ishrat Husain, Dean and Director, IBA, Karachi.

Forthcoming Events

The project will host its 2nd **Annual Conference** titled "Normalizing India-Pakistan Trade" on 21-22 January 2014, at India Habitat Centre, New Delhi.

The project web portal for India-Pakistan trade information is now functional:

www.indiapakistantrade.org

The website provides regular updates on current policy developments, macroeconomic data and project's research activities.

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