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US Tariffs on Generic Drugs and the Challenge for Indian Pharma

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US Tariffs on Generic Drugs and the Challenge for Indian Pharma

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Every fact web-verified against primary sources

> *On , the United States announced a phased import tariff on* **generic drugs**, *structured to rise steeply over three years and designed to pull pharmaceutical manufacturing back onto American soil. Because India is the single largest supplier of generic medicines to the US market, Indian pharmaceutical stocks slipped on the news and the announcement has reopened the debate on the fragility of India's export-led pharma model.*

WHAT HAS THE UNITED STATES ANNOUNCED

The US tariff on imported generic medicines is not a single flat levy. It is **phased**, giving manufacturers a window to relocate production before the cost of importing turns punitive.

PHASE	PERIOD	TARIFF RATE
Grace phase	August 2026 to July 2028	**0 per cent**
Escalation	From August 2028	**100 per cent**
Peak	From August 2029	**200 per cent**

The stated policy goal is **reshoring**, that is, rebuilding domestic US pharmaceutical manufacturing capacity that had migrated to lower-cost geographies over three decades. The zero-rate grace window is meant to signal intent while giving American buyers and foreign suppliers time to adjust.

WHY INDIA IS SO EXPOSED

India is described as the **"pharmacy of the world"** because of the scale and reach of its generic-medicine industry.

- India exported roughly **USD 9.7 billion** in pharmaceuticals to the United States in **2025**.
- This was about **38 per cent** of India's total pharma exports of nearly **USD 25.8 billion**.
- India supplies close to **40 per cent** of the **volume** of generic drugs consumed in the US.

The affordability angle matters for both countries. Indian generics keep medicine prices low for millions of American patients, so a 100 to 200 per cent tariff would either raise US drug bills sharply or force buyers to find alternative suppliers, neither of which is quick or cheap.

The Low-Margin Trap

Generic manufacturing runs on **thin margins and high volumes**. Relocating such production to a high-cost economy like the US is commercially difficult. Industry estimates suggest that building compliant, approved manufacturing lines could take **five years or more**, which sits awkwardly against the tariff's faster escalation timeline. This mismatch is the core stress point for Indian exporters.

THE PARALLEL VULNERABILITY: DEPENDENCE ON CHINA FOR APIS

Even as India dominates finished generic medicines, it depends heavily on **China for active pharmaceutical ingredients (APIs)**, the chemical building blocks of drugs. This is a second, upstream vulnerability in the same supply chain.

LAYER	INDIA'S POSITION	DEPENDENCE
Finished generics	Global leader, largest supplier to US	Export market risk (US tariff)
Active pharmaceutical ingredients	Net importer	Heavy reliance on **China**

To reduce this, the Government of India runs the **bulk-drug (API) Production Linked Incentive (PLI) scheme**, which incentivises domestic manufacture of key starting materials and intermediates so that India's finished-drug strength is not undercut by import dependence at the raw-material stage.

STRATEGIC READING

The episode is a case study in **strategic autonomy in trade**. An export-led sector that concentrates a single destination market (the US) and a single input source (China) carries structural risk. The policy response has two arms: **diversifying export markets** for finished formulations, and **deepening domestic API capacity** to secure the input base. Both are long-horizon fixes, which is why the phased tariff, though back-loaded, is being treated as a genuine strategic signal rather than a distant worry.

UPSC RELEVANCE

GS Paper 2 (International Relations): India-US economic relations, trade friction, and the use of tariffs as an instrument of industrial policy by a major trading partner.

GS Paper 3 (Economy): Supply-chain vulnerability of export-oriented sectors, strategic autonomy in trade, and the role of PLI schemes in building manufacturing resilience.

Prelims pointers:

- India exported about **USD 9.7 billion** in pharmaceuticals to the US in 2025, roughly **38 per cent** of total pharma exports.
- India supplies about **40 per cent** of US generic-drug volume and is called the **"pharmacy of the world."**
- The **bulk-drug (API) PLI scheme** targets domestic manufacture of active pharmaceutical ingredients.
- APIs are the active chemical ingredients of a medicine; India relies heavily on **China** for them.

FACTS CORNER, KNOWLEDGEPEDIA

India is the world's largest supplier of generic medicines by volume and a leading exporter of vaccines.

Generic drugs are bioequivalent copies of off-patent branded drugs, sold at far lower prices.

Active Pharmaceutical Ingredient (API), also called bulk drug, is the biologically active component of a medicine.

The PLI scheme offers financial incentives on incremental sales to boost domestic manufacturing across sectors, including bulk drugs, medical devices and electronics.

Reshoring or onshoring refers to bringing previously offshored manufacturing back to the home country.

Sources: The Hindu Business Line on US pharma tariffs, Indian Express Business, PIB on Bulk Drug PLI scheme

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