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EDITORIAL ANALYSIS

The Pharmacy of the World Meets a Tariff Wall

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INTERVIEW ANGLE

"If Indian generics keep American drug prices low, is a US tariff on them an act of industrial policy or an own goal? Whose interest should India argue from at the negotiating table?"

Every fact web-verified against primary sources

THE LIFT LINE

India sells the United States medicine by the pill and captures very little of the value. Its generic makers fill close to half of all American prescriptions while earning a far smaller share of what Americans spend on drugs, which is precisely why a tariff hurts here more than it heals there. A duty levied on the cheapest link in the supply chain does not rebuild American factories; it squeezes margins already measured in single digits and pushes prices up at the pharmacy counter. The lesson for India is that volume leadership without value capture is a strategic vulnerability, not a strength.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

This editorial gives you a single case that carries both an international-relations argument and an industrial-policy argument, which is unusually efficient for revision. It also lets you write about trade coercion without descending into rhetoric, because the numbers here do the work.

GS Paper 2: Bilateral, regional and global groupings and agreements involving India or affecting India's interests; effect of policies and politics of developed countries on India.

GS Paper 3: Effects of liberalisation on the economy, changes in industrial policy and their effects on industrial growth; government budgeting and incentive schemes.

GS Paper 3: Issues relating to intellectual property rights, and the science and technology base of the pharmaceutical industry.

For **Prelims**, hold these: an **Abbreviated New Drug Application (ANDA)** is the route by which a generic wins **United States Food and Drug Administration (USFDA)** approval by demonstrating bioequivalence rather than repeating clinical trials; **Active Pharmaceutical Ingredients (APIs)**, also

called bulk drugs, are the therapeutic core of a formulation, and **Key Starting Materials (KSMs)** sit one step upstream of them; the **Production Linked Incentive (PLI) scheme for bulk drugs** carries an outlay of **Rs 6,940 crore** running from **2020-21 to 2027-28** and covers critical KSMs, drug intermediates and APIs; and the **Bulk Drug Parks scheme**, with an outlay of **Rs 3,000 crore**, supports three parks in **Himachal Pradesh, Gujarat and Andhra Pradesh**.

For **Mains**, the transferable claim is that trade exposure is a function of concentration, not of size.

BACKGROUND AND CONTEXT

On **July 21, 2026**, the United States President announced a phased tariff structure for imported generic medicines: zero duty continuing for two years from **August 1, 2026**, then **100 per cent** for one year, rising to **200 per cent** from **August 2029**, with the stated purpose of inducing manufacturers to relocate production to the United States. Branded and patented pharmaceuticals had already been placed on a separate and harsher tariff track. The immediate effect on Indian exporters is therefore not a cash outflow but a clock, and the phased design is deliberate: it is intended to give firms just enough time to move plants, while making the cost of not moving them unbearable.

The exposure behind that clock is real. India's total pharmaceutical exports were of the order of **31 billion dollars** in **FY26**, with the United States the single largest destination, accounting for close to a third of the total on most published estimates. On volume, the dependence runs the other way: the **United States Department of State's May 2026 Medicine Supply Chain Security Report** put the share of American generic prescriptions filled with India-manufactured products at approximately half, and industry estimates commonly place the figure near **47 per cent**. That asymmetry between the prescription share and the value share is the single most important fact in this story.

PARAMETER	POSITION	NOTE
India's total pharma exports, FY26	Around 31 billion dollars	Largest destination is the United States
Exports to the United States	Roughly 9.5 to 10.6 billion dollars	Published estimates differ; treat as a range
Share of US generic prescriptions from India	Close to half	US State Department report, May 2026
India's share of US generic import value	Materially lower than its prescription share	Low unit prices depress the value share
Tariff timeline	Zero for two years from Aug 1, 2026	Then 100 per cent, then 200 per cent from Aug 2029
PLI for bulk drugs	Rs 6,940 crore, 2020-21 to 2027-28	Targets KSMs, drug intermediates, APIs
Bulk Drug Parks	Rs 3,000 crore	Himachal Pradesh, Gujarat, Andhra Pradesh

THE CORE ARGUMENT / ISSUE

The volume-value asymmetry is the whole story

India is called the pharmacy of the world because of what it ships, not because of what it earns. Generic medicines account for the overwhelming majority of prescriptions dispensed in the United States but a small fraction of American drug expenditure, because generics compete almost entirely on price and lose pricing power the moment a second approved supplier enters a molecule. Indian firms therefore operate on thin margins across very large volumes. A tariff applied ad valorem on a low-priced product is small in absolute dollars and large relative to the margin, which is why even a modest duty compresses profitability disproportionately, and why a 100 per cent duty is not twice as painful as a 50 per cent one but categorically different.

Reshoring is slower than the tariff assumes

Building an American plant capable of producing a portfolio of generics requires capital, regulatory approval and a trained workforce, and the economics only close if the resulting product can be sold above the price at which imported generics currently clear. That price gap is precisely the reason the imports exist in the first place. The likelier near-term outcomes are therefore price increases passed through to American payers, including **Medicare** and **Medicaid**, and selective withdrawal from low-margin molecules, which is how shortages of essential generics have historically begun. A tariff intended to secure supply can, on this pathway, reduce it.

India's own upstream dependence is the weaker flank

The tariff question sits atop an older vulnerability. India converts imported bulk drugs into finished formulations, and a substantial share of its API and KSM requirement, by volume, is sourced from China. The **PLI scheme for bulk drugs** was designed to correct exactly this, and it has produced results worth citing precisely. Cumulative investment under the scheme had reached about **Rs 4,709 crore** as of **August 2025**, against a committed investment of roughly **Rs 3,938.5 crore**, so the programme is running ahead of its own commitments. Domestic manufacturing capacity had been created for **26 APIs, KSMs and intermediates** by **June 2025**, with reported sales of about **Rs 1,962 crore**, including exports of around **Rs 479 crore**, and avoided imports of roughly **Rs 1,483 crore**. A further application round under the scheme closed on **March 12, 2026**. These are real numbers and they point in the right direction, but their scale remains modest against an import bill built over two decades, and the incentive window itself expires in **2027-28**.

The strongest counter-argument, taken seriously

There is a serious case on the other side, and it should be stated at full strength. A country that discovers, during a pandemic or a geopolitical rupture, that it cannot manufacture its own essential medicines has a genuine national security problem, not a rhetorical one. Tariffs are a blunt but legitimate instrument for rebuilding domestic capacity, and India itself has used exactly this reasoning to justify the PLI and Bulk Drug Parks schemes for APIs. The Indian argument cannot therefore be that supply-chain security is an illegitimate policy objective, because that argument would refute India's own industrial policy.

The argument must instead be narrower and, for that reason, stronger. A tariff aimed at generics targets the segment least associated with security risk and most associated with affordability: off-patent, multi-source, low-margin molecules that keep American healthcare costs down. Genuine supply-chain resilience is better served by qualified-supplier diversification, strategic inventory mandates for critical molecules and joint quality oversight than by a duty that raises the price of the medicines Americans use most. India should argue the case from the American patient's interest, not from its own export interest, because that is both the more persuasive framing and the more accurate one.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Use the **CLEAR frame** for any export-exposure question:

1. **Concentration:** What share of the sector's exports goes to a single market, and how substitutable is that market in the medium term?
2. **Layer:** Does the measure hit finished formulations, intermediates or APIs? The layer determines who actually pays and where the pain lands in the chain.
3. **Elasticity:** Can the importing country's consumers switch suppliers, and at what price? Low elasticity strengthens the exporter's negotiating hand considerably.
4. **Assets:** Which domestic capabilities, regulatory approvals, plant certifications and patent portfolios are hard for a rival to replicate quickly?

5. **Response:** Is the correct instrument tariff-line negotiation, market diversification, or moving up the value chain? Usually it is a sequenced combination rather than a choice.

Applied here: concentration is high, the layer is finished formulations rather than APIs, elasticity is low because American generic supply cannot realistically be rebuilt in two years, and the asset base is the large stock of USFDA-approved plants and ANDA approvals held by Indian firms. That combination argues for negotiation from a position of strength rather than pre-emptive concession.

THE DIAGRAM IN WORDS

Draw a funnel lying on its side. At the wide left end sit Chinese KSM and API producers, feeding a broad flow of bulk drugs. The funnel narrows through Indian formulation plants, which convert that flow into finished tablets and injectables at very low unit cost. At the narrow right end stands a single spout pointing at the American pharmacy counter, through which roughly half of all American generic prescriptions pass. A tariff is a valve fitted at that spout. Closing it does not widen the funnel at the other end; it raises pressure inside the Indian section, where margins are thinnest, and reduces flow to the American consumer at the same time. India's structural task is therefore twofold: add a second spout, meaning new export markets, and widen the left end, meaning domestic API capacity, so that neither end of the funnel is controlled by someone else.

WAY FORWARD

- **Negotiate at the tariff line, not the sector.** India should seek a carve-out for essential and off-patent generics within the bilateral trade track, arguing affordability and continuity of supply for American patients rather than Indian export interest, since the former is the argument that moves American legislators.
- **Use the two-year window as a deadline, not a reprieve.** Firms and the Department of Pharmaceuticals should treat **August 2028** as the effective planning date, working back through site qualification, contract renegotiation and selective United States capacity acquired through partnerships rather than greenfield construction.
- **Diversify export destinations deliberately.** Accelerate regulatory harmonisation and market-access work in the European Union, Japan, Latin America and Africa, so that no single market again accounts for close to a third of exports.
- **Deepen the API programme.** Extend and enlarge the **PLI scheme for bulk drugs** beyond its current **Rs 6,940 crore** outlay and its **2027-28** horizon, complete the three **Bulk Drug Parks**, and target the specific KSMs where import concentration is highest rather than spreading incentives thinly across molecules.
- **Move up the value chain.** Support complex generics, biosimilars and novel drug delivery systems, where margins are wider and substitution by a tariff-protected domestic producer is far harder to achieve quickly.

- **Protect the quality reputation.** Sustained investment in manufacturing compliance is the cheapest insurance available, because a single major USFDA import alert would do more damage to Indian pharma than the entire announced tariff schedule.

PYQ LINKAGE AND PRACTICE

UPSC has drawn on this terrain often. It has asked candidates to examine India's pharmaceutical industry and its global position, to discuss how protectionism and currency manipulation in developed economies affect India's trade, to evaluate the Production Linked Incentive schemes as an instrument of industrial policy, and to assess the implications of supply-chain dependence on China. Questions on intellectual property and access to medicines, and on India's engagement with the World Trade Organization, recur in both GS Paper 2 and GS Paper 3. This case supplies a dated, specific illustration for every one of those, and the PLI figures above let you write with precision where most candidates will write in generalities.

Practice question: "India's leadership in generic medicines rests on volume rather than value, which makes it unusually vulnerable to tariff action by a single import market. Critically examine this proposition and suggest a strategy for India's pharmaceutical sector." (250 words)

Interview angle: If Indian generics keep American drug prices low, is a US tariff on them an act of industrial policy or an own goal? Whose interest should India argue from at the negotiating table?

Sources: The Indian Express, Department of Pharmaceuticals, PIB

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