The rise of india's drug industry

Introduction

The pharmaceutical industry of India is one of the emerging markets that has been built on a growth model that focuses on intensifying their value chain and diversifying their drugs and exports. Over the years, this industry has embraced operations that are driven by research and export-oriented to boost their global reach and provide a wide range of value-added product and service portfolio. However, besides improving the quality of service delivery, this industry depends on the crucial roles played by the government policies that are supportive in reconstructing the future of the sector. For instance, the patenting of products that came into effect in January 2005, helped in setting the pace for long-term growth of the industry (Pannu et al., 2010). Over the years, the value growth of the industry has faced various destructive factors such as fierce competition, the prolonged period of a fragmented industry and the quick spread in the penetration of the generic drugs.

The emerging sector of the Indian pharmaceutical business largely traces its immense growth from a broader export portfolio and diversified model of drugs. Additionally, the pharmaceutical market is estimated to account of 10% consumption of drugs in comparison with the drug market internationally (Indian Pharmaceutical Industry, 2015). The robust performance of the industry both domestically and internationally can be attributed to the growth in income, increase awareness on hygiene factors, aging population and campaign towards health wellness. In addition, there is increase knowledge for the need for healthier living among citizens, increase in a number of health facilities and incentives from the government to fund pharmaceutical research have propelled the sector to its current remarkable achievements and performance (Mckeown, 2014). With the rising demand for inexpensive and effective medication, the government of India unveiled the “ Pharma vision 2020” that seeks to position them as global leaders in manufacturing of pharmaceutical products by 2020 (Indian Pharmaceutical Industry, 2015).

Question One

During the early years, the pharmaceutical industry was largely known for replication of most products that were patented from the Japanese and the Western organizations. This immensely rose up before an agreement with the World Trade Organization (WTO) was signed. Therefore, in regard to this, most of the Indian firms remained independent to sell generic products at lower costs. However, after the signing of the WTO agreement in the year 2005, the industry of India was compelled to complete compliance of protecting its intellectual property rights (Greene, 2007). As an international arbitrator for all transaction that is trade-related globally, the WTO primary objective is to assist importers and exporting manufacturers to practice and embrace just and fair operations hence able to allow them to derive higher profits as repatriations. The organization, therefore, performs a crucial role in facilitating a flexible, transparent, smooth, and free trading system. Therefore, the signing of this WTO agreement brought various benefits to the consumers and the US pharmaceutical industry.

After WTO agreement was signed, India started to retract from manufacturing counterfeit products. This, in turn, helped in the creation of a very strong partnership between the western firms and the Indian firms. Second, the western pharmaceutical companies increasingly began to outsource the packaging and manufacturing activities to India while also they scaled some of these activities in their home countries (Greene, 2007). Additionally, some US pharmaceutical companies opted to set their plants in the region such as Puerto Rico, which is a place that has historically been the manufacturing hub for the firms that serve the US market. By outsourcing the manufacturing and packaging of pharmaceuticals in India, the US firms were able to benefit from India's history in the business of generic drugs (Pannu et al., 2010). It is important to note that, before the singing of the WTO agreement, India could only sell and produce generic drugs which gave India a good competitive advantage. This advantage was largely triggered by the abundance of competencies and experience which left India as an international expert in the business of generic drugs. Therefore, outsourcing to India enabled US firms in reducing their general price of pharmaceuticals and cost structure. This offered the US firms with a cheaper destination of manufacturing their products due to the lower costs of labor which in turn led to an increase in job opportunities in India.

After setting up more than two hundred plants in India that focused in the production of pharmaceuticals for the US market, the US placed in India two offices that sought to oversee the plant's compliance towards Food and Drug Administration (FDA) standards. FDA is usually reliable for protecting the health of the public by guaranteeing quality drugs and assuring their safety. Therefore, this compliance transpired into huge benefits to the consumers, compromised lower prices of pharmaceuticals, and lower insurance costs

(Greene, 2007). Most of the pharmaceutical firms have also focused on value chain segmentation and emergence of the research and development and biotechnology that would benefit the taxpayers and the US consumers (Pannu et al., 2010). Largely, the exports from the Indian firms to the US market have helped in reducing the medical cost and increased the quality of products due to stiff competition. The declining prices of drugs have therefore left many Americans with more income to dispose of hence able to spend on other products. The increase in expenditure on research and development also gives the pharmaceutical firms the incentives they require to expand their portfolios, gain perceived brand and try innovations models that in turns benefits the consumers.

Question Two

One of the biggest loser after the rise of the Indian pharmaceutical business are the manufacturers of drugs from other nations. India has the capacity and also the ability to produce drugs in large scale at a lower price hence making it hard for other foreign manufacturing firms to catch up. In addition, after signing of the WTO agreement by India, their partnership with the US arose. Therefore, the US firms outsourced the manufacturing and packaging activities in India from places such as Puerto Rico. This, in turn, made Puerto Rico to lose its competitive advantage to form a partnership with the US to focus on pharmaceutical services or distributions solely (Mckeown, 2014). After FDA approved the production of drugs for sale in the US, India was able to witness the addition of more plants in the country. This, in turn, gave the Indian companies validity that the China companies lacked although they were also rivals in the industry. Therefore, the Chinese companies and other rivals lost big time due to strong competition and a decrease in market share due to the rise of the Indian pharmaceutical industry. As a result of outsourcing the services from India, the manufacturing employment in the US dropped drastically by five percent between the year 2008 and 2010 (Mckeown, 2014).

Question Three

The advantages or the benefits that are derived from trading with the pharmaceutical sector of India largely outweigh the losses incurred. As noted in the case study, the pharmaceutical industry is believed to be one of the most profitable in the sector, with the industry estimated to generate 15. 8% return on equity in the US (Indian Pharmaceutical Industry, 2015). These high figures have extremely attracted many companies and investors in this market although these figures may not be accomplished easily. Additionally, it is estimated that the US pharmaceutical industry generates 16. 7 net profit margin, which is one of the highest and most attractive in the country. However, although this industry is extremely profitable, it needs high operation costs and extremely high investments. Over the years, the number of companies that are operating in this industry has increased which in turn has led to the creation of more job opportunities. The increase in competition has also led a reduction in the cost of drugs and also improved quality which in turn benefits the consumers.

The growth and rise of the Indian pharmaceutical industry have also led to an increase in partnership with US firms and also opened vast opportunities for international trade. It is estimated that India currently hosts more than two hundred US pharmaceutical firms which in turn has led to a reduction in the cost of doing business in India. In addition, the industry has also led to increase funding on research and development which has resulted in the production of innovative and high-quality products. The Indian pharmaceutical industry has therefore acted a game changer in the sector that is guided by two principles. One the country has benefited from exception skilled force of scientific experts and also extreme low expenses of doing business (Catalyst, 2015). The industry also has a large influence on the politics of the US. For instance, the health care reforms initiated by President Obama with new policies on generic drugs, universal healthcare and biosimilar largely impacts the future of the drug industry in the US. Another crucial benefit is that the approval of products by the FDA has continued to act as a benchmark in many foreign countries hence leading to production of standard and quality drugs in the market (Catalyst, 2015). Therefore, it is evident from this discussion that the rise of the Indian pharmaceutical industry has brought more benefits than the losses.

Question Four

As noted in the case study, India had an absolute advantage over the other foreign competitive nations that produced the generic drugs. Therefore, for so long, India had gained unmatched experience in the production of the generic drugs hence becoming an expert in the business of generic drugs. One of the trade theories that can explain best the rise of India has a major exporter of pharmaceuticals is the absolute advantage theory. Absolute advantage is mainly the ability of a given region, company, individual or country to produce a service or product at a lower cost per unit compared to the cost at which another entity could produce the same product or service (Naguib, 2010). According to this definition, entities that have an absolute advantage are able to produce a service or product through the use of smaller inputs or an efficient process than any other entity or party producing the same service or product. Based on this definition, it is evident that this theory gives an impression that is applicable to the Indian pharmaceutical business. Therefore, India had an absolute advantage since it produced drugs in a more efficient way than any other country that produced the same products. By utilizing the same resources, India was able to produce higher outputs compared to other countries. However, according to this theory, to have a continued success there is a need for the business to concentrate on the production of goods and services that they have some distinct advantages (Naguib, 2010). Therefore, India has come to realize that it has an unconditional advantage in the pharmaceutical industry and has focused its efforts on the production of generic drugs. In addition, the country has built a positive reputation that has continued to give them a distinct advantage over there rivals.

The second international trade theory is comparative advantage theory which states that if a country specializes in the production of goods or services where they have a lower opportunity cost; then they will boost their economic welfare (Office, 2006). Based on this description, it is evident that this theory applies in the Indian pharmaceutical industry. India proved to be very skillful in the production of the generic drugs which gave them a comparative advantage since although they did not have the production capacity, they were more effective in producing the product more than any other country. India has a lower labor cost of production that favored the rise of the industry. Therefore, the pharmaceutical industry in India was impacted by both the absolute and competitive advantage theories.

Conclusion

In conclusion, it is evident from the discussion above that the existence of a business in any given region is driven by a clear understanding of its mission and the business environment. There are many reasons why global businesses should focus on creating a relationship with India. One of the objective or reason of conducting business in India is to help in saving cost due to the reduced cost of labor through outsourcing. Some of the outsourcing activities may include outsourcing of business processes, infrastructure, development of web services and back office operations (Office, 2006). The advantage of conducting business in India through various activities of outsourcing has provided companies with increased productivity, reduced operation costs, cost-effective services, better services, increased quality and efficiency and shared risks. Therefore, the Indian manufacturing industry has continued to rise due to the outsourcing of activities with the production of less expensive and quality generic drugs that meet the needs of the larger population.

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