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Research Paper Economics

Foreign Direct Investments in Indian Pharmaceutical Industry

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ABSTRACT

foreign companies dominates the Indian pharmacy industry due to availability of cheap labour.The author opines that the expenditure on Research & development is very low in India and market leaders at present in the industry spent only 5to 6 per cent of their revenues on research&Development.The General Agreement on Tariffs and Trade (GATT) and Trade Related aspects of Intellectual Property Rights (TRIPS) have an adverse impact on pricing of pharmaceutical products.The study also reveals that the pharma industry also lack the academic collaboration that is crucial to Drug development.

Keywords: Pharma, GATT, FDI, Research &Development, Academic Collaboration

1. INTRODUCTION:

Foreign direct investment (FDI) is direct investment into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

1.1OBJECTIVES OF THE STUDY:

1. To study the Foreign Direct Investment Flows into various sectors of the economy
1. To study the Export and import trends interms of Drugs and Pharmaceuticals
2. To study the challenges faced by the Indian Pharmaceutical industry.

1.2 METHODOLOGY

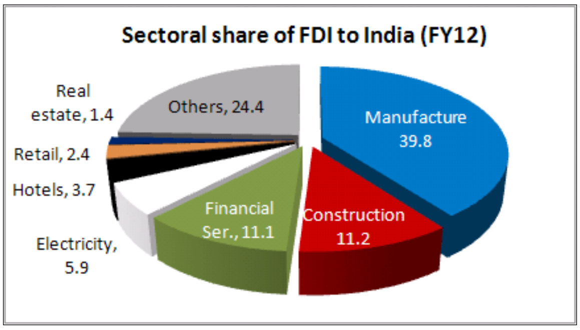
The information collected is secondary in nature. Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

2.FOREIGN DIRECT INVESTMENT FLOWS:

2.1 Foreign direct investment (FDI) is direct investment into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. According to Ernst and Young, foreign direct investment in India in 2010 was $44.8 billion, and in 2011 experienced an increase of 13% to $50.8 billion. India has seen an eightfold increase in its FDI in March 2012.India disallowed OCB's i.e. Overseas Corporate Bodies to invest in India. On 14 September 2012, Government of India allowed FDI; in aviation upto 49%, in Broadcast sector upto 74%, in multi-brand retail upto 51% and in single-brand retail upto 100%.

Chart1. Sectoral Share of FDI



3.OVERVIEW OF PHARMACEUTICAL SECTOR

The Indian Pharmaceutical industry has been witnessing phenomenal growth in recent years, driven by rising consumption levels in the country and strong demand from export markets. This segment of Industry has shown tremendous progress in terms of infrastructure development, technology base and wide range of products. The industry now produces bulk drugs belonging to all major therapeutic groups requiring complicated manufacturing processes and has also developed excellent GMP (Good Manufacturing Practices) compliant facilities for the production of different dosage forms.

The strength of the industry is in developing cost effective technologies in the shortest possible time for drug intermediates and bulk activities without compromising on quality. This is realized through the country's strengths in organic chemicals' synthesis and process engineering.

India is today recognized as one of the leading global players in pharmaceuticals. Europe accounts for the highest share of over 23% of Indian Pharma exports followed by North America and Asia. Exports to USA have crossed the land mark figure of US $1 billion during 2006-07.

The Indian pharmaceutical industry ranks among the top five countries by volume (production) and accounts for about 10% of global production. The industry's turnover has grown from a mere US$ 0.3 bn in 1980 to about US$ 21.73 bn in 2009-10.

Low cost of skilled manpower and innovation are some of the main factors supporting this growth. According to the Department of Pharmaceuticals, the Indian pharmaceutical industry employs about 340,000 people and an estimated 400,000 doctors and 300,000 chemists.

3.1 Investment in the Indian pharmaceutical industry

100% foreign direct investment (FDI) (Chart:-2) is allowed under automatic route in the drugs and pharmaceuticals sector, including those involving use of recombinant technology. Also, FDI up to 100% is permitted for brownfield investments (i.e. investments in existing companies), in the pharmaceuticals sector, under the Government approval route. The drugs and pharmaceuticals industry attracted foreign direct investment to the tune of US$ 9.17 bn for the period between April 2000 and January 2012.

The Indian pharmaceutical industry enjoys certain advantages, which attracts FDI in the country:

1) Low cost of innovation and capital expenditure (to operate good manufacturing practices-compliant facilities) which provides leverage in pricing of drugs
2) Transparency in the regulatory framework
3) Proven track record in bulk drug and formulation patents
4) Strong domestic support in production, from raw material requirements to finished goods and
5) India is emerging as a hub for contract research, biotechnology, clinical research and clinical data management.

3.2 Factors Influencing Industry's Growth

The Indian pharmaceutical industry ranks 14th in the world by value of pharmaceutical products. With a well-established domestic manufacturing base and low-cost skilled manpower, India is emerging as a global hub for pharma products and the industry continues to be on a growth trajectory. Moreover, India is significantly ahead in providing chemistry services such as analogue preparation, analytical chemistry and structural drug design, which will provide it ample scope in contract research and other emerging segments in the pharmaceutical industry. Some of the major factors that would drive growth in the industry are as follows:

➢ **Increase in domestic demand:** More than half of India's population does not have access to advanced medical services, as they usually depend on traditional medicine practices. However, with increase in awareness levels, rising per capita income, change in lifestyle due to urbanisation and increase in literacy levels, demand for advanced medical treatment is expected to rise. Moreover, growth in the middle class population would further influence demand for pharmaceutical products.

➢ **Rise in outsourcing activities:** Increase in the outsourcing business to India would also drive growth of the Indian pharmaceutical industry. Some of the factors that are likely to influence clinical data management and bio-statistics markets in India in the near future include:

1) Cost efficient research vis-à-vis other countries
2) Highly-skilled labour base
3) Cheaper cost of skilled labour
4) Presence in end-to-end solutions across the drug-development spectrum and
5) Robust growth in the IT industry.

➢ **Growth in healthcare financing products:** Development in the Indian financial industry has eased healthcare financing with introduction of products such as health insurance policy, life insurance policy and cashless claims. This has resulted in increase in healthcare spending, which in turn, has benefitted the pharmaceutical industry.

➢ **Demand in the generics market:** During 2008-2015, prescription drugs worth about US$ 300 bn are expected to go off patent, mostly from the US. Prior experience of Indian pharmaceutical companies in generic drugs would provide an edge to them.

➢ **Demand from emerging segments:** Some of the emerging segments such as contract research and development, bio- pharma, clinical trials, bio-generics, medical tourism and pharma packaging are also expected to drive growth of the Indian pharmaceutical industry.

3.3 Foreign trade in pharmaceutical products

The Indian pharmaceutical industry's growth has been fuelled by exports. Its products are exported to a large number of countries with a sizeable share in the advanced regulated markets of the US and Western Europe. India currently exports drug intermediates, active pharmaceutical ingredients, finished dosage formulations, biopharmaceuticals and clinical services to various parts of the world. The top five export destinations of Indian pharmaceutical products are USA, Germany, Russia, UK and China. Indian exports of drugs and pharmaceuticals grew at a CAGR of 16.5% to ` 451.4 Bn during Feb 2012 to Dec.2012.

Imports of drugs and pharmaceuticals into India recorded a CAGR of 17.6% during FY02-FY12 (up to Dec 2011). During FY12 (up to Dec 2011), pharmaceutical products worth 102.2 bn were imported into India. India is almost self sufficient in formulations; its imports mostly comprise bulk drugs and some intermediaries. These imports are freely permitted, except those that are restricted in the foreign trade policy. Import restrictions are mostly on drugs that contain narcotics and psychotropic components.

3.4 Major challenges faced by the industry

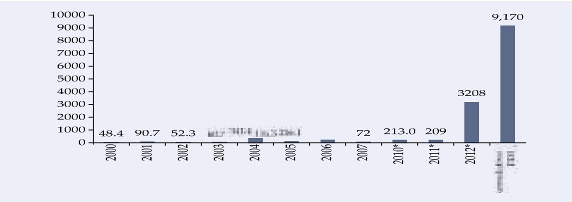
The industry faces several challenges in the form of pricing of pharmaceutical products and impact of some agreements. This section touches upon several key issues and challenges faced by the industry:

➢ **Impact of GATT-TRIPS agreement:** The General Agreement on Tariffs and Trade (GATT) and Trade Related aspects of Intellectual Property Rights (TRIPS) have an adverse impact on pricing of pharmaceutical products. Pharmaceutical companies are not allowed to re-generate existing drugs and formulations and change the existing process and manufacture the same drug. New investments are required to perform research. Hence, adequate measures should be taken to support the industry's revenue and minimize losses.

➢ **Pricing:** At present, pricing of 74 bulk drugs and their formulations, which account for a large share in the retail pharma market, are controlled by the Drug Price Control Order (DPCO)-1995. The Government had considered reducing the number of regulated drugs, but it has not been implemented. There is a need to reduce the number of regulated drugs to facilitate the growth of the pharmaceutical industry.

➢ **Drug diversions by institutions:** Most of the institutional clients of the Indian pharmaceutical companies comprise government hospitals, the Indian defense service and private hospitals; the defense sector is mandated to buy drug stocks through tenders in quantities twice as large as the projected demand for those drugs in the following year at a discounted price. At the year-end, surplus available at the institutions is pushed to regular channels by leveraging the price discounts, resulting in a loss for companies through the regular distribution channel.

Chart 2: FDI inflow in the drugs and pharmaceutical industry (US$ mn)



* Fiscal Year Cumulative: April 2000 to January 2012
Source: Ministry of Commerce & Industry

4.Conclusion:
The pharma market is expected to touch US$74billion in sales by 2020 from the current US$11billion.According to Barclays Capital Equity Research report on India Healthcare&Pharmaceuticals Indian Pharmaceutical market is expected to grow at aCompound annual growth rate of 15.3 per cent during 2011-12 to2013-14.Although india has substantially liberalized its foreign investment policy,the foreign direct investment inflows had been much below the targets until recently.Market leaders in pharma industry should raise their expenditure towards Research&Development.Academic collaboration would help the pharma industry with regard to Drug development.

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