



Indo-Pak Trade: Apprehensions and Opportunities for Pharmaceutical Industry of Pakistan

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Abstract

The long-standing bilateral conflicts between Pakistan and India and resultant massive defense spending have marred economic growth in Pakistan. But for last few years, there has been a great stress on building stronger economic ties between Pakistan and India. The proposed normalization of trade between two countries has stimulated heated debate in Pakistan. The policy of normalization of relations and liberalization of trade with India got a mixed response from different quarters in Pakistan. It is welcomed by some political parties and industrial sector as a good opportunity whereas some have expressed their apprehensions and concerns. Pakistan's pharmaceutical sector is in defiance of trade liberalization with India as the industry feels "serious threats" for Pakistan's local market. However, Pakistan Medical Association (PMA) views normalization of trade as a "grand opportunity" for Pakistan that will benefit consumer, control price hike, raise standards of medicine and bring peace and stability in the region. Even a few pharmaceutical companies are hoping for joint ventures through which Pakistan can earn Food and Drug Administration (FDA), USA, approved plants that are essential to export medicines to the US, European Union (EU) and Japanese markets. Increased economic interdependence can reduce or restrain war and hard-line approach of military and political leadership in India and Pakistan.

Keywords: *People-to-people contact, pharmaceutical industry, trade liberalization, trade normalization*

1. Introduction

Trade liberalization with India may lead to lasting peace and stability in the region. Trade ties between different sectors of both countries can restrain warmongering behaviour of both nuclear states. Pakistan is faced with challenges in health sector and these challenges are posed by the World Trade Organization (WTO) regime. Health sector in Pakistan is dilapidating and needs improvement on a priority basis. Particularly, the pharmaceutical sector requires effective measures for overall upgradation. Pakistan has to provide necessary protection to its local pharmaceutical industry and patients as well. Imports are important choices for Pakistan pharmaceutical industry and the government to balance with the anti-competitive or exploitative practices within the framework of WTO and Compulsory Licensing (Asif & Awan 2005). Despite having good manufacturing base in Pakistan, only a few facilities are of international standards. On the other hand, India has nearly 100 FDA approved plants that allow the pharmaceutical sector in the country to register their products in the US and EU as well. The consumers in Pakistan also suffer from sub-standard drugs, price hike and monopolistic approach of the industry. Trade agreements with neighbouring giant market can help in various ways as with increased people-to-people contact exchange of expert knowledge will take place which will ultimately benefit consumers and lead to peace and stability in the region. Hence, this study aims to assess the significance of trade to resolve conflicting issues between Pakistan and India

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and to explore benefits of Indian imported medicines for common consumers in Pakistan. The focus of the study would remain on the apprehensions of Pakistan's pharmaceutical industry and the opportunities that the liberalization of trade with India may create for Pakistani pharmaceutical industry.

There has been a dire impact of India-centric policy on Pakistan's economy, politics and society in general. It not only led to massive military spending but also fortified the grievances between the two countries. Trade has been neglected and never considered as a tool to resolve issues between Pakistan and India. Since the normalization of trade is in place, Pakistan's pharmaceutical industry has expressed its strong reservations over normalization of trade with India as the sector feels imminent threat from low-cost Indian medicine that could affect domestic market adversely. India is one of the major and leading players in pharmaceutical industry in the world and it may create opportunities for Pakistani sector. Advanced in research and development, Indian companies can help Pakistani companies through joint ventures to compete world over whereas at the same time these global Indian drug giants can outplay Pakistani companies. Keeping in view the significance of this area of research, the objectives of this study are:

- To assess the significance of trade to resolve conflicting issues between the states.
- To assess benefits of Indian imported medicines for common consumers in Pakistan.
- To recommend other viable way outs to enhance ties between the two nations.
- To understand pharmaceutical trade normalization from trade and humanitarian aspect.
- To find the opportunities and apprehensions for Pakistan's pharmaceutical industry.

2. Research Methodology

The research is qualitative in nature. Thematic analysis method is used for primary data treatment. Open-ended questionnaire was designed to collect primary data from Karachi-based pharmaceutical sector and doctors of PMA. The open-ended questionnaire was given to chief executive officers (CEOs) and industry experts in local and multinational pharmaceutical industry and doctors of the PMA. Convenience sampling method has been used to analyze the data.

2.1 Theoretical Framework

Many theories were contemplated in order to understand the nature and impact of trade ties between India and Pakistan. Economic Interdependence Theory was taken into consideration. It provides conceptual framework that helps in understanding and analyzing future course of ties between Pakistan and India, although there are two different schools of thought that provide contrasting perspectives of the theory: liberals and realists. The liberals believe that economic interdependence reduces the probability of war since states would prefer trade over invasion. Trade provides the alternate to aggression. The realists, on the other hand, argue that greater economic interdependence increases the risk of war. However, liberal perspective carries more weightage. After the end of the World War II, increased economic interdependence has brought peace to the world. High volume of trade between China and Japan, China and Taiwan, China and India, Germany and France and Germany and the UK restrained their conflict behaviour.

The above-mentioned theory can best be applied when the trade is done on "symmetrical interdependence" between the two states. The trade bond of symmetrical dependence reduces the likelihood of interstate conflict. However, in case of "asymmetric connections" the risk and probability of conflict increases as asymmetry in trade between the two states rises. Hegre (2004) argues increased trade ties between France and Germany following World War II is best example

of symmetrical dependence. But relationship between Germany and Luxembourg; and China and Taiwan are of highly asymmetrical nature. The potential market for Taiwanese and Luxembourg's goods in Chinese and German markets is greater than the potential market for Chinese and German goods in Taiwan and Luxembourg respectively.

Trading states can perform much better through internal economic development. It is also sustained by markets throughout the world. Through the notion of interdependence, it is important to assess if apprehensions would be countered through the opportunities which bilateral trade between Pakistan and India may offer and can lead to liberalization of trade between both countries. It is also important to examine how increased economic interdependence restrains militaristic approach of both countries to resolve their chronic problems.

As relations between Pakistan and India remain to be the focal point for analysts, researchers and academicians, they have stressed upon exploring economic opportunities and ways to increase people-to-people contact in order to resolve long-standing conflicts between the two countries. However, implementation on these calls sometimes is marred by the hard liners. With the revival of trade talks, the pharmaceutical industry, in particular, has been opposing the import of Indian medicine labeling it "cheap and sub-standard". The study intends to find out that how opportunities can benefit Pakistan and apprehensions expressed by the pharmaceutical sector in Pakistan be addressed.

3. Literature Review

South Asia had been fairly a well-integrated region during the British Raj. Rana and Dowling (2005) describe the animosity between Pakistan and India as the main reason for decline in the trade in South Asia following the partition in 1947. According to them, the trade could never be the same again like during pre-partition era. There is a great magnitude of trade with India as (Rehman et al. 2011, p.116) explains the importance of trade with India. Despite the fact that there is an increasing bilateral trade deficit of Bangladesh in trade with India, the value of exports of Bangladesh has enlarged more than three times over the period of last five years. Simmons (2005) argues that significant economic uncertainty is generated by the territorial disputes among the nations. If the territorial or boundary agreements are settled, they result in economic benefits for both parties. He quotes O'Brien who says "it is rather commonly accepted that national borders are declining in economic significance." World market competition has wiped control of territorial wealth.

Burki (2011) explains the critical method of Pakistan trade model as Pakistan has built up its markets for trade at quite distant place such as Japan and the USA, while ignoring neighboring India. He suggests "Gravity Model of Trade" that signifies that bigger business partners and those who have massive markets ought to be comparatively closer in relationship. In this perspective, Pakistan must focus on India and China which are not only neighboring countries but also two of the largest markets of the world.

Acharya (2005) foresees a shining future of Sino-India trade relations. The bilateral trade that was only of \$3 billion in 2000 it reached to \$13 billion in 2004. It is expected to be raised to \$30 billion by 2015. Both countries are planning to set up joint ventures and a proposed free trade area agreement (FTA) that will bring the two most densely inhabited states even closer. The proposed FTA will be even bigger than the Association of South East Asian Nations (ASEAN), EU and North American Free Trade Agreement (NAFTA). International rating companies are forecasting that both India and China will transform international trade dramatically.

Taneja (2004) study shows that India had realized the importance of FTA a long before and went under FTAs in 1950s and 1970s with Nepal and Bhutan respectively. It started knocking at ASEAN's door in mid-1990s. Pakistan's realization for such agreement came quite late. It started FTAs with Bangladesh and Sri Lanka in early 2000 but the outcome from these agreements is not very much substantial.

Hegre, Oneal and Russett (2009) observed that trade curtails the possibility of interstate confrontation when size and proximity is modeled in a proper form in the conflict and the trade equation. They confirmed the "pacific benefits of the trade". Their studies rested on the theory of liberal logic beside empirical evidence. Conflicts have adverse simultaneous impacts on bilateral trade as conflicts are costly. Hence the trade should be used to reduce interstate confrontation. If leaders are rational, they can understand the economic cost of the conflict.

Hegre (2004) examines the "liberal peace hypothesis". According to the hypothesis it was increase in trade that improved the security relationship between France and Germany after the end of the World War II. The conflict behavior of both the nations was restrained by the fear of disruption in joint business ventures. He found in utility model that the incentive of war of conquering the other state is reduced by trade between the two nations through two mechanisms: trade losses are added to the costs of war and trade offers an alternate to access to resources that are situated in the other state. Hegre calls it "the trade losses and alternative-access mechanism."

4. Discussion

4.1 Pakistan-India Trade: Problems and Prospects

World has witnessed changing trends after the end of World War II. Since Europe suffered drastically during World War II, the European states learnt to live peacefully and Germany, France and Britain set the path. Japan and the US also became strong trading partner who had just fought brutal war. Later on, the trend was followed by China, Taiwan and India. A historic trade agreement was signed between China and Taiwan on 29 June 2010. The Economic Co-operation Framework Agreement (ECFA) removes tariffs on hundreds of products. It could boost bilateral trade that already totals \$110bn (£73bn) a year. China and India both are the most populous and fastest growing economies in the world. Since the emergence of China as a leading economic power, both countries have improved relations diplomatically and economically. China's current GDP is \$5.87 trillion with staggering GDP growth 10.3% (World Bank 2012).

Though the trade between Pakistan and India existed since the partition, the volume of trade could never reach the significant level compared to the size of both economies. Despite that, during initial years following partition trade was rather significant. Pakistan accounted for 30% of its exports to India and 10% of imports from India during that period and was first disrupted by 1965 war. Later in 1990s, volume of trade began to improve in exports and imports as well (Qamar 2005).

India accorded most-favoured nation (MFN) status to Pakistan in 1996 and expectation raised that the trade would significantly increase but it did not happen. Exports to India remained low because of two main reasons: a) absence of granting MFN status to India and b) the presence of non-tariff barriers in India.

Talks on liberalization and normalization of trade, lately, have renewed hope in the region for prosperity, peace and stability. But the resumption of talks has not come without fears, apprehensions

and criticism. Pakistan's automobile and pharmaceutical industries are the most concerned parties who feel threatened their business and expect job losses if trade liberalization takes place and MFN status is granted to India. India's cheap imports will flood Pakistani market and hurt local industry badly. Although, under WTO provisions against cheaper and subsidized imports to protect the domestic sector, Pakistan can take certain measures. "Article XIX of General Agreement on Trade and Tariffs (GATT) provides that where, as a result of tariff reductions, a country finds that a product is being imported "in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers" it can impose safeguard measures to restrict such imports for temporary period. For instance US imposed safeguard measures against foreign imports in order to protect its domestic steel industry" (Wajid 2003). He further describes such cheaper imports will benefit consumer as entrepreneurs face least competition, get opportunity to burden poor consumer unnecessarily and blackmail government at various stages of regulation and taxation. Trade liberalization will make entrepreneurs face the competition, curb their monopolistic attitude and directly force them to raise the standard of production as per international market standards.

4.2 India: Trade Facts

India's main industries include steel, chemicals, mining, textiles, food processing, transportation, software, machinery and petroleum. Engineering goods, IT services, chemicals, textile goods, leather manufacturers and gems and jewelry are main Indian exports whereas crude oil, chemicals, fertilizer, machinery and gems are India's main imports (FPCCI 2011).

4.3 Pakistan: Trade Facts

Pakistan's main industries are textiles (garments, cotton cloth, bed linen, and yarn), leather goods, rice, sports goods, carpets and rugs and chemicals hence these are also Pakistan's main exports. Main commodities of Pakistani imports are petroleum, petroleum products, plastics, machinery, edible oils, transportation equipment, tea, iron and steel and paper and paperboard (FPCCI 2011).

4.4 Indirect Trade Channels

Current Indian exports to Pakistan are more than US\$2.3 billion that is only 1% of total Indian exports. Indian imports stand at just US\$300 million that represents meager 0.1% of its total imports. Indirect exports of India to Pakistan are believed to be much higher. Indirect exports come through mainly Dubai, Kabul, Singapore and Sri Lanka (Chaganty 2012). Once trade liberalization is in place, the indirect trade will be diverted to direct channels. Subsequently, it will save freight cost and time considerably. Pakistan's pharmaceutical imports and machinery also come from India.

4.5 History of Pharmaceutical Sector in Pakistan

Pakistan began with two small units of pharmaceutical which were unable to cope with the demand at the time of partition. Pakistan had to depend on imports of medicine. Zulfikar Ali Bhutto's government decided to abolish brand names of drugs in 1972 and allowed local manufacturers to get on the board. Governments have invested more than \$140 million since 1999 in pharmaceutical sector. There were over 400 licensed companies in Pakistan in 2006, including 30 multinationals. Most of the local companies, manufactured finished products whereas very little raw material was manufactured in Pakistan. The imports of pharmaceutical of Pakistan are three times higher than exports (the Pharmaceutical sector in Pakistan, 2007).

Pakistan's exports mainly go to small number of African countries while imports keep coming from all over the world. The domestic market is equally divided between national and multinational companies.

The pharmaceutical industry meets about 80% of domestic demand of finished medicine. The industry claims to have the capacity of manufacturing various products. These products range from simple pills to sophisticated Biotech and Value Added Generic compounds to Oncology. For half of the population is deprived of access to modern medicine, the industry sees it as an opportunity with challenge. Per capita drug spending is less than US\$10. 65% of total health care comes from private spending. The country's GDP spending for pharmaceutical is less than 1%. The industry is targeting US\$500 Export Vision by 2013. There are only two companies that manufacture raw material (chemicals) in Pakistan. Rest of the raw material is imported from China, India, Germany, Switzerland and other European countries.

Unethical practices are found common in the pharmaceutical industry of Pakistan. Many companies including multinationals are involved in vicious and atrocious crime of bribing practitioners for approving higher prices drugs when equally effective medicines are easily available in the market. Representatives of pharmaceutical industry usually bribe doctors to influence them to prescribe specific drugs. They are also believed to bribe regulatory authorities to develop favourable policies for them (Ahmad 2008).

4.6 Price Difference between Pakistani and Indian Medicines

Medicine prices are much lower in India as compared to Pakistan. These prices are as much lower as four to five times. Aventis produce Clafron tablet (250mg) was priced Rs.27.69 in India whereas it was sold at Rs. 95.99 in Pakistan. The Imperial Chemical Industries (ICI) produced pack of 14 Tenormin 100mg tablets at price of Rs. 52.44 and the same tablets were sold in Pakistan at Rs.130.5. Another drug cost Rs. 47.44 in India and Rs. 96 in Pakistan (Sher 2007).

5. Data Analysis and Findings

The primary data was collected through a survey. The open-ended survey questionnaire was divided into two parts: "general trade dimension" and "pharmaceutical dimension." Questions were mainly related to the importance of India-Pakistan trade ties and what opportunities and challenges exist for Pakistan's pharmaceutical sector in India-Pakistan trade. Questionnaires were distributed to pharmaceutical industry's chief executives and managers and doctors of PMA to get understanding what opportunities and apprehensions lay ahead for the pharmaceutical industry.

In the first part respondents from pharmaceutical industry showed "mix response of opportunities and apprehensions" regarding general trade ties with India whereas in the second part, majority of the industry experts were of the same view and they felt "imminent threat" to the industry if trade liberalization takes place. Only one CEO of local pharmaceutical company thought that the trade must go ahead and it will help Pakistan pharmaceutical sector to compete world over. On the contrary, doctors of PMA viewed trade with India as "grand opportunity" for Pakistan pharmaceutical industry that Pakistan must hold. They believed fears of pharmaceutical industry are "exaggerated" and trade would help the patients as they will have more options to opt for.

Enhancing trade ties with India will help reduce enmity between the two nations. It will also increase people-to-people contacts since the contacts have mostly been maintained by bureaucrats

of both countries so far. Granting MFN to India will help Pakistan more as India is five times greater than Pakistan (Soomro 2012). Since the economic interdependency creates better understanding in various fields, it generates rooms for joint ventures.

Industry experts and doctors agreed that Pakistan is far behind in the field of research and development despite the tremendous growth in local pharmaceutical industry in last fifteen years (Qasim 2012). Doctors believe Pakistan's pharmaceutical industry could learn a great deal of knowledge from research-oriented Indian pharmaceutical industry. Whereas, the industry experts suggested Pakistan government's help and incentives can bring advances in Pakistan's pharmaceutical industry research and development.

When asked why Pakistani pharmaceutical industry is not competent enough as compared to the Indian pharmaceutical industry, the industry experts suggested that highest operating and infrastructure cost, energy breakdowns, higher interest rates and extra levies leave Pakistani pharmaceutical industry struggling in competing with Indian sector. The PMA doctors believe it is due to improper manufacturing guidelines and rampant corruption in regulatory authority. Dr. Habib Soomro, member PMA, cited death cases in Lahore due to expired cough syrup as a crucial example of it. Indian pharmaceutical industry has an edge over Pakistan's sector since Indian government provides ample incentives to the industry as described by Dr. Kaisar Waheed of Medisure Laboratories, Pakistan. The PMA doctors believe that there is a check and balance in Indian National Regulatory Authority.

Majority of the industry experts believe that import of Indian finished medicine will hurt Pakistan's pharmaceutical badly. Since the Indian medicines are cheaper in price and high in standard can drive Pakistani sector out of the market. PMA doctors find the import of Indian finished medicine suitable for market competition that will result in lowering the prices and raising the standard of drugs.

Granting MFN status to India is not outrightly opposed by the majority of industry experts. They demand that import of Indian medicine ought to be put under some formula or procedure. MFN status to India can cause havoc for local industry and "exhaust" Pakistan's raw material. However, the scenario is considered the other way round by PMA doctors as they describe it quite beneficial for Pakistan's pharmaceutical industry. It will help Pakistan industry reduce its weaknesses and facilitate opportunity to learn from exchange of experts and knowledge. On the question of joint collaboration only one company Getz Pharmaceutical sees joint collaboration an opportunity beside the doctors. Getz believe that joint collaboration can help the company acquire technical assistance from FDA validated plants. India has 90 such plants whereas Pakistan has none.

PMA doctors rejected the claim of industry experts that cheap Indian medicine will drive Pakistani medicine out of Pakistani market. They substantiated their argument by citing that Chinese medicine are the cheapest available medicine in Pakistani market but they hardly capture 1% of market in the whole country in terms of value (Soomro 2012). Enhancing general trade ties between the two nuclear neighbouring countries are seen as welcome signs towards peace and stability in the region by the pharmaceutical industry experts and doctors. Nonetheless, the industry experts believe that Pakistan pharmaceutical sector is still naïve and cannot compete India currently. Trade liberalization will pave the way for increased people-to-people contact. This will also give military and political leadership other options than war to solve the complicated issues that have existed since the partition and led to many full scale wars and small border skirmishes.

The major of Pakistan's pharmaceutical sector is to be driven away from Pakistani market if cheap Indian finished medicine arrives in Pakistan. Majority of the industry experts suggest Indian medicine to be put on negative lists. However, India is less competitive as compared to China that competes with mature economies of the world. It has comparative advantage in high-tech and low-tech sector where as India exports are of low-tech products (European Central Bank 2008). China enjoys open access to Pakistani market and Pakistan's pharmaceutical industry has never shown any objection to Chinese medicine. Moreover, the fear of cheap Indian medicine seems to be "exaggerated" an industry expert Mr. Khalid Mehmood of Getz Pharmaceutical described. He argues that cheaper medicine have been unable to capitalize the market yet in Pakistan citing the cheapest Chinese imported medicine available in the market have meager 1% share in terms of value in Pakistani market. Gideon Richter, a Hungarian firm, also exports cheap medicine to Pakistan but their share remains just 0.01% in terms of sales (Baloch 2011).

Since Pakistan lags behind in the field of research and technology, joint collaboration with Indian companies can provide Pakistan an opportunity to learn from Indian extraordinary growth. Khalid Mehmood suggested the cooperation in the pharmaceutical field can earn Pakistan FDA validated plants. India's pharmaceutical industry is not eyeing for developing economies for their market instead they are looking for developed economies such as the US, UK, Germany, Japan, Russian and South Africa. Analysts see immense potential in China, North Africa and Latin America for Indian exports as increasing population and higher healthcare expenditure have made these countries and regions a lucrative market for Indian pharmaceutical sector (Kumar 2011).

6. Conclusion and Recommendations

Trade liberalization can bring long-awaited peace and stability to the region that is sitting on nuclear piles. Pakistan has an opportunity to enter into huge Indian market of 300 million middle class. The developed world has already been lining up to grab this opportunity whereas Pakistan can get more benefits than any other nation because both countries share more than 1200 km long border.

Regardless of strong growth of local and multinational pharmaceutical companies in last two decades, Pakistan's pharmaceutical industry finds itself unable to compete with Indian imported medicine. Industry experts have apprehensions that cheap and sub-standard Indian medicines will cause Pakistan's industry irreparable loss. It will also result in loss of jobs as well. The Indian pharmaceutical industry has also rejected the claims of PPMA of possible job losses. It argues that Indian giants will not eye Pakistani market and domestic manufacturer are unlikely to establish sales units and distribution centers in Pakistan. Most probably they could route supplies through existing distributing channels and pharmaceutical market (Shah 2011). The arrival of Indian medicines will create competition in the market that will result in controlling the price hikes, raising the standard of medicine and exchange of expert knowledge. India can be the source of raw material and machinery for Pakistan's industry as well. Genuine concerns of the pharmaceutical industry must be heeded. The government should address problems like power breakdowns, poor infrastructure, high interest rates and incentives in research and development in order to make them able to compete any company in any market.

Moreover, the increased trade interdependence can drastically reduce war hawkish behaviour of both military and political leadership. Amjad Ali, an industry expert, described such interdependence harmful for Pakistan at the time of war however it is neglected that such interdependence can avert war. Opposition of trade by even few industries can provide opportunity to non-state actors to launch propaganda of hatred and war that the region cannot afford. Joint

collaboration can also earn Pakistan FDA approved plants that can open export gates for industry in US, EU and Japanese markets as well. Finally import of Indian medicine may result in some possible job losses; it will certainly help the patients who buy same medicines at three to four percent higher prices as they have no other options available.

The pharmaceutical industry should reassess its apprehensions against Indian finished medicine. Indo-Pak trade benefits should be viewed in broader perspective as they can bring peace, prosperity and stability in the region. Instead of denying access to Indian medicine in Pakistani market, the industry should update itself with FDA approved plants to compete in the developed world as well. India should not use protectionist tactics (non-tariff and tariff barriers) to keep Pakistani sector out of its market and implement MFN status with its true spirit. The industry should take efforts to normalize trade so it can get raw material and machinery from India from direct channels. Freight cost and time saving will help Pakistan pharmaceutical more competitive in domestic and international market.

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