

Box 21.5: Seven steps that could transform Pakistan's pharmaceutical industry

Pakistan's pharmaceutical industry comprises more than 750 SMEs, about 17 of which are subsidiaries of multinational corporations. Growth averaged 10–12% between 2012 and 2017, thanks to rising incomes, self-medication and awareness of health issues created by the Internet.

Growth rates have since declined. Price controls on drugs and weak protection of intellectual property have seen multinational corporations close shop and repatriate their profits since 2012. Their retreat has spawned generic copycat drugs by local producers and reduced prospects for new drug development. Inflows of FDI for pharma have sunk close to zero.

In 2017, annual turnover amounted to US\$ 3.2 billion, equivalent to about 1% of GDP. Pharmaceutical exports brought in US\$ 200 million.

This compares with US\$ 14 billion for Indian pharmaceutical exports in 2015 and about US\$ 800 million for Jordanian exports, despite the latter country having a population of only 9 million. Production plants certified by the US Food and Drug Administration can export to the USA, which comprises 60% of the global market; India has 201 certified plants and Jordan four (Dawani and Sayeed, 2019).

Pakistan could derive substantial impetus from the export of generics and contract manufacturing. In the more distant future, there is no reason why it could not become one of the emerging economies that is active in the drug-discovery business with its own multinational corporations – but

getting there will require regulatory reforms, entrepreneurship and investment.

The following seven steps could transform Pakistan's pharmaceutical industry:

- The price ceilings imposed on drugs since 2001 should be lifted in a transparent process, as these ceilings are squeezing profits, stifling growth and limiting the availability of some medications, such as for tuberculosis.
- Although industry meets 90% of domestic demand, 95% of the main chemical components of drugs are imported. The large-scale production of generics will call for investment in capital-intensive facilities to produce active pharmaceutical ingredients in Pakistan. Investment on this scale is only possible by large companies and could require support from the government's industrial policy in the early stages. FDI could assist.
- There is a need for industrial restructuring to reduce the number of pharma firms while boosting their size to enable them to upscale the production of generics, produce under contract and raise exports. Currently, the industry is fragmented, with more than 500 small firms engaged in compounding and packaging medications.
- In order to compete in the global marketplace, Pakistani industry needs the underpinning of an innovation system. The pharmaceutical industry

engages in virtually no R&D. The government should take the lead by stimulating research in leading public universities, incentivizing research by larger pharma firms and promoting more university–industry linkages.

- For the major firms to attract FDI, the business environment will need to improve, including through adequate protection for intellectual property and incentives that channel foreign investment into the type of activity that will generate the highest returns for Pakistan's economy.*
- Pakistan needs a well-funded Food and Drug authority to set and maintain quality standards, to certify drugs and to weed out substandard and counterfeit drugs.
- Membership of the Pharmaceutical Inspection Convention/Cooperation Scheme would provide Pakistan with sound manufacturing guidelines and enable it to export to high-income countries. This will also require certification of Pakistani factories by the FDA and European Medicines Agency, which is currently not the case, even if a couple have been certified by WHO.

Source: Yusuf (2019)

* The experience of Argentina, Bangladesh, Colombia, Indonesia, Jordan and Uganda suggests that technology transfer from multinational corporations can accelerate the development of domestic capabilities (UNCTAD, 2011).