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Biden's focus on Obamacare positive for Indian pharma, but friction on patents, price controls to continue

Since Obamacare would lead to much better and broader inclusion of American citizens, it augurs well for India. About 40 percent of generics in the US is supplied by India. But withdrawal of the Generalized System of Preferences benefits to India by the Trump administration a concern.

Viswanath Pilla (https://www.moneycontrol.com/author/viswanath-pilla-6848/)

The Indian pharmaceutical industry sees US President-elect Joe Biden's proposed plan to expand Obamacare, bring more competition and reduce middlemen as positive steps.

Biden, in his acceptance speech, said securing family health care would be his priority. Biden, in his election rallies, also promised that he would focus on broadening and strengthening Obamacare, also known as the Affordable Care Act (ACA), which ensures that all Americans have access to affordable health insurance.

"India's pharma industry will continue to play an important role in the US healthcare system. We are part of the affordable healthcare segment," said Sudarshan Jain, Secretary General of Indian Pharmaceutical Alliance (IPA), an industry lobby group representing large domestic drug makers.

Biden's plan for Obamacare is in contrast to Trump, who tried to kill ACA by repealing parts of the law throughout his tenure, without much success. The issue is in the hands of the US Supreme Court.

Promotion of safe generics

Biden also promised to support numerous proposals to accelerate the development of safe generics.

This would mean more reliance on generic drugs and bio-similars to keep healthcare costs low, even as Biden expands coverage. India exported drugs worth $6.7 billion, over one-third of its total pharma exports, in FY20. In terms of volumes, every one out of three pills consumed by an American would have an Indian connection.

“Obamacare would lead to much better and broader inclusion of American citizens, particularly poorer citizens. It augurs very well for India, about 40 percent of generics in the US is supplied by India,” said Dinesh Dua, Chairman of the Pharmaceuticals Export Promotion Council of India (Pharmexcil), a trade body under the Ministry of Commerce & Industry, Government of India.

Trade frictions

The Indian industry, however, doesn't expect things to be dramatically different under Biden in terms of trade policies. They are not too sure at the moment whether the US, under Biden, would review its withdrawal of the Generalized System of Preferences (GSP) benefits to India.

“It's too early to predict anything,” Jain said.

GSP is preferential duty-free access given by developed nations to developing countries. As many as 3,500 products are eligible for GSP concessions, but India exports about 2,000 items, including a large number of pharmaceutical products. GSP withdrawal has sliced 4-5 percent of profit margins of Indian pharma companies on exports of certain drugs.

The GSP concessions were removed by the Donald Trump administration as they didn't see India as a poor country.

India and the US have major differences when it comes to protection of intellectual property rights and the second major bone of contention has been India fixing the prices of medical devices such as cardiac stents and knee implants that hurt the US manufacturers the most.

Those differences are not expected to be resolved anytime soon. But Dua says under Biden, “the US administration would listen more intently to you”.

"Of course, they are not going to compromise on American interests, they would be more flexible," Dua said.

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EXCLUSIVE | Finance Commission likely to recommend doubling of public health expenditure by FY24

In its report for 2021-22 to 2024-25, the Fifteenth Finance Commission (15th FC) has also likely recommended that governments move to a fiscal deficit target range rather than a fixed number.

Arup Roychoudhury

In the backdrop of the COVID-19 pandemic, the Fifteenth Finance Commission has likely recommended that India's combined public health expenditure be increased to 2.5 per cent of gross domestic product by 2023-24, *Moneycontrol* has learnt.

As a percentage of GDP, this is nearly double of 1.26 per cent health outlay by central and state governments in 2019-20, as per an assessment by Niti Aayog.

In its report for 2021-22 to 2024-25, the Fifteenth Finance Commission (15th FC) has also likely recommended that governments move to a fiscal deficit target range rather than a fixed number, and the creation of a separate central cadre for doctors and medical professionals, to combat the issue of shortage of essential personnel.

The Commission is also learnt to have kept the tax devolution to states at 41 per cent of the divisible pool for the coming five years, unchanged from its recommendations for 2020-21.

India ranks 184th out of 191 nations in terms of healthcare spending as percentage of GDP, as per the World Health Organization.

"While the medical professionals have been at the forefront of fighting the Covid-19 pandemic, it has also exposed the flaws and weaknesses in our public healthcare system. The centre and states need to ramp up their public health spending, and invest in stronger health infrastructure," said a senior government official who is aware of the 15th FC's recommendations.

"In order to reach that target, most of the commitment would have to come from the central government, in terms of funding for health sector as well as various schemes," the person said.

The 15th FC had completed its report for the next five years by the deadline of October 31. It submitted its report to President Ram Nath Kovind on November 9. Copies were presented to Prime Minister Narendra Modi and Finance Minister Nirmala Sitharaman.

The 15th FC chairman, NK Singh, has spoken of the need to increase health spending substantially. Now *Moneycontrol* has learnt he has also put these recommendations in his report.

The government is Constitutionally required to accept the Finance Commission's recommendations on devolution of the divisible tax pool among centre and states. On other likely recommendations, including on spending on healthcare, the centre can take a call whether to accept or not.

Singh had said earlier this month at an event that there is a need to immediately create a cadre for medical officers through the formalization of the All India Medical Service, given in the Civil Service Act of 1951. This is a point he has made often.

Commenting on the poor and skewed distribution of the healthcare infrastructure in the country, Singh had also emphasised upon the need to immediately broaden the scope of medical courses. He also argued that the government must put in place a regulatory framework for paramedics, in the upcoming session of the parliament, as they have played a critical role in battling the COVID-19 pandemic.

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PLI scheme could help double workforce requirement in manufacturing sector in FY2021-22

In October, the Ministry of Electronics and Information Technology (MeitY) approved 16 eligible applicants under the PLI scheme. The PLI for large scale electronics manufacturing extends an incentive of 4 to 6 percent on incremental sales of goods manufactured in India to the eligible companies, for a period of five years.

Shreeja Singh

The Production Linked Incentive (PLI) scheme has the potential to create nearly 1.40 crore man-months worth of jobs directly, from the upcoming financial year, as per industry estimates.

Lohit Bhatia, President, Indian Staffing Federation told Moneycontrol, "The PLI scheme has a potential of creating close to 1.40 crore man-months of additional workers. We can say that we are looking to double the workforce engaged in production and manufacturing activities."

"Additionally, the PLI scheme is expected to have a cascading effect, the impact of which will go right up to the MSME (Micro, Small and Medium Enterprises) sector," Bhatia added.

With the inclusion of the suppliers and vendors of the manufacturing companies benefitting from the PLI scheme, a total of 4.20 crore man-months of jobs are set to be generated, as per the data by Indian Staffing Federation.

As per the industry valuation, the PLI scheme is expected to yield employment creation from the next financial year.

"Unlike the service sector where the gestation period for planning and execution is fairly short, the gestation is much longer for logistics and production companies. The jobs will start being visible from the next financial year and thereafter is when the majority of job creation will occur in the next two years or so," said Lohit Bhatia.

In the month of March this year, the Narendra Modi-led NDA government introduced the PLI scheme. The scheme proposes to give incentives to companies on the incremental sale of products manufactured in the domestic units.

The scheme will not only invite foreign companies to set up manufacturing units in the country but will also encourage the local companies to expand production and manufacturing in India. Furthermore, the scheme is expected to cut down import bills, reduce dependency on China and also absorb the country's growing workforce.

The sectors that were initially eligible to avail the benefits under the PLI scheme included medical device manufacturing, pharmaceutical ingredients and mobile and equipment manufacturers.

In October, the Ministry of Electronics and Information Technology (MeitY) approved 16 eligible applicants under the PLI scheme. The PLI for large scale electronics manufacturing extends an incentive of 4 to 6 percent on incremental sales of goods manufactured in India to the eligible companies, for a period of five years.

Several foreign companies like Samsung, Pegatron, Rising Star, Foxconn Hon Hai showed considerable interest in the PLI scheme to avail the benefits.

Later, on November 11, the Union Cabinet approved the PLI scheme for 10 sectors namely - pharmaceuticals, automobiles and auto components, telecom and networking products, advanced chemistry cell battery, textile, food products, solar modules, white goods, and specialty steel.

Recruiters believe the blue-collar workforce which migrated back to their hometowns due to the Covid-19 induced lockdown will be the prime beneficiaries of the scheme.

"The liberalization policy of the early 90s impacted and supported only the white-collar workers like the telecom, retail, BFSI etc. Today, the manufacturing sector contributes to less than 20 percent of the GDP whereas the service sector has a 55 to 60 percent contribution. Even during the pandemic, the worst impact has been on the blue-collar workers, I think the government's focus with the PLI scheme is targeted towards manufacturing and the people engaged in production and correcting the anomalies created in the economy in the last three decades," remarked Bhatia.

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FTAs with US, EU to be more beneficial to India than RCEP

China and 14 other Asia-Pacific nations signed the RCEP on November 15. Stating that China-backed trade agreement failed to address India's concerns, the latter opted out of it in November last year. India had mentioned that RCEP trade agreements were a threat to the circumvention of rules of origin due to tariff differentials.

Kamalika Ghosh

India would focus on inking free trade agreements with nations having large markets such as the US and the European Union members, where the country would have a chance at competitive trade.

"ASEAN (Association of Southeast Asian Nations) countries will not be competitive for India. One of our main objections to RCEP (Regional Comprehensive Economic Partnership) negotiations was how certain rules can easily be circumvented to give Chinese products and services an unfair advantage," a senior government official told *Moneycontrol*.

China and 14 other Asia-Pacific nations signed the RCEP on November 15. Stating that the China-backed trade agreement failed to address India's concerns, the latter opted out of it in November last year. India had mentioned that RCEP trade agreements were a threat to the circumvention of rules of origin due to tariff differentials. India had sought for fair agreement on the trade deficit and opening of services' norms.

There were also concerns that the deal would have brought down the import duties on goods by up to 90 percent, which might have led to markets being flooded by imports and a larger trade deficit.

"Other ASEAN countries have requested India to come to the negotiation table. But India is principally opposed to the threat of circumvention of rules of origin due to tariff differential in RCEP agreement," the official said. There are concerns that it would allow China to flood Indian markets with its cheap goods through other RCEP members.

The RCEP now comprises the 10 ASEAN nations, as well as Australia, China, Japan, South Korea and New Zealand.

India had also wanted the base rate of customs duty to be changed from 2014 to 2019 to reflect the latest realities and safeguard domestic manufacturing of electronics and mobile phones. India had also raised the issue of unavailability of Most Favoured Nation (MFN) obligations. Through this, the Indian government would have been forced to give similar benefits to RCEP nations and it didn't want to hand out such benefits to countries it has border disputes with.

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