SECTOR BRIEF

Pharmaceutical Industry

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Historical Background:

At independence in 1947, Pakistan had virtually no pharmaceutical industry and the country's requirements were met exclusively through imports of finished medicines from various countries. Some multinationals also set up their distribution centers in Pakistan, most of which imported drugs manufactured in Europe and the U.S and sold them locally. This caused a severe drain of foreign exchange allowing the government to think and plan about the pharmaceutical industry. The development of the local pharma industry was hampered due to three major reasons i.e. deficiencies in technical know-how; shortage of raw materials and lack of quality control. The Government then established two units under the Pakistan Industrial Development Board (PIDB) viz. Khurram Chemicals Limited (near Islamabad) and Antibiotics Private Limited (in Mianwali). From 1948 to 1971, the pharma industry witnessed growth. In 1954 the pharmaceutical industrial units rose to 15 and in the following year came to 31 and by the year 1959-60, the number reached 60.

Drug Legislations:

At independence, the major Act that governed the pharmaceutical industry in the sub-continent was the Drug Act of 1940. This act set out comprehensive regulations regarding the different facets of the pharmaceutical industry. This Act remained the primary regulation tool even after the establishment of Pakistan (with minor additions), till the enforcement of the Drug Act of 1976. In between, there were complementing legislation like the Pharmacy Act of 1967, but these tended to cover only specific areas rather than the pharmaceutical sector as a whole. In 1972, the Generic Drugs Act was passed which implied discriminatory and restrictive registration policy that hampered the growth of the national pharma industry. The import of formulated drugs was allowed that resulted in the flooding of the domestic market with imported drugs. Subsequently, the General Drugs Act of 1972 was annulled and replaced by the 1976 Act.

From 1976 to 2012, the Act of 1976 remained the primary document for regulating the pharmaceutical sector. It was complemented over time by legislations like the Northern Areas Drug Rules of 1996 and the Drugs Act of 1997. In 2012, the Drug Act of 2012 replaced the Drug Act of 1976. It is an extension of the 1976 Act. At present, it is the primary means of regulating the pharmaceutical industry, with the Drug Regulatory Authority of Pakistan (DRAP) administering the regulations.

Current Scenario:

Today Pakistan pharmaceutical industry consists of around 759 manufacturing units including those operated by 25 to 30 multinational companies. The Pakistan Pharma Industry meets almost 90% of the country's demand for finished dosage forms and 4% of Active ingredients. Specialized finished dosage forms such as soft gelatin capsules, parenteral fat emulsions, and Metered-dose inhalers continue to be imported. There are only a few bulk drug Active ingredient producers and Pakistan mainly depends on imports of bulk drugs for its formulation needs resulting in frequent drug shortages. The domestic pharma market, in terms of share market, is almost evenly divided between the Nationals and the Multinationals. Almost all the raw materials used in the making of medicine are sourced from abroad.

The National pharma industry has shown progressive growth over the years, particularly over the last decade. The industry has invested substantially to upgrade itself in the last few years and today the majority industry is following Good Manufacturing Practices (GMP), following the domestic as well as international Guidance. Currently, the industry has the capacity to manufacture a variety of products ranging from simple pills to sophisticated Biotech, Oncology, and Value-Added Generic compounds.

Contribution to Economy:

The pharmaceutical industry contributes around Rs. 1.4 billion annually as corporate tax and Rs. 166 million as employees' income tax. The industry also contributes around Rs. 1 billion to the government in shape of duties, sales tax and import surcharges. It also pays Rs. 140 million as employee and social security benefits, workers and welfare funds and Rs. 12.5 million to the government's central research funds.

The rising market share of local Pharma Industry:

The Multinational pharmaceutical companies are exiting the Pakistan market, because of pricing issues whereas the local brands are gradually capturing market, which has grown by CAGR of 14% since 2014. As far as market share comparison between Multinationals and local pharma companies is concerned, the distribution ratio is roughly 40:60 in favor of local firms, a reversal from the earlier trends whereby it was MNCs that used to hold the major share. A particular feature of local companies is that only a few are listed on the stock market. The local pharmaceutical companies meet around 70 percent of the country's demand for finished medicine. The industry recorded a 22.6% increase in value in 2017-18 and a 17.8% rise in volume. By 2020, the pharmaceutical market is expected to be valued at Rs. 312 billion.

It may be noted here that the first Multinational Pharmaceutical company came to Pakistan in 1951. By 1954, the number increased to 9 which further grew until the 1990s, after which a decline started to set in. Their relative market share and their numbers have witnessed a gradual descent. The number of MNCs has now shrunk from 40 to 17, most of which are actively engaged in producing drugs.

SWOT Analysis of Pharmaceutical Industry

STRENGTHS

- A US$ 3.2 billion industry with a strong industrial base
- Contributing around US$1.6 billion towards GDP
- 8th largest pharmaceutical manufacturing industry in the world with 40 biotechnology companies
- A swift 15% industry growth annually
- Providing essential health care products to citizens
- 700 pharmaceutical manufacturing units in Pakistan
- Employing around 90,000 people directly and 150,000 people indirectly in various capacities
- Exporting worth over $200 million to over 60 countries.
- Low cost of innovation, manufacturing, and operations.
- The high velocity of selling products in markets
- The industry is adapting and using new technology.
- Female contribution in this sector

WEAKNESSES

- Operating in a heavily regulated environment
- Government control over prices of all enlisted products
- Low per capita consumption of pharma products in Pakistan
- The increasing cost of manpower and energy
- Low R&D expenditure
- Shortages of medicine in the market from time to time
- The high cost of packaging
- Slow registration of new products by DRAP

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OPPORTUNITIES

- Competitive edge to cater to the export market
- Global demand for generics rising.
- Rapid OTC and generic market growth.
- The large demand for quality diagnostic services.
- Significant investment from MNCs.

THREATS

- Spurious, counterfeit and impotent drugs
- Product registration in foreign markets due to strict policies
- Competition with India who enjoys the benefit of local raw material
- Government expanding the umbrella of Drugs Price Control Order
- Import of raw material costing precious foreign exchange
- Market access is challenging, and operational risks are high.
- Shortage of imported raw material needed for various medicines to combat COVID-19 due to a lockdown in foreign countries.