Economic Crisis and India-EU Trade: A Sectoral Analysis of Pharmaceuticals

Author: Arundhati Sarkar Bose,
XLRI, Xavier School of Management, INDIA

Abstract:

This paper looks into the export trends of pharmaceuticals from India to selected destinations of Europe. We find that pharmaceutical exports to the relatively more crisis affected countries of Europe have increased despite falling income and falling per capital pharmaceutical expenditure. This paper probes into the reasons for such trends in exports.

1. The Issue:

Trade flows destined towards countries affected by economic recession tend to reduce. In recent times, during the 2008-9 phase of worldwide recession and the 2010-12 phase of Eurozone recession trade flows have been reduced in absolute terms as well as in relation to global GDP. The reasons are as follows. Firstly, reduced income reduces consumption and import, particularly of manufactured goods like consumer durables[1]. Disinflation of prices causes purchase decisions to be postponed leading to reduced consumption and import[2]. Secondly, some murky protectionism is also observed to crop up during times of downturn[3]. Thirdly, during times of global financial crisis (2008-9) export credit seem to dry up and causes reduction of trade flows[4]. Particularly for exporters, who inevitably are more exposed to foreign exchange market risks, export credit becomes scarcer[5]. Finally, trade flows appear to reduce even more due to increasing separation of supply chain across countries[6].

During both these phases overall trade flows from around the world destined towards Europe exhibited negative growth rates. Total export from India to Europe flowed similar trends during these two phases. Yet, pharmaceutical exports from India to Europe have been rather an outlier from this trend with 4.3% and 8.4% rates of growth 2009 and 2012 respectively.

The growth rates of export of pharmaceuticals from India to Europe as well as to the world are observed to be positive in both phases of recession. During Eurozone recession India's pharmaceutical export to Europe grows but at a slower rate as compared to the world. This paper probes into whether the crisis affected countries of EU are responsible for pulling down growth of India' pharmaceutical exports; or is it the crisis affected countries contributed to the positive growth rates of pharmaceutical exports when overall exports showed a falling trend?

For the purpose of the probe, ten export destinations have been looked into. The ten destinations are divided into 2 groups. One group (A) consists of Greece, Spain, Portugal, Italy and Ireland, the so

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[1] Nakamae, (2009), Whitman, (2009), Caldwell (2009)
2 Szamosszegi, (2009)
3 Eichengreen, (2009), Brock, (2009)
4 Bhagawati, (2009)
5 McKinnon, (2009)
6 Hufbauer, (2009)

called crisis affected countries of EU. The second group (B) consists of UK, Germany, Netherlands, France and Belgium, countries that are less affected by crisis and most common destinations of India's pharmaceutical exports in Europe. The time period of observation is 2005-2014. During this phase countries in the first group went through a growth rate of GDP less than or equal to 0 percent for at 4 to 6 years. Countries in the second phase went through a negative growth rate of GDP for 1 to 3 years during the same phase.

2. Observation and Analysis:

Observation 1: To enquire into the link between recession and trade flows of pharmaceuticals to the ten destinations in EU we found the correlation between growth rate of GDP and growth rate of import of pharmaceuticals from India for the two groups. It is observed that Group A countries show relatively strong negative correlation (with the exception of Italy) during the phase 2009-2014, when the Eurozone crisis took place. This signifies that the crisis affected countries increased their pharmaceutical imports from India during 2009-14 despite falling GDP. The countries in Group B show positive correlation during 2009-14.

Observation 2: Pharmaceutical expenditure per capita began to show a falling trend in Group A countries during 2009 -11 and continues to fall till 2013. The same begins to show a falling trend in only 2 countries in Group B in 2012.

Observation 3: We further enquired into the link between trends in per capita pharmaceutical expenditure and per capita import of pharmaceuticals to the ten destinations in EU. We found that the correlation between these two variables for Group A is strongly negative whereas the same for Group B countries is strongly positive or weekly negative. This signifies that with the falling per capita pharmaceutical expenditures, Group A countries raised their import of pharmaceuticals strongly.

Further probing into possible reasons for rising pharmaceutical imports in EU destinations from India despite fall in GDP and per capita pharmaceutical expenditure we chose to enquire into the ways per capital pharmaceuticals have been cut or controlled in these ten countries of Europe. There have been a good number of changes made in the medicine pricing and reimbursement policies in response to the financial crisis. Healthcare expenditure is largely made or sponsored by government in most EU nations. Expenditures on medicines made by healthcare units are reimbursed by government. During the Eurozone crisis governments have been forced to follow fiscal austerity. In order to reduce health care expenditure governments found it easiest among all health care expenditure heads to reduce the expenditure on pharmaceuticals, given the fixed nature of other heads of expenditure. And this was done by changing the pricing and reimbursements to accommodate price cuts and reimbursements for relatively low priced medicines. There are no exhaustive lists of pricing and reimbursement policies implemented in EU countries available. Secondary information collected[7] reveal that (1) there have been at least 12 different varieties of pharmaceutical pricing and reimbursement policies that have gone through changes during the phase 2008-13; and (2) during 2008-13 Group A countries adopted and / or changed their pricing and reimbursement policies with much greater frequency than Group B countries.

These changes resulted in an increased demand for low priced generic medicines in various European destinations. India's pharmaceutical production consists largely of generic drugs marketed at lower price compared to patented drugs. The process patent regime that India followed between 1972 and 2005 had boosted local innovation from adaptation, reverse engineering and new process

[7] Delloite (2014), Carone, Schwierz and Xavier (2012), Christine Leopold et al. (2014), Vogler and Habimana (2014)

development. The austerity measure as applied in the heath-care sector in crisis affected countries of Europe led in increased export of pharmaceuticals to these destinations of EU.

3. Conclusion:

Unlike the commonly expected trend pharmaceutical exports from India to crisis affected countries of Europe managed to grow during the time of Eurozone recession despite falling incomes. The austerity measures in EU, as they were carried out in healthcare provision and history of process patent regime in India's pharmaceutical sector contributed positively to this growth.

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