

Navigating Tariffs: Securing Medicines and Safeguarding Innovation

21 September 2025 | Views | By Lakshmy Ramakrishnan, Associate Fellow at Observer Research Foundation

Assumption that tariffs will bring pharmaceutical manufacturing back to US shores is marred by several complexities



Potential tariff policies on life-saving medicines are entangled in geopolitics. Indian pharmaceutical companies face growing uncertainty as the United States (US) considers imposing steep tariffs on imported drugs. For the moment, 'the pharmacy of the world' is shielded, but this may be short-lived.

Trade negotiations between the US and India have been strained owing to disagreements over agriculture and India's import of Russian oil. Talks scheduled for August were cancelled after US President Donald Trump hiked tariffs on Indian imports to 25 percent – and then doubled them - ostensibly as a penalty for India's continued purchase of Russian oil. More concerning, Trump floated the idea of pharma-specific tariffs that could climb as high as 250 percent over the next 18 months. Even a modest 25 percent tariff would add over US\$50 billion annually to US healthcare spending and push American drug prices up by nearly 13 percent.

The Covid-19 pandemic underscored the risks of access barriers to vital medicines. Protectionist measures, if pursued, would cut into innovation, destabilise vital supply chains, and ultimately undermine global health security.

Tariffs as a Political Tool

Tariffs are increasingly regarded by the Trump administration as the political force of choice to achieve wider foreign policy objectives.

In April 2025, the US launched a Section 232 review – due by March 2026 - of pharmaceutical imports under its Trade Expansion Act of 1962, to assess whether certain products pose a national security risk. Past use of Section 232—for steel and aluminium—offers a cautionary tale of lowered productivity and soured trade relations. India is already preparing to make its case at the World Trade Organisation, arguing that tariffs on steel and aluminium are in breach of safeguards, and reserves its right to impose retaliatory measures, if necessary.

Medicines have long been spared from tariff policies owing to their public health importance. In recent months, however, Washington imposed tariffs on pharmaceutical imports from the European Union (EU), the United Kingdom (UK), and Japan. The fate of these tariffs is unclear as Trump has suggested that pharma-sector specific tariffs will be phased in gradually over 18 months, and could reach as high as 250 percent. This is aimed to align with the goal to bolster US drug supply chains by encouraging production to return to American soil.

Why Pharma Tariffs Miss the Mark

The rationale behind pharma tariffs is straightforward: make imports more expensive, encourage domestic substitution, and stimulate US-based manufacturing. This approach however, glosses over nuances of America's healthcare system. The US is the world's largest pharmaceutical market, importing over \$200 billion worth of drugs in 2024 alone. Nearly nine out of ten prescriptions filled are for generic medicines, yet these account for just a fifth of drug spending. The real driver of costs is branded, patent-protected products. Tariffs on pharma products, including those on generics from India, therefore miss the mark, targeting the cheapest segment of the market, driving costs up.

Nearly half of US generics come from Indian manufacturers. Tariffs – above 10-15 percent even - would squeeze Indian companies working on 'razor-thin margins.' Some would exit the market altogether while others might compromise quality to survive. Either scenario spells drug shortages and higher costs for American patients, placing health security at risk.

Fragility of the Supply Chain

Another risk is the reliance on China for India's pharma supply chains. Roughly 70 percent of India's active pharmaceutical ingredients (APIs) are imported from Chinese suppliers.

New Delhi has tried to change this equation with Production-Linked Incentives (PLI) schemes to promote domestic API manufacturing and reduce reliance on China. But progress is uneven, and China continues to dominate. It is unlikely that US-imposed tariffs will mitigate this issue. If anything, they may trigger overreliance on China. Faced with reduced profit margins, Indian companies would be forced to buy cheaper Chinese APIs and key starting materials (KSMs) just to stay afloat, deepening dependency on China.

The Mirage of Onshoring

The assumption that tariffs will bring pharmaceutical manufacturing back to US shores is marred by several complexities.

Expanding existing manufacturing capabilities or constructing new ones will require considerable time, significant investments, regulatory approvals, and a highly skilled workforce. Most estimates suggest a timeline of at least five to ten years before any additional manufacturing capacity could take root in the US. Tariffs will likely persuade manufacturers with high profits to make shifts; generics, with their slim margins, will remain globally distributed. Thus, tariffs, in the short-term, will likely cause higher costs for US consumers and increase fragility of the drug supply chain.

Innovation at Risk

The tariff debate is unfolding alongside another major policy shift in Washington: the introduction of "Most-Favoured Nation" drug pricing model. This executive order – 'Delivering Most-Favoured Nation (MFN) Prescription Drug Pricing to American Patients' - signed in May 2025, ties the cost of certain medicines in the US to the lowest price charged in some OECD economies. Select pharma companies received letters from the Trump administration outlining price control measures that need to be undertaken under MFN and have a 60-day window to respond.

Price controls, however, will directly cut into revenues, leaving less room for innovation in research and development (R&D).

China is accelerating its biopharma ambitions. Washington risks ceding leadership in next-generation therapies to Beijing, a strategic setback for global health. Tariffs, when combined with price controls, risk limiting the very innovation ecosystem that once made America the world leader in life sciences.

Industry Response

Uncertainty shapes behaviour, with US hospitals stockpiling essential medicines amid looming shortages. Further, pharma giants - from Eli Lilly and Johnson & Johnson to Roche, Takeda, and Sanofi—have announced plans to invest billions into expanding their American presence. Indian firms are not standing still either. Zydus Lifesciences, Syngene, and Sun Pharma have all made acquisitions in the US to hedge against the risk of being locked out.

These moves are pragmatic, diversify company portfolios and manufacturing hubs, whilst aligning with India's need to accelerate its R&D of new drugs. But they also reveal the scale of disruption tariffs have already created, before they have even been formally imposed.

Collaboration: Moving Forward

If Washington truly wants secure supply chains, then it should focus on incentives, not punishment. Tax breaks and subsidies can encourage domestic manufacturing without raising drug prices. Cooperative agreements with trusted partners like India can ensure redundancy in supply chains while keeping costs under control. Europe has a role to play too: by pricing drugs more sustainably, it can reduce the overdependence on American revenues that drives US protectionism in the first place.

Global Stakes

The tariff threat is more than an economic dispute. It is a health security challenge with global consequences.

For India, the challenge is twofold: to defend its exporters from protectionist policies abroad, and to accelerate its own efforts to reduce API dependence. India, as the 'pharmacy of the world,' must continue investing in its own resilience as highlighted by Prime Minister Narendra Modi during his Independence Day speech.

For the US, the choice is starker: pursue protectionism that drives up costs and slows down innovation, ceding leadership in the sector to China, or work with partners to build a more resilient, affordable pharmaceutical system.

If India and the US can find common ground—on innovation, manufacturing partnerships, and supply chain security—then the result will be a stronger, more sustainable pharmaceutical system that benefits patients everywhere.

The conclusion is clear. Tariffs, in the long-term will lose the bigger battle, against disease, against dependency, and against the erosion of innovation. And in that loss, patients everywhere will pay the price.

Lakshmy Ramakrishnan, Associate Fellow at Observer Research Foundation