

Editorial of the Day – 01.01.2026

Index

1. The U.S. Tariff Shock, India's Pharma Future (TH) -1
2. Tariffs Are Gone. Now, Let's Build on India-Australia Pact (IE) -2

1. The U.S. Tariff Shock, India's Pharma Future (TH)

General Studies 2- International Relation

Topic- Effect of policies of developed countries on India's interests

Introduction

In September 2025, the global pharmaceutical landscape faced a seismic shift with the U.S. announcing a 100% tariff on branded and patented pharmaceutical imports. For India, known as the "Pharmacy of the World," this presents a dual reality- a critical threat to its export-driven model and a strategic opportunity to leverage its dominance in generic medicines (which remain currently exempted). The crisis has accelerated India's push for market diversification, domestic reforms (like GST rationalization), and self-reliance in Active Pharmaceutical Ingredients (APIs).

1. Global Market Context & India's Position

Global Scale- Global pharma exports crossed \$850 billion in 2024, driven by aging populations and chronic disease management.

Leading Players

1. Top Exporters- Germany (\$119.8 bn), Switzerland (\$99 bn), and the U.S. (\$90 bn).
2. Top Importer- The U.S. remains the world's largest buyer, importing \$212.67 billion (2024).

India's Standing

1. Rank- 3rd largest exporter by volume.
2. Growth- Exports rose from \$27 billion (2023) to \$30.47 billion (FY2025).
3. US Dependence- Approximately 35% of India's pharma exports are bound for the U.S., making this tariff regime a high-stakes geopolitical issue.

2. The U.S. Tariff Shock- Risks vs. The "Generics Cushion"

The U.S. move is framed as a protectionist measure to boost domestic manufacturing, but its impact is nuanced.

The Threat (Branded Drugs)- The 100% tariff targets branded and patented drugs not manufactured in the U.S.

Impact- Firms with high U.S. exposure (>30%) face rerouting costs, regulatory hurdles, and potential R&D slowdowns.

Domino Effect- If tariffs extend to generics, India could face a 10-15% revenue cut, dragging GDP down by 0.2-0.3%.

The Cushion (Generic Dominance)

Market Share- Generics make up 70% of India's exports to the U.S./Europe.

US Reliance- India supplies 40% of U.S. generics, saving the American healthcare system an estimated \$219 billion (2022).

Strategic Safety- Currently, generics are excluded from the tariff, shielding the bulk of India's trade. However, any future inclusion would risk triggering massive drug shortages in the U.S.

3. Domestic Policy Response- The GST Shield

To insulate the domestic market from export volatility, the Indian government implemented significant tax reforms in September 2025.

GST Rationalization

Medicines- Rates slashed from 12% to 5%; 36 essential items (including life-saving drugs) now at Nil rate.

Medical Devices- GST reduced from 18% to 5%, easing the cost of \$5 billion worth of imports.

Building Bureaucrats Since 2006

Economic Impact

Consumer Savings– Estimated at \$1.2 billion annually.

Consumption Boost– Expected to raise domestic consumption by 8–10%, aided by alignment with the Ayushman Bharat scheme.

Supply Stability– No re-labelling requirements for pre-existing stock ensured zero supply disruption during the transition.

4. Strategic Pivot– "Eastern Scale" & Diversification

Recognizing the risks of over-reliance on the West, India is aggressively pivoting towards the Global South and "Eastern" manufacturing hubs.

Diplomatic Expansion

New Alliances– 6 MoUs signed with nations like Trinidad and Tobago; new API pacts with Singapore.

South-South Cooperation– Collaboration with the Serum Institute of India for dengue treatments in low-income countries.

China Factor

Vulnerability– India still imports 72% of its APIs from China (\$5 billion/year).

Opportunity– As the U.S. targets China, the "China-plus-one" strategy is driving global firms to look at India, Africa, and Southeast Asia as alternative hubs.

Africa Potential– Platforms like iPHEx aim to double export volumes to Africa, potentially offsetting 20–25% of the risks arising from U.S. tariffs.

5. Structural Challenges & Future Forecasts

Despite the headwinds, the long-term outlook remains bullish, contingent on structural upgrades.

Growth Projections

Market Size– Expected to jump from \$50 billion (2024) to \$130 billion by 2030 (11–12% CAGR).

Exports– Projected to reach \$120–\$130 billion.

Production Linked Incentive (PLI)

Goal– Reclaim 20% of domestic API production by 2030 to reduce Chinese dependence.

Value– API sector to grow to ₹1.82 trillion (\$22 bn).

Affordability & Access

PMBJP Scheme– 16,912 Jan Aushadhi Kendras (as of June 2025) provide generics at 80% lower prices than branded alternatives.

Oncology– The PMBJP basket has cut cancer treatment costs by ~70%, protecting patients from the global trend of rising therapy costs (\$8k–\$10k hikes in the U.S.).

Conclusion

The U.S. tariff shock of 2025 serves as a wake-up call for India's pharmaceutical sector. While the generics cushion prevents immediate collapse, long-term survival depends on three pillars– diversifying markets towards the Global South, reducing API dependence on China through PLI schemes, and strengthening domestic consumption via GST reforms. By balancing "Western innovation" with "Eastern scale," India can transition from being just a volume player to a resilient global pharma power.

Source– <https://www.thehindu.com/opinion/op-ed/the-us-tariff-shock-indias-pharma-future/article70457995.ece#~~~>

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2. Tariffs Are Gone. Now, Let's Build on India-Australia Pact (IE)

General Studies 2– International Relation

Topic– Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.

Introduction

The editorial highlights a significant milestone in India's trade diplomacy- the successful operationalization of the Australia-India Economic Cooperation and Trade Agreement (ECTA). With Australia eliminating all tariffs on Indian goods as of January 2026, the partnership has emerged as a beacon of stability amidst rising global trade protectionism. This agreement has not only accelerated bilateral trade and job creation but also cemented Australia's role as a key partner in India's energy transition and Indo-Pacific strategy.

1. Key Achievement- Complete Tariff Elimination

Zero Duty Access- From January 2026, 100% of Indian exports to Australia now enjoy zero-tariff access. This provides a massive competitive edge for Indian textiles, leather, gems, and jewellery in the Australian market.

Reciprocal Benefits- In return, India has strategically reduced or removed duties on key Australian commodities (like wines, almonds, and lentils), ensuring the deal is mutually beneficial without harming sensitive domestic sectors.

2. Surge in Bilateral Trade and Employment

Trade Volume- Bilateral trade has witnessed exponential growth, crossing AUD 50 billion, with two-way trade effectively doubling in just five years.

Outpacing Global Trends- Indian exports to Australia are growing at a rate significantly higher than India's overall global export growth. This indicates a high degree of "trade complementarity"—meaning Australia needs exactly what India sells, and vice versa.

Job Creation- The expansion in labor-intensive export sectors (like textiles) in India and service sectors in Australia has contributed to substantial employment generation in both nations.

3. Economic Complementarity & Strategic Synergy

The economies of the two nations are naturally compatible rather than competitive-

Australia's Role (Raw Materials)- It serves as a vital supplier of critical minerals (Lithium, Cobalt) and rare earths, which are indispensable for India's "Make in India" initiative, EV battery manufacturing, and renewable energy transition.

India's Role (Finished Goods)- India supplies high-quality manufactured goods, pharmaceuticals, and agricultural products that are in demand in Australian consumer markets.

4. Strategic Significance for India

Reliability in Uncertainty- At a time when Western markets are becoming protectionist and global supply chains are volatile, Australia offers a stable, predictable, and rule-based trade relationship.

Indo-Pacific Engagement- The economic pact deepens India's strategic footprint in the Indo-Pacific, complementing the **Quad** security dialogue.

Supply Chain Security- Access to Australian critical minerals allows India to diversify its supply chains, reducing strategic vulnerability and dependence on single-source countries (like China) for key inputs.

5. Future Outlook- Upgradation to CECA

Moving Beyond Goods- The partners are currently negotiating to upgrade the ECTA to a Comprehensive Economic Cooperation Agreement (CECA).

Scope- CECA aims to expand cooperation into deeper areas such as

1. **Services-** Greater access for Indian IT and professional services.
2. **Investment-** Facilitating Australian pension funds to invest in Indian infrastructure.
3. **Digital Economy-** Collaboration on digital trade and standards.

6. Challenges and Concerns

MSME Competitiveness- There is a need to ensure that Indian Micro, Small, and Medium Enterprises (MSMEs) remain competitive despite the increased exposure to Australian imports.

Non-Tariff Barriers- Addressing sanitary and phytosanitary (SPS) measures that often hinder agricultural exports.

Building Bureaucrats Since 2006

Standards- Navigating strict environmental and labor standards that may be incorporated into the broader CECA framework.

Way Forward

Fast-Track CECA- Prioritize negotiations on services and technology transfer to unlock the full potential of the relationship.

Capacity Building- India must strengthen domestic manufacturing standards and skilling to fully utilize the duty-free access provided by Australia.

Leverage Critical Minerals- Actively pursue joint ventures for exploration and processing of critical minerals to secure India's green energy future.

People-to-People Ties- Enhance institutional cooperation in education and tourism to sustain the long-term momentum of the partnership.

Conclusion

The India–Australia ECTA stands as a model of how trusted partners can create mutually beneficial economic frameworks. In a volatile global environment, this partnership not only drives growth and jobs but also secures India's supply chains. Moving towards a full-fledged CECA will be the decisive next step in cementing India's economic and strategic interests in the Indo-Pacific region.

Source- <https://indianexpress.com/article/opinion/columns/tariffs-are-gone-now-lets-build-on-india-australia-pact-10449172/>

