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India's API Vulnerability in a Fragmenting World

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You cannot build a secure API base by incentivising isolated products while remaining dependent on imported intermediates



The global pharmaceutical industry rests on an uncomfortable paradox. The world has never been more dependent on medicines and yet the supply chains that sustain them have rarely been more fragile.

At one level, the numbers are reassuring. The global Active Pharmaceutical Ingredients (API) market today sits somewhere between \$150 billion and \$250 billion depending on how one defines its boundaries and it continues to grow steadily, powered by ageing populations, chronic diseases and the expansion of healthcare access. This is not a declining industry. It is foundational to modern life.

But beneath that growth lies a structural concentration that should worry policymakers.

China today sits at the centre of the global API ecosystem. Not just as a large producer, but as a systemically dominant one. In several critical antibiotic chains - penicillin, cephalosporin, azithromycin - its share of global production runs as high as 90 percent. That is not market leadership. That is concentration risk of the highest order. When one geography controls the upstream of essential medicines, disruption is not a question of "if". It is a question of "when".

India occupies a more nuanced position. It is the world's third-largest API producer by volume and an undisputed leader in finished formulations. It exports medicines to over 200 countries, supplies a significant share of global generics and is rightly called the "pharmacy of the world". But that reputation masks a deeper vulnerability.

India's API industry is roughly \$13–14 billion in size. Its pharmaceutical exports exceed \$30 billion. And yet, between 35 and 40 percent of the inputs that go into those medicines are imported. More critically, close to three-quarters of those imports come from China. In other words, India is globally indispensable downstream, but strategically exposed upstream.

This is not an accident. It is the outcome of a decade-long economic divergence. China built integrated chemical ecosystems - large industrial clusters with shared utilities, power, effluent treatment, logistics, and policy support. India allowed its API ecosystem to fragment under cost pressure, environmental compliance burdens, and the absence of coordinated infrastructure. Over time, production migrated to the lowest-cost integrated base. That base happened to be China.

The rest of the world is now waking up to the consequences of that shift. Europe has moved decisively. The proposed Critical Medicines Act is not a routine regulatory intervention; it is an industrial policy instrument. It seeks to identify strategic molecules, fast-track approvals, fund domestic capacity, and use public procurement to reward resilience rather than just price. It explicitly acknowledges that overdependence on a narrow set of geographies is a systemic risk.

The United States, after years of treating pharmaceuticals purely through the lens of pricing and access, has begun to frame them as a supply-chain security issue. Regulatory reforms, domestic manufacturing incentives, and supply-chain mapping exercises are all part of a broader attempt to regain control over critical inputs.

Even smaller countries are adapting. Stockpiles, mandatory reporting of shortages, diversification of suppliers, and pre-negotiated contingency arrangements are becoming standard policy tools. The vocabulary has changed. Efficiency is no longer enough. Resilience has entered the equation.

India has responded as well - but in a more limited and fragmented manner. The Production Linked Incentive (PLI) scheme for bulk drugs, with an outlay of Rs 6,940 crore, is the centrepiece of that response. It targets 41 identified APIs, intermediates, and key starting materials. Early results show investment commitments, some capacity creation, and initial production. Alongside this, the government has approved three bulk drug parks with a combined outlay of Rs 3,000 crore to provide shared infrastructure -power, steam, solvent recovery, effluent treatment - that individual firms cannot economically build on their own.

These are important steps. But they must be seen for what they are: beginnings, not solutions. Because the core issue is not the absence of incentives. It is the absence of competitiveness.

API manufacturing is a scale business with thin margins. A 5–10 percent incentive cannot offset a 30–40 percent structural cost disadvantage. Nor can it protect domestic producers against sustained price undercutting. In early 2025, Chinese manufacturers reportedly reduced prices by 40–50 percent in targeted molecules - many of them overlapping with India's PLI list. This was not random competition. It was strategic pricing aimed at preserving dominance.

This is where the limits of India's current approach become evident. PLI is molecule specific. But resilience is ecosystem driven. You cannot build a secure API base by incentivising isolated products while remaining dependent on imported intermediates, solvents, and feedstocks. Nor can you sustain capacity once incentives taper off if the underlying economics remain unfavourable.

The bulk drug parks, in theory, address this by creating shared infrastructure. But progress has been uneven and slow. Industrial ecosystems take years to stabilise, and time is not a luxury in a world where supply chains are already under stress from geopolitical disruptions.

The industry outlook, therefore, is bifurcated. On the economic side, the outlook is positive. Demand is growing. Indian pharmaceutical exports are expanding. API revenues are expected to recover after a flat year. The "China plus one" narrative is creating incremental opportunities, particularly in contract development and manufacturing.

But on the strategic side, the picture is far less comfortable. Dependence on Chinese inputs remains high and, in some segments, is increasing. Global supply chains are becoming more volatile, not less. Europe and the United States are moving to re-shore selectively, which could tighten global availability of certain intermediates. And the possibility of conflict-driven disruption - particularly in petrochemicals and energy - introduces a layer of risk that traditional supply-chain models are not designed to handle.

Which brings us back to the central question. Can India claim to be the pharmacy of the world if it does not control the inputs that make its medicines possible? The answer, today, is no.

And that is not a critique of capability. India has the chemistry, the talent, the entrepreneurial base, and the scale in formulations. What it lacks is an integrated upstream strategy.

The next phase of policy cannot be about announcing more schemes. It must be about building ecosystems - fully integrated chemical clusters with reliable power, competitive utilities, streamlined environmental clearances, and deep supply-chain linkages. It must involve calibrated trade policy to prevent predatory pricing in strategically critical molecules. It must include strategic reserves of key APIs and intermediates. And it must treat pharmaceutical inputs as national assets, not just industrial products.

The lesson from COVID was clear. The lesson from current geopolitical tensions is even clearer. In a world where supply chains can fracture overnight, self-reliance is not about isolation. It is about control over the essentials. And in pharmaceuticals, the essential is not the pill. It is what goes into it.