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Tariffs, Trade Wars, and the Risk to Drug Access

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Executive Summary

The global pharmaceutical industry has long been built on a foundation of cross-border integration. Active pharmaceutical ingredients (APIs), finished drugs, and medical devices flow across multiple geographies before reaching U.S. patients. This distributed model delivers cost efficiencies and access to innovation, but also leaves the sector vulnerable to sudden policy shifts. The imposition of tariffs on imported pharmaceuticals and their components, as proposed under recent U.S. trade policies, represents one of the most significant disruptions to this ecosystem in decades.

We analyze the implications of escalating tariffs—particularly those imposed under the Trump administration—on the pharmaceutical industry. The consequences are multifaceted: rising production costs, disrupted supply chains, reduced access to affordable medicines, and long-term strategic reorientation of where and how companies manufacture. At the center of the issue is the United States' reliance on imports, particularly from India and China, which collectively supply more than 70% of APIs used in U.S. drugs and nearly 50% of the generics market. In 2024, the U.S. imported $215 billion worth of pharmaceutical goods, up sharply from $73 billion in 2014, illustrating just how deeply integrated the industry has become with global manufacturing.

Tariffs, even at 25%, have the potential to increase domestic drug prices by nearly 13% and add an estimated $51 billion annually to U.S. healthcare costs. More extreme measures—such as the proposed 200% or 245% tariffs on Chinese APIs—risk triggering shortages of essential drugs, as companies may struggle to absorb the costs or to relocate production to domestic facilities. For patients, this means higher costs, reduced insurance coverage, and increased barriers to access. For companies, it means revisiting procurement strategies, building redundancy into their supply chains, and lobbying governments for trade carve-outs.

U.S. Pharma Imports in 2024, Tripled from ~$73B in 2014

$215B

+13%

Est. Rise in U.S. Drug Prices from a 25% Tariff on Pharma Imports

APIs Used in U.S. Sourced from China and India

70%+

~5Y

Time to Relocate Commercial Scale Drug Manufacturing to U.S.

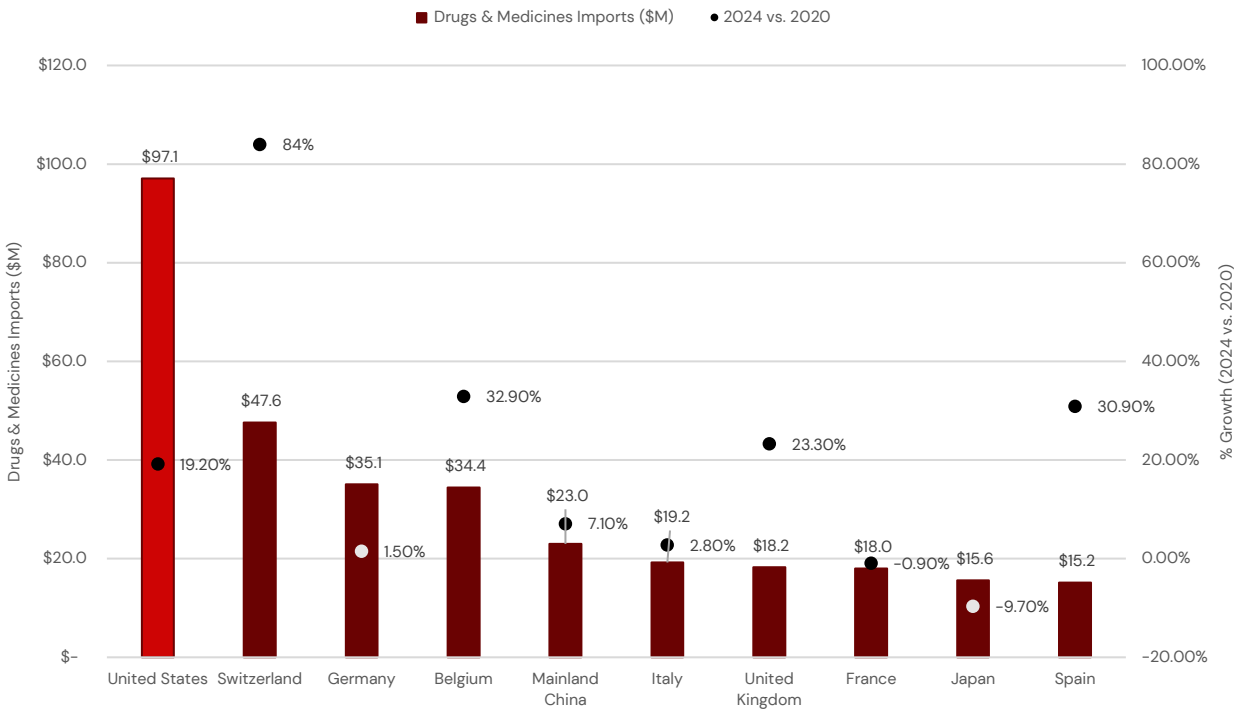
U.S. Pharma Landscape: Import Dependence and Structural Vulnerabilities

1

The U.S. pharmaceutical market has, over the past two decades, become one of the most import-reliant sectors of the healthcare economy. From APIs to finished drugs and devices, the reliance on global supply chains is a defining feature of the industry. In 2014, pharmaceutical imports stood at $73 billion. By 2024, they had surged to more than $215 billion—a near tripling in just a decade. This reliance is not limited to low-cost inputs: even high-value biologics, specialty drugs, and advanced medical devices depend on international production networks.

India and China occupy a dominant position in these supply chains. China accounts for a significant share of the global API market, with estimates suggesting that 70–80% of raw ingredients used in U.S. generics originate there. India, meanwhile, has built a reputation as the "pharmacy of the world," supplying approximately 40–50% of all U.S. generic drugs. India's pharmaceutical exports to the U.S. reached $9.8 billion in FY25, up 21% from $8.1 billion in FY24. This cost-efficient model has benefited U.S. patients for decades, ensuring access to affordable medicines.

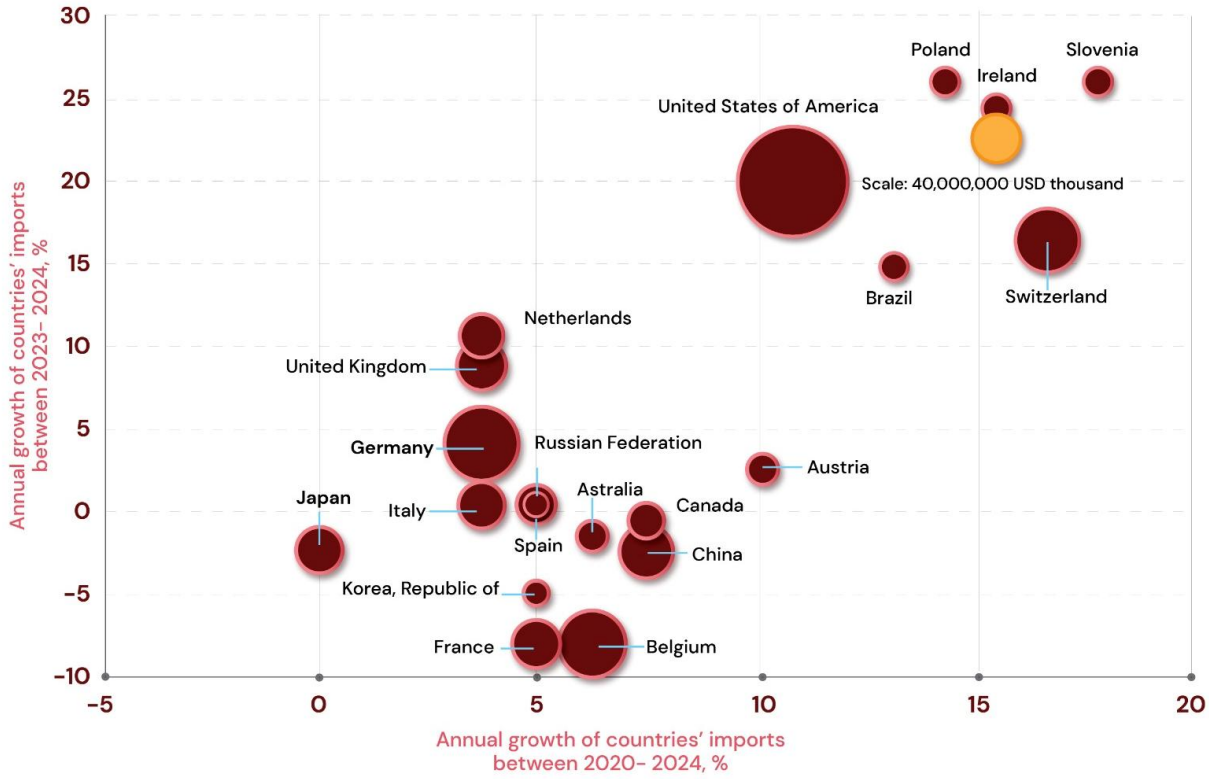
Figure 1: Annual Percentage Growth of Countries' Imports of Pharmaceutical Products (2020-24)



Source: https://www.worldstopexports.com/international-markets-for-imported-drugs-by-country/

However, this efficiency has come at the cost of resilience. A highly consolidated supply base introduces systemic risks. Any policy-driven disruption—such as tariffs, export bans, or sanctions—quickly cascades across the healthcare value chain. The COVID-19 pandemic exposed these vulnerabilities when supply interruptions in India and China created drug shortages. Tariffs compound these risks by introducing cost pressures that force companies either to absorb margin losses or to pass on higher costs to insurers and patients.

Figure 2: Annual Percentage Growth of Countries' Imports of Pharmaceutical Products (2020-24)



Source: TradeMap.org. ITC (International Trade Center) calculations based on UN COMTRADE and ITC statistics.

These vulnerabilities are not evenly distributed. While branded drugmakers often have more flexibility and pricing power, the generic sector operates on razor-thin margins. For generics, even modest tariff-induced cost increases can erode profitability to the point where some manufacturers withdraw from producing certain essential but low-margin drugs. The result: shortages of antibiotics, blood pressure medications, and other critical therapies.

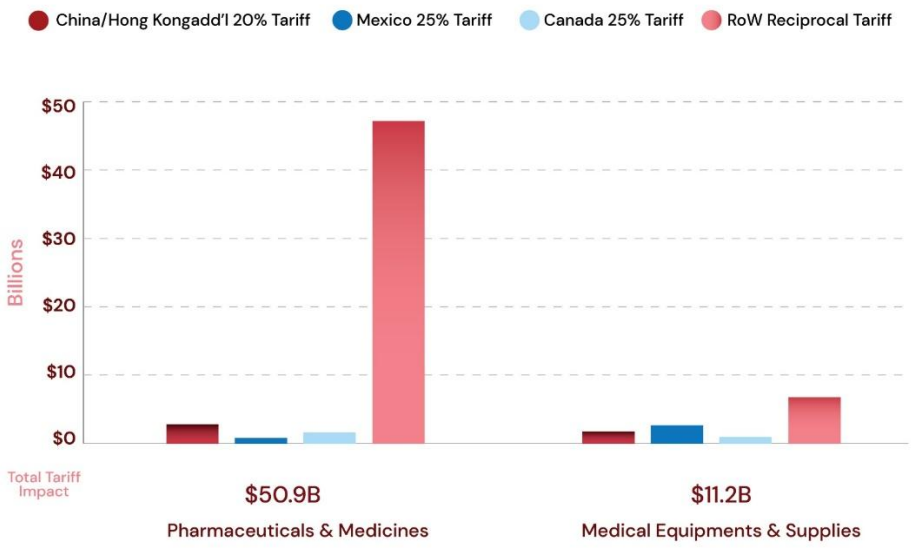
The Tariff Shock: Immediate Economic and Healthcare Impacts

2

The introduction of tariffs on pharmaceutical imports represents a direct cost shock to an industry already contending with inflation, regulatory complexity, and global competition. Tariffs at 25% on imported pharmaceutical products could drive U.S. drug prices up by 12.9%, translating into an additional $51 billion per year in costs to the healthcare system. A 200–245% tariff on APIs, such as those recently proposed on Chinese imports, would be even more destabilizing, particularly for generic manufacturers.

The economic consequences are immediate. Companies face sharply higher input costs, which in turn squeeze margins and force difficult trade-offs. For branded drugmakers, which may have greater flexibility, the decision is whether to absorb the costs or pass them on to consumers through higher prices. For generics manufacturers, which already compete on low-cost production, there is often no choice but to pass costs on, or to discontinue production of unprofitable drugs. This dynamic risks creating cascading shortages in essential medicines.

Figure 3: Tariff Impacts on Top Segments by Potential Rate per Jurisdiction



Source: PwC Tariff Industry Analysis relying on U.S. Census Bureau, January 2024 - December 2024.

From the perspective of healthcare access, these tariffs act as a regressive tax. Patients—particularly those on fixed incomes or relying on Medicare Part D—bear the brunt of rising drug costs. Insurance companies, facing higher reimbursement costs, respond by raising premiums, adjusting formularies, or increasing out-of-pocket costs. This narrows access to therapies, with the greatest impact felt by vulnerable populations.

The timeline for mitigating these effects through domestic manufacturing is not trivial. UBS estimates that relocating a commercial-scale pharmaceutical manufacturing operation to a new site typically requires four to five years. The 12- to 18-month grace periods often associated with tariff implementation are insufficient for such a transition. This creates a medium-term mismatch: the immediate imposition of tariffs versus the slow buildout of domestic capacity.

Figure 4: Top 10 U.S. Importer Jurisdictions and Potential Tariff Impacts

Jurisdiction	Annual % of U.S. imports	Additional tariff %	Estimated tariff increase $
Ireland	26.10%	25%	$19.5B
Germany	7.30%	20%	$4.5B
Switzerland	7.30%	9%	$1.8B
Singapore	6.70%	9%	$1.8B
China	6.00%	Additional 20%	Additional $3.6B
Italy	4.60%	23%	$3.3B
India	4.40%	28%	$3.4B
Belgium	4.20%	23%	$2.9B
Mexico	4.00%	25%	$3.1B
Japan	3.10%	10%	$0.9B

Source: PwC Tariff Industry Analysis relying on U.S. Census Bureau, January 2024 - December 2024. The percentage for jurisdictions other than Mexico, China, and Canada are the potential reciprocal tariff rates.

Industry and Policy Responses: Reshoring, Diversification, and Negotiation

3

Pharmaceutical companies are responding on multiple fronts. The first line of defense is supply chain diversification. Manufacturers are exploring ways to source APIs and raw materials from non-tariffed regions such as Southeast Asia, Eastern Europe, and Latin America. This “China-plus-one” strategy aims to reduce dependency on a single geography while optimizing cost profiles. However, these transitions require time, capital investment, and quality assurance, and therefore cannot fully offset the near-term effects of tariffs.

The second response is an accelerated push for onshoring. Several global pharmaceutical companies, including Novartis, Sanofi, and Roche, have made public commitments to expand U.S.-based manufacturing, driven partly by geopolitical considerations and partly by the recognition that proximity to market offers strategic advantages. Public-private partnerships have emerged as a mechanism to co-invest in advanced manufacturing capabilities. These partnerships often focus on building modular, high-tech facilities that can scale production quickly and mitigate future supply disruptions.

Figure 5: Pharma Firms Eye Manufacturing, R&D Investments

Company	Estimated Commitment	Purpose
Johnson & Johnson	>$55 billion	Four new manufacturing facilities, increased research & development (R&D) and tech investments.
Roche	$50 billion	New facilities, expansion and upgrades at existing sites.
Eli Lilly	$27 billion — total spend of $50 billion since 2020	Four new manufacturing sites focused on APIs, injectables.
Novartis	$23 billion	Seven new manufacturing and R&D sites, plus expansion at three existing manufacturing facilities.
AbbVie	$10 billion	Four new plants.
Merck	$8 billion — total spend of $20 billion since 2018	Manufacturing and R&D capabilities.
Amgen	$900 million	Expansion of its Ohio manufacturing facility.

Source: https://www.americancentury.com/insights/us-pharma-tariffs-impact/

At the policy level, trade negotiations remain critical. Bilateral agreements, such as a potential U.S.-India trade deal, could create sector-specific carve-outs that shield pharmaceuticals from the full weight of tariffs. Policymakers are also exploring incentives—tax credits, subsidies, and workforce development initiatives—to make domestic manufacturing economically viable. These strategies reflect a broader recognition that supply chain resilience is a matter of national security.

Industry lobbying has intensified around these issues. Pharmaceutical trade groups argue that tariffs, while politically expedient, fail to address the core vulnerabilities in supply chains. They advocate instead for targeted investments in resilience, such as strategic stockpiles, advanced manufacturing technologies, and greater transparency in the API supply chain.

Global Ramifications: India, China, and the Risk of Fragmentation

4

The repercussions of U.S. tariffs extend far beyond domestic borders. India, as a key supplier of generics, faces significant risks if tariffs escalate. The U.S. accounts for 40% of India's pharmaceutical exports, and a 25% tariff could erode margins, slow GDP growth, and lead to job losses in an industry that employs millions. Indian companies may attempt to diversify into other markets, but the size and profitability of the U.S. market make substitution difficult. For India, maintaining favorable trade terms with the U.S. is therefore a strategic priority.

China, meanwhile, is central to the global API market. A 245% tariff on Chinese APIs would force the U.S. to source ingredients elsewhere, but alternative suppliers may lack the capacity or quality standards to fill the gap. This could lead to prolonged shortages. Furthermore, retaliatory measures from China could disrupt other critical inputs, including medical devices and raw chemicals, creating a broader healthcare supply chain crisis.

Geopolitical tensions also risk fragmenting the global pharmaceutical market. As countries seek to reduce dependence on one another, there is a growing trend toward localization of supply chains. While this may improve resilience in the long term, it risks undermining efficiency and driving up costs across the board. The end result could be a less globally integrated pharmaceutical ecosystem, with regional disparities in access and innovation.

In a Nutshell

The imposition of tariffs on pharmaceutical imports represents a structural shock to an industry that has thrived on globalization. While the policy intent is to strengthen domestic manufacturing and reduce dependency on foreign suppliers, the immediate consequence is likely to be higher drug prices, supply shortages, and reduced patient access. For global companies, tariffs mean rethinking supply chain strategies, diversifying suppliers, and accelerating onshoring investments.

The pharmaceutical sector's experience underlines a broader truth: in an interconnected economy, protectionist trade policies come with high unintended costs. While the long-term trajectory may see a gradual rebalancing of manufacturing footprints, the short- to medium-term pain will be significant. Patients, insurers, and providers all stand to bear these costs. For policymakers, the challenge is to design strategies that balance national security with global cooperation, and for the industry, the imperative is to build resilience without sacrificing affordability.

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