www.elsevier.com/locate/worlddev

http://dx.doi.org/10.1016/j.worlddev.2015.10.017

World Development Vol. 78, pp. 66–79, 2016
0305-750X/

To Lobby or to Partner? Investigating the Shifting Political Strategies of Biopharmaceutical Industry Associations in Innovation Systems of South Africa and India

THEO PAPAIOANNOU, ANDREW WATKINS, JULIUS MUGWAGWA and DINAR KALE*
The Open University, Milton Keynes, UK

Summary. — The role of industry associations in shaping policy through various lobbying activities is well established. In most cases, while such activities are deemed essential from an industry perspective, they also carry negative connotations connected to narrow rent-seeking and the pursuit of elites' interests which run counter to the public good and discourage competition and subsequent innovation. As such, industry associations have long been excluded from discussions regarding the relational dynamics and evolution of innovation systems. In contrast, this paper builds upon more recent work that places industry associations as key intermediary actors that facilitate knowledge exchange and institutional capacity building, particularly in the context of developing countries where limited institutional capacities and substantial knowledge gaps can limit both innovation and development. Employing a qualitative cross-national comparison, this paper examines the changing roles and activities of biopharmaceutical industry associations in the development of the South African and Indian pharmaceutical industries, with a particular focus on government–industry relations. For doing so, the paper captures developments during three main periods through which both the South African and Indian biopharmaceutical industries have similarly evolved, although within different national contexts: (1) pre-liberalization, (2) expanding pluralism, and (3) increasing partnership. We argue that in South Africa and India, particular historical trajectories and lack of institutional capacities are shifting industry associations away from ineffective lobbying to a new political approach that emphasizes partnering with government in the pursuit of not only narrow industry objectives, but also broader development aims.

Key words — industry associations, innovation systems, politics of development, pluralism, developing countries

1. INTRODUCTION

While the national innovation systems (NIS) concept was built on institutional constructs identified in more advanced countries, it has, over the years, been increasingly applied by developing countries as a policy tool for facilitating innovation and subsequent development (Lundvall, 2007). In this way, a NIS can be viewed as those institutions, at the national level, that contribute to the generation and diffusion of new technologies and, in doing so, provide a framework through which government and industry negotiate policies to influence the innovation process (Metcalfe, 1997). As such, the NIS concept emphasizes interactions and linkages within and between institutional actors, particularly those within and between industry and government that promote collective learning and institutional change over time (Braczyk, Cooke, & Heidenreich, 1998; Cooke, 2004; Malerba, 2002). While these interactions are widely acknowledged as key to shaping regulatory environments that either facilitate or limit an industry's ability to innovate and grow (Patel-Campillo, Delessio-Parson, & Smith, 2014), the political actors and processes by which these interactions are governed are largely absent from the innovation systems literature (see Watkins, Papaioannou, Mugwagwa, & Kale, 2015). As Edquist (2001) put it, the NIS perspective lacks a theory of the state and its role in innovation policy.

That being said, more recent literature on the dynamics and growth of innovative industries, including those in developing countries, shows the emerging importance of intermediary actors such as industry associations and various advocacy groups that through processes of conflict, negotiation, and collaboration facilitate knowledge exchange between industry and government (see Dalziel, 2006; Hekkert & Negro, 2009; Kautto, 2007; Lyytinen, 2001). Such actors are thought to be particularly important in the context of developing countries and their nascent NISs: playing a prominent role in filling significant institutional knowledge gaps toward shaping regulation and subsequent industry development (see Athreye & Chaturvedi, 2007; Kshetri & Dholakia, 2009). Moreover, relations between industry and government can be particularly contentious when government views an industry as contributing to the public good such as the pharmaceutical industry and its role in the provision of healthcare (see Muzaka, 2011). In such cases, it can be suggested that the strategies employed by industry associations over time will need to more sufficiently address the needs of the government it negotiates with in order to effectively advance the interests of the industry it represents.

This paper builds upon these notions by analyzing the shifting strategies over time of biopharmaceutical industry associations and related umbrella organizations in the innovation systems of South Africa and India. It argues that in the case of the pharmaceutical industry, the extent to which industry associations can effectively engage with government is determined, in large part, by the willingness of government over time to compromise with industry in ways that meet its own requisite for accessible medicines while recognizing the benefits that a robust domestic pharmaceutical industry can offer. For

* This paper draws on a research project, "Unpacking the Role of Industry Associations in Diffusion and Governance of Health Innovations in Developing Countries", funded by The Leverhulme Trust UK, during 2013–15, reference number RPG-2013-013. Final revision accepted: October 2, 2015.

doing so, we examine the ways that changing political context have shaped historically similar yet divergent industry–government relational trajectories: the South African pharmaceutical industry has a historically uneven and reactively contentious relationship with government whereas the Indian pharmaceutical industry's relations with government, while also historically uneven, have been comparably more proactive and geared toward increasing partnership. In both cases, respective pharmaceutical industries, through the auspices of industry associations, have shifted gradually away from pure, narrowly aimed lobbying tactics, to greater cooperation with government on a host of policy-related issues. This shift has impact on regional and sectoral systems of health innovation in South Africa and India but also on national goals of development.

Our analysis captures developments during three main periods through which both the South African and Indian biopharmaceutical industries have similarly evolved, although within different national contexts: (1) pre-liberalization, (2) expanding pluralism, and (3) increasing partnership. Findings indicate that two decades of both increasing pluralism and globalization have, in both countries, created tensions between government and the pharmaceutical industry regarding access to medicines on the one hand, and strong intellectual property rights on the other. We suggest that dealing with such uncertainty requires an early government identification of the pharmaceutical industry as a national "economic" asset and the ability of the pharmaceutical industry, through the intermediation of industry associations, to negotiate with government and civil society organizations (CSOs) in a relatively unified way; this results in cumulative platforms for partnering on a number of regulatory issues and broader, more holistic development aims.

The remainder of this paper is structured as follows. Section 2 considers the role of industry associations as intermediaries in the innovation systems of developing countries. Section 3 examines the activities of industry associations within broader government–industry coalitions. Section 4 briefly discusses particular regulatory issues that shape often tense interactions between government and the pharmaceutical industry in developing countries. Section 5 presents the research methodology underpinning this paper. Sections 6 and 7 focus on the cases of South Africa and India respectively. Section 8 and 9 provide both a discussion regarding the main themes that emanate from the findings and a summary of the overall argument put forth in the paper.

2. INDUSTRY ASSOCIATIONS AND DEVELOPING COUNTRIES

Industry associations, defined here "as member-based organizations that represent the interests of a particular industry and actively lobby and negotiate with government on their member's behalf to shape government policy and regulation" (Watkins *et al.*, 2015, p. 1408), along with business umbrella groups, are part of what Sabatier (1991) describes as the "policy subsystem" comprised of "those actors from a variety of public and private organisations who are actively concerned with a policy problem or issue . . . and who regularly seek to influence policy in that domain" (Jenkins-Smith & Sabatier, 1994, p. 179). We argue, therefore, that this policy subsystem and actors therein interact and work with the state to inform and negotiate conditions and incentives for innovation and growth within particular industries or technological fields (see Kshetri & Dholakia, 2009). In doing so, we suggest that industry associations are true intermediary actors within the NIS: industry associations regularly perform intermediary functions of information collection and knowledge diffusion, network selection and construction, and facilitating collaboration between complementary actors (Davenport, Davies, & Grimes, 1999; Howells, 2006). In this way, effective industry associations, as Olson's (1971) work on collective action suggests, perform some functions other than lobbying that are beneficial to their members.

In terms of innovation and development, industry associations have long been considered to be controversial actors (Cawson, 1982; Papaioannou, Kale, Mugwagwa, & Watkins, 2015). As early as the 18th century, Adam Smith, in his book *The Wealth of Nations*, accused industry associations of playing a negative role in the economy, conspiring against the public or raising the prices of goods. More recently, the work of Olson (1982) and Schmitter and Streeck (1999) argue that the narrow rent seeking activities of industry associations discourages competition and thus limits collective innovation within an industry (see Olson, 1982; Schmitter & Streeck, 1999). For developing countries, however, it is argued that governments will often "lack resources, expertise, and legitimacy required in developing new templates and monitoring industry behavior"; thus industry associations can act as "effective and efficient institutions" in articulating industry needs, mobilizing resources, and working with government to develop and implement new regulatory frameworks (Kshetri & Dholakia, 2009, p. 227). In this context, Calì and Sen (2011) and Sen (2013) and Te Velde (2013) clearly stress that effective government–industry relations are crucial not only for economic performance but also for skills development, capital formation, and productivity. Furthermore, it is through such relations that integration of key political and innovation actors becomes possible.

A limited number of studies on industry associations in developing countries show that their contribution to NIS impacts on the relations between government and specific industrial sectors. One of these studies is Nadvi's early analysis of the role of associations in upgrading industrial clusters of countries such as India and Pakistan (Nadvi, 1999). Given the importance of clustering for national, regional, and sectoral innovation systems (Cooke, 2005; Niosi & Banik, 2005; Papaioannou, Wield, & Chataway, 2009; Porter, 1998; Saxenian, 1996), Nadvi demonstrates that industry associations in sectors such as medical devices not only facilitate learning and innovation among firms but also mobilize collective response to government innovation policies. In turn, this improves government–industry relations, promoting integration of key sectors. Another study by Cammett (2007) confirms the importance of associations for industrial upgrading but also the positive impact of quality government–industry relations on innovation-led policies for development. A study by Athreye and Chaturvedi (2007) also points out that in India associations in sectors such as biotechnology lobby for improvement of innovation framework conditions. Several studies suggest that industry associations are key conduits for knowledge inputs from abroad, in addition to facilitating substantive linkages between indigenous high-tech firms and multi-national corporations (MNCs) and their global value chains (see Fu, Pietrobelli, & Soete, 2011; Papaioannou *et al.*, 2015; Pavitt & Patel, 1999).

These limited studies on industry associations in developing countries point to four factors which characterize their effectiveness in facilitating integration and industry development. Firstly, industry associations need to employ wide-reaching information dissemination activities that reach government, the broader industry community, and the civil society.