

Penny Lane: US and Europe stay reliant on generic medicines from Asia

Generic pharmaceuticals make up less than 20% of sales, but account for more than 90% of prescriptions. So, generics are much more important for national security than branded drugs, yet the Asian supply chain will not move any time soon. Policies aimed at alleviating national security concerns will play an increasing role in the next few years



Europe imports nearly all common painkillers and antibiotics

Side A: key calls

- Western dependence on Asian pharmaceutical manufacturing has deepened, not declined, since Covid.
- National security concerns will increasingly shape pharma policy in the US and Europe, marking a gradual shift away from cost efficiency.
- Drug shortages will remain elevated, driving more stockpiling as a structural feature of healthcare systems.

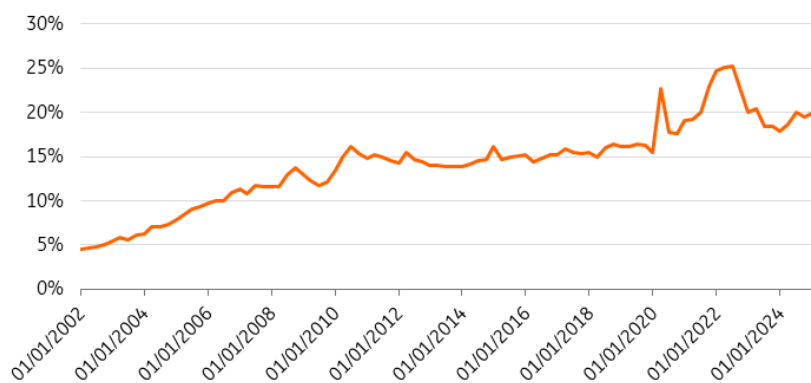
Lots of twisting and shouting, but dependence on Asian manufacturing has only grown since Covid

Western policymakers across the political spectrum lamented their dependence on Asian manufacturing during the Covid pandemic. Yet, little has changed since then – eurozone dependence on Chinese manufacturing has only deepened.

For common painkillers, Europe is entirely reliant on Asia; its last paracetamol factory closed in 2008, for instance. In other critical therapeutic areas, such as antibiotics, Europe has minimal capacity, with just one fully operational antibiotics plant remaining.

Eurozone dependence on Chinese manufacturing has only increased since Covid

Eurozone, nominal imports of manufactured goods from China / Nominal manufacturing gross value added



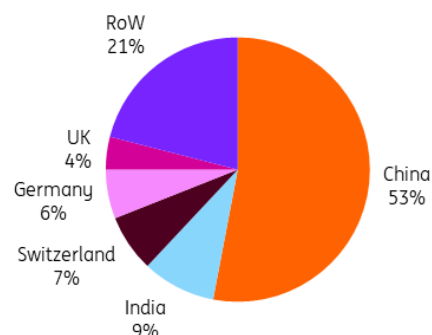
Source: Macrobond; ING

In the US, things are much the same: in 2023, the US imported more than half of its pharmaceuticals (by volume) from China and an additional 9% from India. This underlines the enormous dependence on the large-scale, hyperspecialised and efficient manufacturing of generic pharmaceuticals in Asia.

Furthermore, it underscores the importance of generics for public health: 91% of all US prescriptions are generic. In short, the importance of the Asian supply chain is often overlooked, especially when focusing on import value rather than volume.

The US imports more than half of its pharmaceuticals from China

US pharmaceutical imports by volume in 2023



Source: United Nations Commodity Trade Statistics Database; BMI; ING

Pharma is the next sector in which national security concerns will play an increasing role in government policies

Over the coming years, national security concerns will be increasingly prioritised by governments instead of cost efficiency. The Trump Administration started a national security investigation into reliance on pharmaceutical imports. To incentivise manufacturing on American soil, it mostly turned to tariffs, but while tariffs had a very significant effect on branded pharma producers, such an effect was largely absent for generic pharma producers, as margins are roughly half that of branded producers.

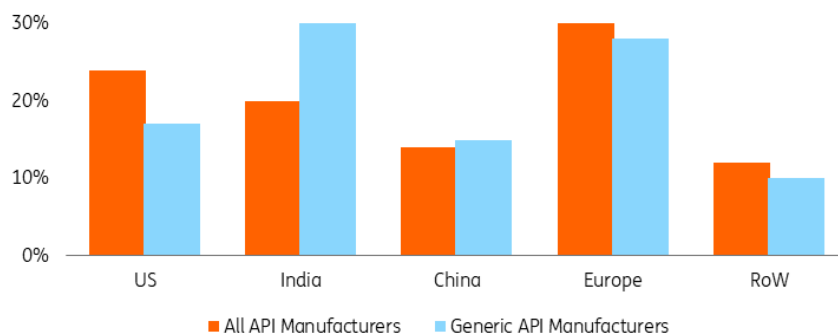
Dependence on foreign active pharmaceutical ingredients (APIs) therefore remains, although we expect dependence on European APIs to come down gradually as more branded pharmaceuticals will be produced in the US rather than Europe. This is a risk for the [Irish, German, Swiss and Dutch](#) economies, as we indicated last year.

European policymakers, on the other hand, will likely decide on the European Critical Medicines Act in the next six months under the Cypriot presidency of the European Council. The Act abandons cost-based procurement for 243 critical medicines, which means consumers and/or governments will start paying premiums on medicines produced in Europe.

This increased European manufacturing will likely benefit Central and Eastern European nations, such as the Czech Republic, that have positioned themselves as key manufacturing hubs. It would not surprise us if pharma is the next industry that will see a bloc-wide spotlight for developing independent strategies.

API manufacturers for US market are predominantly located outside the US

Location of manufacturing facilities for APIs consumed by the US



Source: United Nations Commodity Trade Statistics Database; BMI; ING

Stockpiling to increase as medicine shortages remain elevated

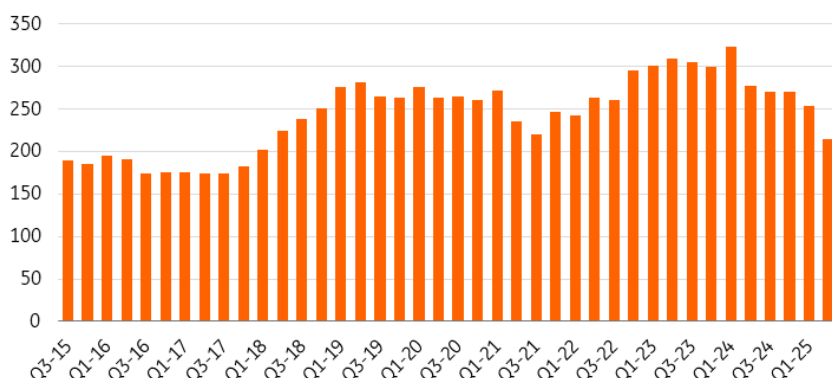
In spite of national security measures, dependence on Asian manufacturing of generics will largely remain in the years to come. This also means that stockpiling measures will become more commonplace as countries aim to build buffers for supply disruptions and prevent shortages.

Drug shortages – particularly for generics – have been severe in recent years, including in the US, which typically experiences fewer shortages due to paying higher pharmaceutical prices. Drug shortages have become increasingly common because there is a large reliance on a few hyperspecialised production facilities for the global consumption of key generics (e.g. antibiotic benzathine penicillin G).

Furthermore, distribution is often 'just in time' to keep costs at a minimum. Historically, stocks of medicines were low or non-existent because producers, governments and healthcare providers were not willing to pay the costs of additional inventory. That also meant that any misstep in the production and distribution process immediately leads to a global shortage of certain medicines. And here's the bottom line: distribution and production combined explain two-thirds of drug shortages.

US drug shortage remains high

Active US drug shortages by quarter



Source: ASHP; ING

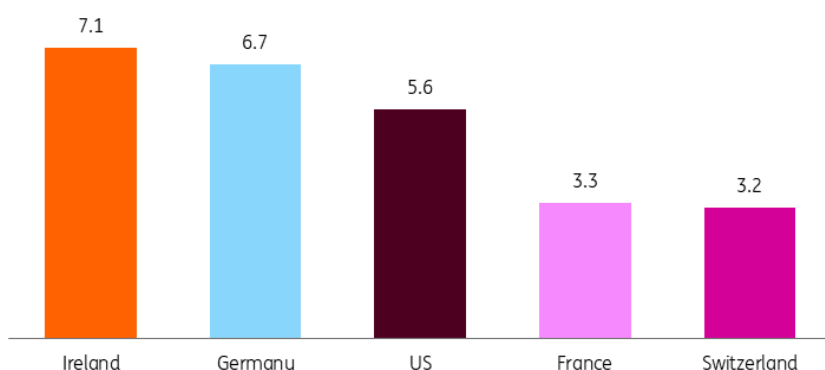
What about Chinese dependence on Western pharma manufacturing?

The dependence on pharmaceuticals goes two ways, as China is currently largely reliant on Western manufacturing of branded drugs: just five developed markets make up more than 60% of Chinese medicine imports. However, growing outlicensing, more investment by Western branded pharma companies and the emergence of China as an innovation hub, as discussed in the article [Hello, Goodbye](#), will increasingly facilitate branded drug manufacturing in China.

The dependence on branded manufacturing will likely remain for the foreseeable future, but the question is how long this two-way dependence will remain exactly.

Five developed markets make up 61% of China’s medicine imports

Top five Chinese pharmaceutical import markets in 2024 by value in US\$bn



Source: BMI; UN Comtrade; ITC Trade Map; ING

Side B: remaining questions

The biggest question from a national security perspective is whether national security-driven policies (tariffs, the Critical Medicines Act, incentives) will actually change where medicines and APIs are made, or simply make Western produced medicines more expensive while still relying on Asia for volume. If production is shifted meaningfully, this would also involve more common procurement of raw materials for medicines, which is currently often overlooked.

Finally, we wonder whether there will be a point in the future when Chinese-branded pharma is significant enough that it can negotiate with Europe to fill the void in case Europe is not willing to pay the prices of US pharma. This would mirror the rise in Chinese electric vehicles sold in Europe.

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