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HEALTHCARE

Europe’s last chance to revive its pharmaceutical innovation power

Europe’s pharmaceutical industry needs to make sure it doesn t become yesterday s news. Its biopharmaceutical innovation capacity has been gradually declining for decades, and the rapid ascent of China and President Trump s policies risk accelerating that decay. It can become a powerhouse once again, but it needs to act fast

Europe's pharmaceutical industry is close to a tipping point

Why price, manufacturing and innovation are so intertwined for pharma

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US President Donald Trump announced his intention to levy a tariff of at least 25% a little over a year ago (on 19 February 2025, to be exact). The aim was to attract more pharmaceutical manufacturing to the US and to gain greater control over pharmaceutical supply chains. A discussion that started with *where* manufacturing takes place gradually evolved into one

about *who pays* for global biopharmaceutical innovation (i.e., US consumers pay three to five times as much for medicines as their European counterparts), and then shifted to the parts of the world where biopharmaceutical innovation is happening and remains attractive.

In short, increased uncertainty prompted deeper discussions on price, manufacturing, and innovation in a few months than we'd seen over the past decades.

Europe has lost its position as biggest R&D spender to the US

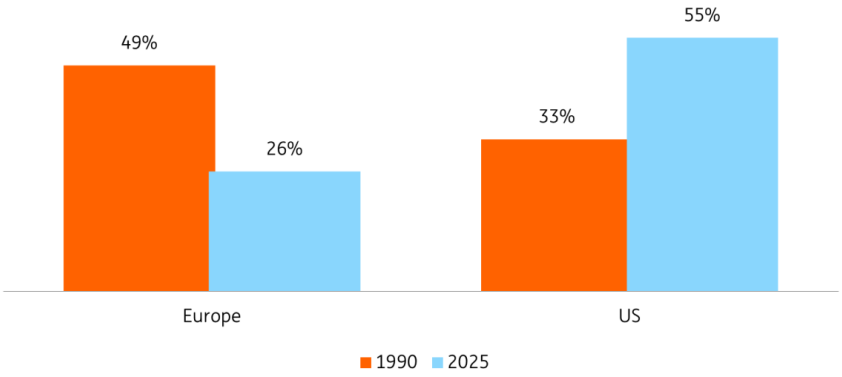
This discussion has turned the spotlight on Europe in particular. The continent produces the most cutting-edge research and has a strong industrial base, despite its reliance on the Asian supply chain for generics, with manufacturing hubs in Ireland, Switzerland, Germany, and the Netherlands, among others. However, the Trump Administration has argued that Europe does not pay its way for biopharmaceutical innovation, arguing that prices in Europe need to rise and those in the US need to come down. And here's the rub: Europe's share of global R&D spending has declined sharply over the past few decades. In 1990, roughly half of all global private R&D spending was European; this declined to a third in 2025. At the same time, the US saw its share grow from 26% in 1990 to 55% last year.

This has happened for a number of reasons: Europe lags China and the US in scale, speed and translational efficiency (i.e. how successfully discoveries made in early-stage research are converted into effective clinical outcomes). Furthermore, Europe suffers from fragmented regulatory practices, shallow capital markets, differing evidence and health technology assessment (HTA) requirements, a lack of common procurement and crucially, fiscal pressure on healthcare systems due to ageing populations, which means that prices for pharmaceuticals are relatively low in Europe.

As a result, the US currently accounts for roughly two-thirds of pharmaceutical profits, and more is spent on pharmaceutical R&D.

European R&D spending has declined rapidly

European and American biopharmaceutical R&D spend as % of global



Source: ITIF; ING

Europe also increasingly lags behind China

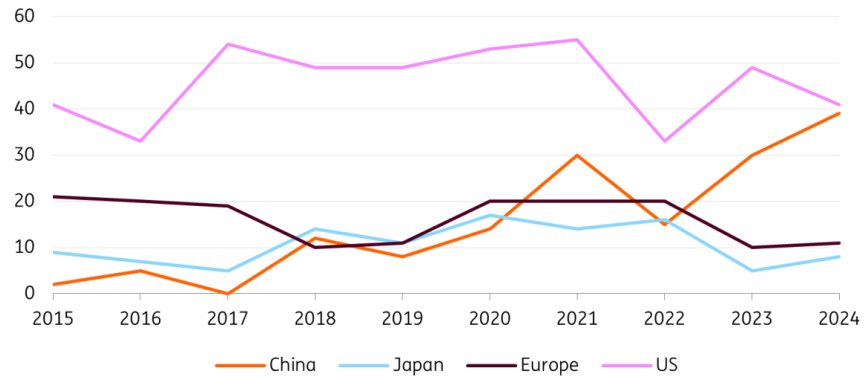
While Europe gradually lost ground, China has quietly become a powerhouse of pharmaceutical innovation. China now rivals the US in clinical trials and global drug approvals and increasingly outperforms Europe. Over the past decade, approvals of new active substances (NASs) in the EU fell by 20%, while China recorded a striking 470% increase.

China also has a full pipeline of innovative molecules – it leads the EU and the US as the originator of NASs, increasing from just four in 2018 to 28 in 2024. China also performs better than Europe in regulatory approval times, according to the EFPIA: the EU average is 430 days, behind the US (356 days) and China (390 days).

It's also worth noting that outlicensing between Western companies and China has increased steeply over the past few years, from a few deals in 2015 to roughly 90 in 2024 and over $50 billion in deal value. On average, one-third of these deals involve big pharma and have a deal value of above US$1bn. This combination of factors is why we believe the next Pfizer will be Chinese and not American or European.

China outperforms Europe and is nearing the US in global drug approvals

Distribution of first global approvals of innovative drugs, 2015-2024



Source: Nature publication, BMI, ING

Pharma boardrooms need a China strategy as do European policymakers

Given the varying developments across the three blocs, but particularly the rapid rise of China, pharmaceutical companies need a China strategy. Do they want to go on the offensive and pursue increased investment and deals, or do they just want to play defence?

Ignoring China's spectacular ascent is foolish

Whatever path they choose, ignoring China's spectacular ascent is foolish. European policymakers do still hold good cards. And they could play those to make Europe a more attractive location for innovation: a strong, branded sector, a solid industrial base, and top-notch scientists.

They could also be capitalising on the disruption caused by this US administration. We're not just talking tariffs here, but also the budget cuts imposed on key healthcare and research institutions such as the FDA and NIH. Europe should consider offering a reliable alternative to the FDA, invest in fundamental research for projects cancelled in the US, and accelerate visa programmes to attract scientists. If it does this, it can drastically improve its innovation capacity.

Still, to make this comeback story come to fruition, European leaders should also consider enacting policies in three critical areas:

1. Consider increasing prices and reducing clawback taxes, especially for drugs in areas of

high value and priority from a public health perspective. De-risking the investment case for the manufacturing of critical medication through tax breaks or subsidies should also be considered.
2. Harmonised regulation on clinical trials and HTA, and expanding on the recently adopted Pharmaceutical Package. Offering time-to-market on par with the FDA is key, especially given FDA budget cuts.
3. This is not specific to pharma, but deeper capital markets would enable more early-stage funding, which could spur innovation. In this regard, completing the Banking, Capital Markets, and Saving and Investments Union could be considered.

If these regulatory changes take effect, Europe's pharmaceutical industry could leverage US reforms to its advantage and avoid becoming yesterday's news.

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