# ~~Made~~ Innovated in China

## The PRC's Progress Towards Capturing the U.S. Pharmaceutical Market

China is doubling down on efforts to control the entire pharmaceutical supply chain, from medicine manufacturing to novel treatment discovery.[1]

In its April 2025 report to Congress, the National Security Commission on Emerging Biotechnology (NSCEB) proposed a hypothetical situation in which researchers in Shanghai discover a breakthrough treatment to cure cancer, but the Chinese government withholds this treatment from American patients in light of a geopolitical conflict in Taiwan.[2] This scenario is fiction today, but China's efforts to control the global biopharmaceutical sector are making it more realistic by the day. Due to deliberate prioritization and increasing capture of pharmaceutical capital and expertise, China's grip on the global pharmaceutical industry is beginning to threaten the United States' ability to innovate and supply treatments to its own citizens.

A year after the NSCEB published an updated analysis of China's growing dominance in the pharmaceutical industry, the Chinese Communist Party (CCP) has intensified efforts to corner the sector.[3]

The Chinese government published a detailed Five-Year Plan in September 2026 to accelerate its control amid record-breaking deals between Chinese biotechnology companies and multinational pharmaceutical companies operating in U.S. markets.[4]

It is now up to U.S. policymakers to prevent an overdependence on China that would leave American patients vulnerable to supply chain weaponization.

## China is Championing a Domestic Pharmaceutical Industry with Global Influence

The Chinese government uses policy documents such as Five-Year Plans to guide national priorities and inform regional action.[5] Previous Five-Year Plans and supporting documents describe the biotechnology and pharmaceutical industries as "cutting-edge...field[s]," and "key area[s]."[6] In September 2026, the Chinese government published a follow-on document to its 15th Five-Year Plan that focused solely on the pharmaceutical industry.[7] The message of this targeted plan is clear: China champions its pharmaceutical industry as a strategic strength and is focused on becoming a global leader for every step of the pharmaceutical supply chain—from innovation, to commercialization, to manufacturing.

### The motivation is clear.

The September 2026 document describes Chinese national security as a driving force for advancing its domestic pharmaceutical industry.[8] This framing indicates an increased emphasis on the national security perspective and differs from previous policies that highlight pharmaceutical innovation as an effort to support an aging population.[9] Drawing a connection between the pharmaceutical value chain and national security shows that this field is important for China's geopolitical and defense priorities.

### The goals are clear.

In the September 2026 document, China aims to dramatically increase its output of first-in-class drugs; pharmaceutical industry revenue; number of high-revenue pharmaceutical companies; and global sales of pharmaceutical products, all by 2030.[10]

### The scope is clear.

The September 2026 document names over 300 technical methods and products for China to prioritize along the entire pharmaceutical supply chain.[11] The CCP wants to shed China's reputation as a fast-follower once and for all by leading every sub-sector.

### The path is clear.

The September 2026 document emphasizes the role of the private sector in achieving these goals and supports guidance for Chinese biotechnology companies to seek commercialization and development opportunities abroad.[12] This instruction cements an existing trend of growing deals between China's domestic biotechnology sector and multinational pharmaceutical companies operating in the U.S. market.[13]

# China is Capturing Capital and Know-How from the U.S. Pharmaceutical Sector

## The Challenge of Drug Development

A significant part of the pharmaceutical value chain is the process of drug discovery, validation, and commercialization. After a company identifies a promising drug candidate, it conducts preclinical research to determine safety and efficacy before moving into human testing in clinical trials. This process is expensive, time-consuming, and risky. It is estimated that up to 90% of drugs that make it to the clinical trial process fail before reaching pharmacy shelves.[14] Maturing a drug from bench to bedside can easily cost billions of dollars.[15] Pharmaceutical companies constantly evaluate ways to lower the cost of drug development or to transfer that cost to other entities. China's biotechnology companies and Contract Research, Development, and Manufacturing Organizations (CRDMOs) are proving attractive partners for multinational pharmaceutical companies seeking to share the burden and reduce the costs of drug discovery and development.

## Out-Licensing Deals Signal Growing Reliance on Chinese Innovation

There has been a steady stream of headlines over recent years covering record-breaking deals between Chinese biotechnology companies and multinational pharmaceutical companies operating in U.S. markets.[16] Most common among these deals are out-licensing agreements, where a Chinese biotechnology company sells the license to develop and/or commercialize an internally developed drug candidate to a multinational pharmaceutical company with more commercialization experience and well-established access to U.S. markets. Multinational pharmaceutical companies see these deals as an effective way to offload the burden of drug discovery and preliminary validation to external partners. These deals often comprise an up-front payment for the licensing rights in addition to payments for meeting certain milestones, such as successful clinical trials.

The following figure depicts a NSCEB analysis of 57 deals between the top 15 pharmaceutical companies by revenue operating in the United States and 42 Chinese biotechnology companies from January 2023 to October 2026.[17]

Alongside rising up-front deal values, the NSCEB found that these deals are increasingly based on preclinical data (Figure 1). This means that pharmaceutical companies are making deals with Chinese biotechnology companies earlier in the drug discovery process, signaling a growing trust in China's ability to innovate in the pharmaceutical sector.





## Up-Front Deals are Rising and Increasingly Based on Preclinical Data

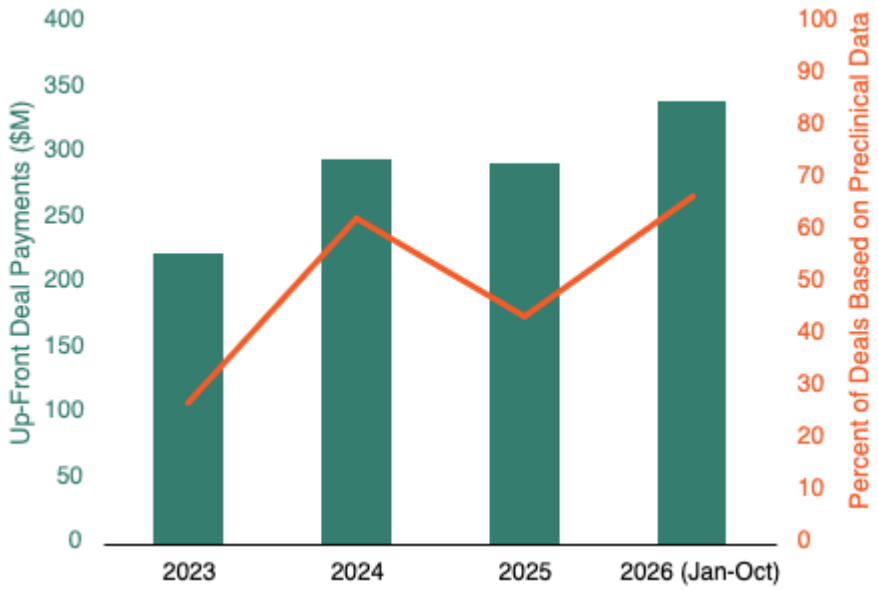



Figure 1: Up-front deal values between Chinese biotechnology companies and U.S.-based pharmaceutical companies are rising and increasingly based on preclinical data[18]

## Deepening Ties Between U.S.-Based Pharmaceutical Companies and Chinese Biotechnology Companies Intensifies Knowledge Transfer of Best Practices for Operating in U.S. Markets

Additionally, the NSCEB observed several instances of escalating deal structures and successive collaborations between the same partners.[19] This pattern can include a single-asset out-licensing agreement, followed by a multi-asset out-licensing agreement, followed by a co-development or co-commercialization deal based around the discovery platform used to develop the initial pharmaceutical assets, meaning the Chinese licensor gains commercialization know-how in addition to capital (Figure 2).

When a U.S.-based pharmaceutical company follows a single-asset out-licensing deal with a multi-asset agreement, it signals a growing trust of the underlying discovery capabilities of the Chinese partner. Building on this, co-development and co-commercialization agreements can grant the U.S.-based partner increased access to the discovery platform core to the Chinese company's drug innovation capability. In return, the Chinese biotechnology partner gains knowledge of development, commercialization, and regulatory best practices for U.S. markets. This type of knowledge transfer is well documented in the context of U.S. joint ventures into Chinese markets in the automobile, semiconductor, and industrial chemical sectors.[20] In these cases, the Chinese industry gained a competitive edge and leveraged that edge to control the global market. The end game is the same for the CCP in the pharmaceutical industry.




Figure 2: Escalating deal structures between U.S.-based pharmaceutical companies and Chinese biotechnology partners

## The NewCo Model Increases Flow of Capital and Know-How to China

The flow of capital and know-how to China is heightened with the rise of "NewCo" deal structures between Chinese biotechnology companies and U.S. funders.[21] Within the pharmaceutical industry, a NewCo is a new company started by an investor, often around a particular asset. In this scenario, a Chinese pharmaceutical company out-licenses an asset to a U.S. investor-backed NewCo in exchange for an up-front payment and development milestone payouts. [22] This type of NewCo drives the development, commercialization, and manufacturing of the asset in the United States without a U.S. pharmaceutical intermediary, while the Chinese company holds equity in the NewCo and may retain exclusive rights within mainland China.[23]

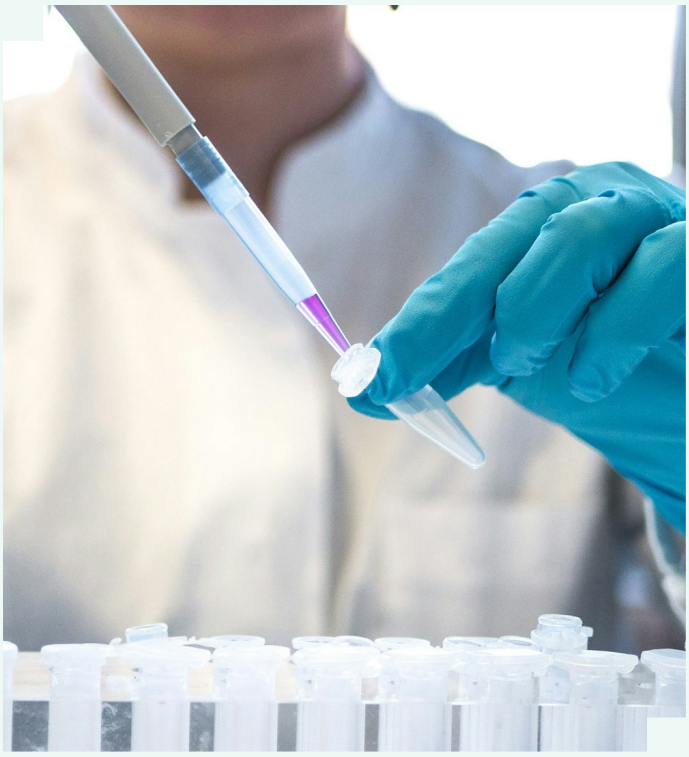
Ultimately, the goal for a NewCo is often to provide an initial public offering (IPO) or be acquired by a large U.S. pharmaceutical company; once a NewCo successfully exits, significant funds can flow back to Chinese industry by way of equity and royalty compensation.[24] This deal structure redirects U.S. capital away from U.S. innovation and towards the Chinese pharmaceutical industry. The NSCEB has previously reported on the flywheel effect this creates — consistent capital flow fuels new research infrastructure, attracts global talent, and underwrites future innovation capacity in adjacent biotechnology sectors.[25]

# Time to Act, No Time to Wait

The NSCEB's April 2025 report to Congress described the Chinese government's playbook to gain and leverage dominance in industries such as critical minerals. First, they steal. Then, they scale. Once they have cornered the market, they strangle.[26]

The evolution of deal terms between Chinese biotechnology companies and U.S.-based pharmaceutical companies signals a growing willingness by the U.S. pharmaceutical industry to not only outsource innovation to China, but to also share the capital and expertise needed for Chinese pharmaceutical companies to access U.S. and global markets directly. China is actively scaling, and if this trend continues, Chinese pharmaceutical companies will be able to box out U.S. competitors and leave American patients vulnerable should the CCP decide to cut off the flow of lifesaving treatments. The strangle could come sooner than expected. In October 2026, the Chinese government proposed new restrictions on the export of certain next-generation biopharmaceutical technologies, including proprietary drug discovery platforms. The proposed rules exempt specified licensing agreements, which are critical sources of cash.[27] Although the restrictions are not yet final, they could give the CCP greater control over critical pharmaceutical technologies, exacerbate U.S. dependence on Chinese innovation, and continue enriching the Chinese pharmaceutical flywheel.

The NSCEB forecasted this scenario in its April 2025 report to Congress as a future hypothetical, now becoming ever more real. [28] While the U.S. Department of Treasury's proposed prohibitions on outbound U.S. investment in the Chinese biotechnology sector are a prudent step to curtail China's biotechnology ambitions, U.S. policymakers must act now to empower the United States to out-innovate strategic competitors before it's too late.[29]



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