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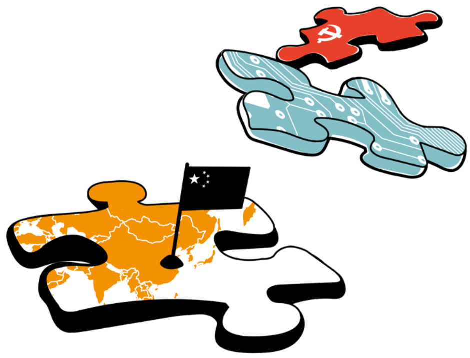
MERICS China Essentials



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MERICS
Mercator Institute for China Studies

TOP STORY

Europe is becoming increasingly reliant on China for the most common drugs

A key European supplier of active pharmaceutical ingredients (API) announced it would close two factories, partly due to price competition from China. This is part of a longer trend that illustrates Europe's challenge in reducing foreign dependencies in critical drugs, an issue that Ursula von der Leyen has a priority shortly after her election for a second term as European Commission president in July.

Next to closing factories in Brindisi (Italy) and Haverhill (UK), the French firm Euroapi will reduce production of 13 medical ingredients. This will affect paracetamol and metamizole, a painkiller used by two thirds of German patients after surgery, and a range of other common drugs for heart failure, cirrhosis, hypertension and kidney diseases. The market share is likely to go to Chinese pharmaceutical companies such as Shandong Xinhua, China Grand, Hebei Jiheng and Zhejiang Haisen. Already, India and China produce 60 to 80 percent of the APIs in medicines sold in Europe, according to the Critical Medicines Alliance, a group set up by the European Commission that first met in April this year.

Drug shortages are already endemic. National pharmacy agencies from 26 European countries reported shortages for 2022 and 2023 and indicated that the problem is worsening. In 2022, China's zero-Covid restrictions reduced the supply of APIs to produce antibiotics, creating severe shortages in Europe.

But making the supply chain more resilient and secure will be costly. APIs sourced from Chinese suppliers are 40 percent cheaper than those in Europe, says the Alliance. Unsurprisingly, Chinese firms are still growing market share, because EU countries are dead focused on controlling ballooning healthcare costs. Germany, for instance, has set up its procurement system so that price is the only factor buyers can consider, as long as suppliers meet quality standards.

Changing this dynamic will be a test of Europe's economic security agenda. In a first step, the European Medicines Agency issued a list of 200 critical medicines. A forthcoming Critical Medicines Act aims to coordinate procurement across Europe and create a more level playing field for European firms, for instance by requiring imported APIs to meet the same environmental impact standards as European products. In addition, firms like Euroapi receive funding through the Important Project of Common European Interest (IPCEI) on pharmaceuticals. However, even with these efforts, Chinese API producers will still undercut their European competitors.

MERICS analysis: "China's recent efforts to modernize its industrial base should prompt Europe to take action against its own de-industrialization," says **Jeroen Groenewegen-Lau**, Head of Program at MERICS. "Next to critical technologies, this should include investments in relatively low-tech areas like active pharmaceutical ingredients, as not doing so is already creating shortages of the most common drugs."

Media coverage and sources:

- Nikkei Asia: Europe reliant on Chinese drugs after local products priced out
- The Financial Times: The world's broken market for medicines
- Euronews: Von der Leyen confirms Critical Medicines, Biotech Acts in pipeline
- Policy Circle: India struggling to free pharma industry from dependence on Chinese APIs

METRIX

18 million

is the number of copies sold of the game Black Myth: Wukong, developed by Game Science, in the first two weeks of its release. Wukong is the first successful triple-A single player game by a Chinese developer, with an estimated budget of USD 70 million. The game is inspired by a classic Chinese folktale, the novel *Journey to the West*, and has been hailed by Chinese party-state newspaper Global Times as a "new chapter in global cultural export for Chinese mythology." (Sources: Bloomberg, Global Times)

TOPICS

China's minor expansion of market access for foreign companies is sign of the times

The facts: China this week again opened the door to a few more sectors for foreign investors, further reducing the number of off-limits areas of its economy to 29 from 31 in 2021 and from 48 in 2018. But this year's opening up is unlikely to drive significant foreign investment. Changes to the Foreign Investment Negative List (FINL) opened a few niche markets and eliminated restrictions in areas not particularly interesting for European investors. In addition, Beijing also keeps what it calls the Market Access Negative List, affecting private foreign and local firms. It currently names 273 restricted or banned sectors, making it the more significant barrier to business at this point.

What to watch: Under President Xi Jinping, the biggest changes to the FINL were made some time ago – such as opening up to foreign automakers and financial services companies. This year's market-access revisions include book printing, which remains a niche market at best due to other restrictions on publishing, and traditional Chinese medicine (TCM) processing, which has little appeal for European firms. Other measures allow 100% foreign ownership of hospitals in seven major cities and Hainan province, and foreign investors to develop stem cells and gene diagnosis in four free trade zones – significant for some companies, but still minor. A recent annual position paper by the

European Union Chamber of Commerce in China confirmed that market access is not the core issue behind the steady decline in foreign direct investment (FDI) – the trend is driven by the gloomy outlook for the Chinese economy and unpredictable politics emanating from Beijing, Washington, Brussels and other capitals.

MERICS analysis: "This year's meagre revisions to the Foreign Investment Negative List and the continuation of many secondary barriers, suggests Beijing is satisfied with its current level of openness," says **Jacob Gunter**, MERICS Lead Analyst. "Companies once clamored to invest in China. But today the value proposition of more FDI is a shadow of what it once was as macro-economic and political factors dampen investor sentiment."

Media coverage and sources:

- State Council: Foreign Investment Negative List (2024 edition)
- Joint announcement by multiple authorities: Notice on the Pilot Work of Expanding Opening-up in the Medical Field
- WSJ: China Opens More Sectors to Foreign Investment

China seeks to advance its global ambition by providing green technology to Africa

The facts: China and Africa are looking to expand their cooperation in renewable energy, energy-efficient technologies and low-carbon projects – the idea being to optimize Africa's energy and industrial infrastructure with Chinese "green" technology. China hosted the Forum on China-Africa Cooperation (FOCAC) last week, which gathered representatives from more than 50 African nations. China pledged 360 billion CNY (45.8 billion EUR) for investment in electric vehicles, solar energy and other elements of Africa's green transition. China wants FOCAC to strengthen its leadership role among developing countries. It aims to build a "Community with a Shared Future" (命运共同体), among other things, through its Belt and Road and Global Development Initiatives.

What to watch: China's growing economic engagement with Africa raises the question of whether Africa will become the new frontier for Chinese green transition technologies – and a platform for Beijing to garner political support against US-led efforts to contain China geopolitically. Amid intensified trade tensions due to China's manufacturing overcapacity, and growing de-risking measures in key markets such as the US, Europe and Southeast Asia, Chinese policymakers and green tech companies see Africa as an increasingly tempting market. China's products are relatively cheap and its green tech aligns with the World Bank and African Development Bank's goal of providing electricity to 300 million Africans by 2030. This presents China with an opportunity to dominate Africa's clean energy sector while consolidating political influence on the continent.

MERICS analysis: "In the context of intensified US-China competition, Africa offers China a valuable opportunity to counter US containment efforts and advance its international agenda as a leader of the Global South that can reshape the Western-led international order," says MERICS Analyst **Claus Soong**. "The focus on Africa's green transformation –

tailored to meet the needs of African countries and making China's narrative more appealing to them – reflects Beijing's refined approach to economic statecraft."

Media coverage and sources:

- BBC: China shifts gear in Africa as it looks to a green future
- DW: China's Xi pledges to deepen Africa investment, trade ties
- Chinese MFA: Beijing declaration on jointly building an all-weather China-Africa community with a shared future for the new era
- Caixin: 渣打经济学家：中国对非洲融资将更注重经济效益 合作模式更趋多元化 (Standard Chartered Economist: China's Financing to Africa Will Focus More on Economic Benefits, Cooperation Models Becoming More Diversified) CN
- World Bank: New partnership aims to connect 300 million to electricity by 2030

Economic woes and tight public finances spark debate and censorship

The facts: The state of China's economy and public finances seems to be a growing concern for many citizens. Two phrases in particular have sparked heated debates on China's internet. "Break the iron pots, sell the metal" (砸锅卖铁) was a slogan used by regional governments in various parts of China to urge districts and counties to monetize available assets to avoid defaulting on their debts. Online discussions of this exhortation spread as some of the affected localities – from Chongqing to Ningxia, Qinghai and Inner Mongolia – set up special working groups to follow suit. "Pension for houses" (房屋养老金) was a phrase that fell in a State Council press conference outlining new pilot policies to ensure sufficient funds to maintain building quality in China's densely populated cities. Given that China's real-estate crisis has decimated house prices, this set off online discussions among homeowners worried about their own finances and futures.

What to watch: Some city and provincial governments have tried to allay public concerns that the dire state of local finances is a widespread problem. But late last year Beijing designated 12 "high-risk debt areas," including Liaoning, Jilin, Guizhou, Yunnan, Tianjin and Chongqing, with some localities clearly still struggling to make ends meet – let alone support economic growth. Officials and media have similarly sought to assuage concerns about who will foot the bill for building maintenance fees, saying that the planned measures are mainly an integration of existing funds. But both issues have caught the watchful eye of censors, with many initial online media reports and posts now returning 404 error messages after their removal.

MERICS analysis: "The state of the economy and public finances appears to be a growing concern for the public – and therefore an increasingly sensitive issue for Beijing", says **Katja Drinhausen**, Head of Politics and Society at MERICS. "China's powerful leadership can censor online discussions on the subject, but it can't mandate optimism and confidence in the country's economic prospects."

Media coverage and sources:

- SCMP: Local governments in China to 'smash iron pots, sell the steel' to stave off debt risk
- Caixin: 多地提出"砸锅卖铁"盘活资产 (Various regions propose „breaking the iron pots and sell of the metal" to reconsolidate public assets)
- Sixthone: China Seeks to Allay Public Concerns Over 'Housing Pension' Plans
- 21 Jingjiwang: 房屋养老金，真相来了！你要花钱吗？1 分钟搞懂 (The pension for houses is becoming reality! Will you have to pay? All you need to know in 1 minute)

MERICS CHINA DIGEST

Spain's Pedro Sánchez calls on EU to 'reconsider' Chinese EV tariffs (FT)

Spanish Prime Minister Pedro Sánchez called on the EU to reconsider its plan to impose additional tariffs on Chinese electric vehicles. He did so during a visit to China ahead of a key vote by EU member states on the issue. (24/09/11)

Lawmakers review plan to raise retirement age in fast-greying China (Reuters)

China's retirement age is currently one of the lowest in the world – 60 years for men, 55 for white-collar women and 50 for women working in factories. Reform is urgently needed to ease the pressure stemming of a shrinking workforce. (24/09/11)

Artist known for work critiquing Cultural Revolution arrested in China (The Guardian)

Gao Zhen, who has been living in the United States for the past two years, was detained when visiting his family, according to his brother. His work often depicts former CCP leader Mao Zedong. Authorities have reportedly accused the artist of defaming China's heroes and martyrs. (24/09/03)

China's carbon market to expand, adding steel, cement and aluminium by year's end (SCMP)

By adding these high-emitting industries, China's national trading system would expand from just the power sector to cover about 60 percent of the country's carbon emissions. (24/09/10)

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