

MEDICAL DEVICES

Fact Sheet¹

COSTS OF DECOUPLING

Loss of Market: Losing access to the Chinese medical devices market would result in fewer exports, smaller R&D budgets, and weakened technological competitiveness for U.S. companies.

- U.S. firms held a 30% market share of China's \$78.8 billion medical devices market in 2018.
- If decoupling proceeds unimpeded, the opportunity cost of lost China market access to the U.S. medical device industry would reach \$479.17 billion over a decade, or \$47.9 billion annually.²
- Lost revenue would lead to job losses and translate into a \$33.5 billion reduction in R&D spending over the next decade, compromising the U.S. medical device industry's ability to compete for leadership in next-generation technologies and products.

Costly Imports: Tariffs on medical device imports from China raise the cost of key supply chain inputs, resulting in higher prices for U.S. health care consumers.

- A 2018 study published by the American Action Forum found that, as of July 2018, Section 301 tariffs levied by the U.S. and China would apply to medical device-related trade worth \$1.8 billion and increase medical equipment prices by roughly \$400 million nationwide.
- U.S. import tariffs reduce the competitiveness of U.S.-made medical devices relative to those made in third countries.
- Shouldering the costs of U.S. tariffs reduces the funds U.S. manufacturers have available to invest in new technologies and facilities.

INDUSTRY SNAPSHOT AND BILATERAL TRENDS

The U.S. is a global leader in the medical device industry. The industry supports \$43 billion in exports (2018), 300,000 American jobs directly, and 2 million jobs indirectly.

China's large and growing demand for medical devices presents a major opportunity for U.S. industry.

- China's \$78.8 billion (2018) medical devices market is the second largest in the world and has grown by double digits for over a decade.
- Given its large, growing middle class and aging population, China's medical devices market is expected to maintain a 15% growth rate over the next decade.

China is a source of medical devices and parts for the U.S., but is not a dominant supplier.

- China ranks among the top 10 suppliers to the U.S. in many medical device categories.
- Despite accounting for a large portion of U.S. imports by value in certain segments, China overall is not a major supplier, accounting for only 3.3% of total medical device imports.

¹ For a full explanation of methodology and detailed sourcing, please see the Medical Devices chapter of "Understanding U.S.-China Decoupling: Macro Trends and Industry Impacts," U.S. Chamber of Commerce, 2021.

² Assumes, absent decoupling, a continued 30% market share and 15% growth in the market over the next decade.

EVOLUTION OF DECOUPLING POLICIES

China's Drivers and Policies: China has identified high-end medical devices, a segment where the U.S. is a leader, as a priority industry for reducing dependence on imports. The Made in China 2025 plan and its supporting policies identify certain high-end medical technologies for import substitution, as well as self-sufficiency goals.

Targeted High-End Medical Devices and Self-Sufficiency Goals under Made in China 2025

Key High-End Medical Devices	2025 Target	2030 Target
1. Medical imaging equipment 2. Clinical laboratory equipment 3. Advanced treatment equipment 4. Rehabilitation and medical monitoring devices	Use of domestic high-end medical devices in county hospitals up to 70%	Use of domestic high-end medical devices in county hospitals up to 95%

Sources: The National Manufacturing Strategic Advisory Committee, Made in China 2025 Implementation Roadmap.

To promote import substitution, China deploys a range of policies that advantage domestic firms, including:

- **Tax relief:** Companies developing priority technologies are eligible for reduced corporate income tax rates of 15% as opposed to the standard 25%.
- **National R&D fund:** Chinese companies are eligible for millions of dollars in subsidies to develop medical devices through national funds and industry investment funds.
- **Discriminatory procurement:** Local governments set local purchase targets that reach as high as 80% and reimburse hospitals for local brand purchases.
- **“Volume-based” public procurement:** China’s central and local governments have recently begun centralizing the bidding process for all hospitals within the same province so that local governments can scale up order sizes and drive down prices. U.S. device makers may not be as willing or able as local firms to slash prices to win bids.

U.S.’ Drivers and Policies: The COVID-19 crisis generated new pressures from the Trump administration and members of Congress to produce more medical equipment in the U.S. and less in China. Such policies and proposals include the following:

- **Executive Order 18012 on Combating Public Health Emergencies and Strengthening National Security by Ensuring Essential Medicines, Medical Countermeasures³, and Critical Inputs Are Made in the United States:** Signed in August 2020, this EO makes it harder for federal entities to obtain Buy American Act waivers to procure covered goods from other suppliers, such as China.
- **The Restoring Critical Supply Chains and Intellectual Property Act:** Introduced in July 2020, this bill would require low-end medical equipment (mainly personal protective equipment and other textiles) purchased by the Department of Health and Human Services to be completely domestically sourced within five years.
- **The National Defense Authorization Act for Fiscal Year 2021:** This legislation includes provisions requiring reports on medical equipment supply chains, as well as pharmaceuticals and other related products—a potential precursor to tighter supply chain restrictions.

3 The scope of “medical countermeasures” includes medical devices.