

China: from generic supplier to source of innovation

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For most of the past three decades, China appeared in the strategy of the Basel groups in two roles: as a growing market for medicines and as a supplier of chemical intermediates and active ingredients. Both groups built research centres in Shanghai, where Novartis invested in a large campus.¹ The Chinese market grew rapidly after the reforms of the Chinese drug regulator from 2015, which accelerated approvals and aligned standards with international guidelines. At the same time volume-based procurement drove down the prices of off-patent medicines, which reduced the attractiveness of the Chinese market for older products.

Since about 2020 a third role has emerged. Chinese biotech companies, financed partly by venture capital and listings in Hong Kong and Shanghai, have become a significant source of new drug candidates, particularly antibody–drug conjugates, bispecific antibodies, cell therapies and, more recently, metabolic and obesity medicines. Industry analyses report that the share of in-licensing deals by large Western pharmaceutical companies with molecules of Chinese origin rose sharply in 2024 and 2025 and reached a substantial fraction of all large licensing transactions by value.² The Basel groups participated in this trend. Roche, for example, licensed antibody–drug conjugates from Chinese developers in 2024 and 2025, and Novartis concluded several agreements with Chinese companies in areas such as RNA-based therapies.³

The reasons are partly economic and partly scientific. Chinese companies can move molecules from discovery to early clinical data at lower cost and greater speed than many Western biotechs, aided by large patient populations and an efficient clinical trial system. The licensing structure described in Part G, Chapter IV, with upfront payments, milestones and royalties, allows Western groups to acquire global rights outside China at an early stage and with limited capital commitment.⁴ For Basel, the trend has an ambivalent meaning. It strengthens the role of the large groups as

integrators of external innovation, a role in which their legal, regulatory and commercial capabilities in Basel matter more than their own laboratories. It may weaken the case for investment in early research in Switzerland, because the molecules that fill the pipeline increasingly originate elsewhere.

The trend also exposes the groups to political risk in Washington. American legislators and security agencies have expressed concern that licensing from China transfers American and European capital to Chinese competitors and creates dependencies in critical technologies. Proposals to subject outbound investment and certain licensing transactions to review have been discussed, and the American rules on outbound investment in China, which took effect in January 2025, already cover certain technology sectors, although biotechnology was not among the sectors originally included.⁵ Whether licensing from Chinese biotechs will remain an ordinary commercial practice by 2035, or will become subject to screening and conditions, is one of the uncertainties that distinguish the scenarios below.

1 Notes

1. On the research and development centres of Roche and Novartis in Shanghai and the subsequent reorganisation of their Chinese research activities, see the annual reports and press releases of both groups. Status to be verified. ↩
2. On the rise of licensing deals from Chinese biotech companies to Western pharmaceutical groups in 2024–2025, see the analyses of investment banks and consultancies (e.g. reports by Jefferies, McKinsey, IQVIA and DealForma) and the trade press; precise shares vary by source. Figures to be verified. ↩
3. On individual licensing agreements of Roche and Novartis with Chinese biotech companies in 2024–2025 (among them agreements of Roche with Hansoh Pharma and Innovent Biologics on antibody–drug conjugates and of Novartis with Argo Biopharmaceutical on siRNA therapies), see the press releases of the companies concerned. Details to be verified. ↩
4. See Part G, Chapter IV, sections "Licensing as the currency of the industry" and "Milestones, royalties and the structure of deals". To be verified. ↩

5. US Department of the Treasury, final rule implementing Executive Order 14105 on outbound investment in certain national security technologies and products in countries of concern, effective 2 January 2025 (covering semiconductors, quantum technologies and artificial intelligence); on proposals to extend outbound review to biotechnology, see congressional materials of 2025–2026. Status to be verified. ↩

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