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Avenue des Arts 40, 1040 Brussels
www.ecipe.org — info@ecipe.org

ECIPE PRESS RELEASE — NEW POLICY BRIEF

When the State Becomes the Only Buyer: Monopsony in China's Public Procurement of Medical Technology

By Fredrik Erixon, Director at ECIPE, Anna Guildea, Policy Researcher at ECIPE, and Oscar Guinea, Senior Economist at ECIPE

Brussels, Belgium, 21st March 2022 - China's centralised state procurement policies are moving the Chinese market of medical technologies in a monopsonistic direction. A monopsony is equivalent to a monopoly, with the only difference being that in a monopsony, it is the single buyer who captures all the financial rewards of a contract. The shift towards monopsony in the Chinese procurement of medical technology started in 2019 with its first centralised state procurement. Since then, this procurement policy has accelerated, and now includes several more medical devices.

The shift towards monopsony is a process that builds on a number of steps that tilts the balance of power in favour of the buyer. First, there is a concentration of buyers, sometimes down to a single buyer – such as the state. This concentration of buyers acts to extract value from sellers by creating pressure to reduce and converge prices. Buyers in monopsonistic conditions may also add other objectives to their agenda, using their monopsonistic position to abuse the market. In the case of the Chinese market for medical technology, monopsony reinforces China's industrial policy to support Chinese firms growing their domestic market shares to the detriment of non-Chinese companies.

"Chinese centralised state procurement has supercharged monopsonistic behaviours in the market of medical technology. This procurement policy has led to price reductions, price convergence, a reduced reliance on many suppliers, and a reduction in the number of foreign suppliers. Ultimately, a monopsonistic market empowers the buyer to capture most of the financial rewards from a contract and competition gets undermined because a vibrant market also requires competition between buyers", stressed Fredrik Erixon, one of the authors of the study.

Chinese centralised state procurement and the move towards monopsony will not go unnoticed. These policies clearly breach basic principles and norms of international exchange. The EU and the US should coordinate their policies to counter the monopsonistic tendencies of the Chinese market of medical technologies. The EU-US Trade and Technology Council (TTC) offers a setting to take these discussions forward and agree on policies to counter Chinese market distortions.

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Media Contact: info@ecipe.org at +32 2 289 13 50