Impacts of Proposed US Import Tariffs on the Global Health Sector

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Key Judgements

- US tariffs are likely to hit the healthcare sector in some fashion and tariffs on healthcare-related goods (including pharmaceuticals, medical technology and equipment) would only further drive up costs – especially for the lowest-end, generic drugs.
- US tariffs on China and potentially Chinese companies abroad will only accelerate the decoupling of the healthcare industry globally, particularly if the US also seeks to restrict Chinese medical technology from reaching US shores through third-party countries via supply chain reviews and other similar non-tariff barriers.
- The US may scale back its universal tariff on all imports to affect only certain countries or types of goods, but Indian and European Union (EU) pharmaceutical products, healthcare technology and equipment are unlikely to escape the tariffs, at least initially, raising costs and disrupting supply chains for the industry beyond just US restrictions on China.
- Anti-NATO hacktivist groups may engage in disruptive attacks against health sector organizations in NATO countries in retaliation to new tariffs.
- Health sector organizations, especially those using AI/ML systems to bolster research and development (R&D) may be at heightened risk of cyberespionage campaigns.

Some Tariffs Are Likely to be Implemented

The US is likely to place large tariffs on at least some of its imports during the second Trump administration and, at minimum, tariffs will increase drug and healthcare equipment costs in the US slightly and more substantially reduce China's role within the US medical technology and healthcare supply chain. Prior to the 2024 election, President Trump expressed his intentions to impose a variety of tariffs on US imports – including a 10% to 20% universal tariff on all imports, 60% tariff on Chinese goods and 20% tariff on Canadian and Mexican goods. Since the election in November, his rhetoric on tariffs has not wavered and various US media outlets reported that his incoming economic team prepared different options for tariffs, suggesting there is a high likelihood that some will be implemented.

Importantly, the second Trump administration may act much quicker to place tariffs on imports than the first. During his first term, the US relied heavily on slow-moving tools that required months-long investigations before tariffs could be introduced. However, in his second term, it appears likely that his administration will rely on the broad fast-acting economic powers the president has under the International Economic Emergency Powers Act to introduce tariffs quickly without the need to go through a lengthy investigative process, which means new tariffs on pharmaceutical goods, medical equipment, and other healthcare-related goods could occur within the first few months, or even weeks, of the new administration.

A Universal Tariff Would Likely Hit Indian and European Healthcare Sector Imports

The US is likely to place a universal tariff on imported goods, but this tariff is likely to be scaled back through a combination of smaller tariffs. In recent weeks, various US media outlets have reported that economic advisors are preparing different options for following through with universal tariffs on all imports but scaling them back in a significant manner.

One proposal under discussion would only place tariffs on strategic goods for which the US is trying to boost domestic manufacturing, but this would almost certainly include healthcare sector goods as media reports said that certain medical supplies – including syringes, needles, vials, and pharmaceutical materials – would be included in the tariffs. Another proposal under discussion would scale up tariffs from a small level (such as around 3%) over the course of several months in an effort to encourage negotiations with other countries. Such a proposal would affect all imports, including medical supplies, though over time negotiations would likely lead some countries to reach an agreement with the US that suspends the tariff, most likely in exchange for quotas on the volume of trade of certain goods (including potentially certain medical equipment and pharmaceuticals) and purchases of US goods. Countries that are most likely to receive or negotiate an exemption are those that have a free trade agreement with the US (such as South Korea, Mexico, Canada, Australia and several Latin American countries) or have small trade surplus or a trade deficit with the US (such as the United Kingdom). Countries or regions with a large trade surplus with the US are more likely to face tariffs, including Ireland and other EU countries, as well as India. The EU may have enough political and economic capital to eventually reach a deal with the US, but countries with a large trade surplus with the US and limited leverage, such as India, are less likely to reach a deal, making tariffs more likely to persist on them.

Universal tariffs affecting healthcare sector imports would broadly raise costs in the industry, forcing many suppliers and manufacturers to pass on higher costs to healthcare providers and exacerbating the affordability challenges and reputational repercussions for the industry at large. Universal tariffs on healthcare imports would most significantly impact drugs and other products being imported from India and secondarily the EU. The US market is highly dependent on imported finished pharmaceuticals especially active pharmaceutical ingredients (APIs). Around 50% of the API drug master files submitted to the US Food and Drug Administration (FDA) in 2023 had manufacturing facilities listed in India and another 10% listed facilities in the EU. Universal tariffs thus would boost pharmaceutical costs, affecting low-margin generic drugs that often use Indian and Chinese APIs as many companies would likely pass on costs to their own clients.

Higher margin non-generic drug producers may have more room to offset tariffs by eating the costs themselves, though this could have the knock-on impact that limits R&D financing that is not carried out through borrowing. Moreover, tariffs would also affect a wide range of other pharmaceutical and medical goods. In 2023, the US imported $109 billion worth of pharmaceutical products from the 27 EU member states, about 61% of its $177.9 billion worth of pharmaceutical products imported in total, with Ireland, Germany, and the Netherlands being the leading exporters. Higher healthcare costs in the US would also lead to more popular scrutiny and potential reputational damage for healthcare providers, drugmakers, and others operating in the industry.

Retaliatory tariffs by US trading partners, including the EU, are also likely to impact US exports of healthcare sector goods, particularly if the US moves forward with broad tariffs with few exemptions. In 2023, the US exported $41 billion worth of pharmaceutical products – accounting for roughly 45% of total US pharmaceutical products – to the EU, making tariffs a significant threat to US exporters' profitability as well as putting more pressure on EU member states' already stressed healthcare systems.

Broad Tariffs on China Likely, But Focus on Chinese APIs, Companies Abroad Will Grow

The US is likely to quickly move forward on large tariffs targeting China, which will cause more financial and sourcing challenges for China-exposed healthcare companies.

The US is already in the process of increasing tariffs on certain Chinese medical equipment as a part of new tariffs announced by the previous administration in May 2024, with tariffs on: Chinese syringes and needles increasing from 0% to 50% in 2024; certain Chinese respirators and face masks increasing from a range of 0% to 7.5% to 25% in 2024; and rubber gloves increasing from 7.5% to 25% starting in 2026. The new tariffs could come on top of those already announced in the medical sector, further forcing healthcare importers to seek supplies from other countries or from often higher-priced domestic sources.

If implemented, the tariffs could also hit Chinese APIs. Chinese APIs and intermediates are estimated to be around 10% to 20% of total US imports of such goods and account for about 5% to 10% of the total Chinese APIs and intermediates included in drugs sold in the US. Moreover, many Chinese APIs and drugs are often generic drugs where margins are much lower, which may force drug producers to pass on costs to consumers. Many of the APIs produced are often inexpensive, therefore the extent to which this impacts the overall drug prices will vary from product to product. US medical equipment producers and drugmakers may also be significantly affected by China's retaliation over US tariffs as China may not necessarily match the US one-for-one with retaliatory tariffs. In fact, if China does not target all industries equally, Beijing's desire to build up its own pharmaceutical and medical equipment firms, and broader healthcare sector, means the US healthcare industry is one of those more likely to be targeted in any Chinese retaliation, hurting US companies compared to Chinese, Indian and European competitors in the Chinese market.

Although the current trade policy towards China will focus on tariffs, over time the US is likely to become increasingly concerned about the import of Chinese companies' products or goods containing Chinese precursors and APIs, regardless of origin, which could have an even greater impact on healthcare companies. Chinese companies are increasingly moving production overseas to Mexico, Vietnam, and other low-end manufacturing countries in an effort to avoid US tariffs and seek cheaper labor costs. Moreover, Chinese APIs and precursors are often used in pharmaceutical products manufactured in India or European countries and then shipped to the US. There is likely to be greater scrutiny on Chinese overseas production of strategic goods, including goods in the health sector, as well as medical goods containing Chinese components or technology, and this could result in even more restrictions. The US has limited legal tools to place tariffs on Chinese companies producing goods abroad, but the US could tighten restrictions on the use of Chinese equipment and APIs used in the US healthcare system through executive action, such as through outright bans or limitations. These non-tariff barriers could have a more significant impact on healthcare companies due to the wide-ranging impact they could have on all international trade in the industry, not just trade coming from China, which is already in the process of winding down due to tariffs.

Large Tariffs on Mexico, Canada Unlikely, Though Impact to Healthcare Sector May Be Somewhat Limited

The US is unlikely to implement long-lasting 25% tariffs on Mexico and Canada given the disruption they would cause to the US economy, but small tariffs as leverage against Canada and Mexico in trade negotiations could occur. Both Canada and Mexico have sought to quickly work with the US by taking action on immigration and drug flows following the announcement in November of plans to place a 25% tariff on both countries over immigration and fentanyl flows across the Mexican-US and Canadian-US borders.

This action by Canada and Mexico, as well as the large disruption that tariffs would cause to the heavily intertwined North American economy, limits the possibility that large tariffs will be introduced for more than a brief period of time. Still, smaller tariffs could occur as a form of leverage against Canada and Mexico as a part of USMCA negotiations, which will ramp up due to a July 2026 scheduled review, or a part of a broader tariff targeting all imports. Neither Mexico nor Canada is a major exporter of pharmaceutical and medical technology goods to the US, though in recent years Mexico has grown in the latter, meaning that the impact of any tariffs would not be as large as tariffs on the EU or India would have, at least in the short-term.

However, Mexico and Canada are being eyed by manufacturers as friendshoring options and any move by the US to tariff Mexico and Canada will substantially decrease investor confidence in those countries, even if the tariffs are brief, potentially delaying the long-term diversification of health sector manufacturers to bring more capacity closer to US shores. Moreover, tariffs could also increase the costs of US medication imports that have been recently approved for certain imports from Canada to the US, such as the 2024 approval by the FDA allowing Florida to import some medications from Canada at presumably a cheaper cost. If the US places tariffs on Mexico and Canada, both also would likely place retaliatory tariffs on the US. If the US tariffs are narrow, retaliation is likely to focus on goods that have long been a center of trade disputes, like agricultural products, but if the US tariffs are broad, they could affect US medical equipment and other healthcare exports to both countries.

Possible Cybersecurity Consequences of Proposed Tariffs

Universal tariffs may strain tensions with a variety of countries due to their sweeping nature, but cyber-capable adversaries such as Russia and China are most likely to retaliate with nation-state espionage campaigns or disruptive efforts. These campaigns will likely target strategic entities in health sector R&D organizations, especially those utilizing AI/ML systems in some capacity because technological innovation is a long-term objective of many cyber-capable adversaries.

Outside of nation-state activity, anti-NATO hacktivist activity could impact healthcare organizations due to the proposed tariff package. Attacking the health sector of NATO countries in response to geopolitical events that are counter to Russia’s interests has been observed throughout the duration of the Russia/Ukraine war. One example of this was the DDoS campaign launched in 2023 by Killnet, a pro-Russian hacktivist group, retaliating against NATO military support for Ukraine. In this campaign, Killnet explicitly targeted global health sector entities in an effort to pressure NATO countries to discontinue providing support packages to Ukraine. Killnet and similar pro-Russian hacktivist groups operate relatively unimpeded due to Russia’s lenient cybercrime laws. While not state-sanctioned, the lack of prosecution gives these cybercriminals a safe haven to continue attacking NATO critical infrastructure, including organizations in the health sector.

While the future targeting scope of these retaliatory operations is uncertain, the subsectors that are most impacted by the tariffs within the healthcare ecosystem may provide an inclination into what specific assets may be at an increased risk of being targeted. Healthcare products heavily impacted by these tariffs include rudimentary medical supplies like syringes and needles, and APIs. Therefore, members holding intellectual property in these fields should remain vigilant for cyberespionage actors attempting to gain access to research documents and sensitive prototyping information. Outside of the niche targeting prospects of cyber-capable nations. Members across the board should be prepared to make adjustments to upstream supply chain entities in order to minimize proposed sanctions and minimize procurement costs.