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ISSUE 35
February 28, 2013

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Amway Says China Sales Increase to RMB 27.1 Billion

Amway Company, the largest multinational direct-selling company by sales and network coverage, said on February 20, 2013 that its sales in China, its largest market worldwide, reached 27.1 billion yuan (\$4.34 billion) in 2012, compared with 26.7 billion yuan a year earlier. Global sales amounted to \$11.3 billion, a company record and double its performance in 2007. Last year, the company invested \$335 million globally to increase research and development strength and expand manufacturing facilities, with 600 million yuan invested in China to set up a plant in Guangzhou and a botanical R&D center in Wuxi, Jiangsu province. (Source: China Daily)

Botanical Farmer's Green Approach

With traditional Chinese medicine experiencing a revival, herbal flowers have become hot commodities on the market. A particular plant, known as dendrobium officinale, is believed to have cancer-fighting powers and is gaining in popularity among consumers in China, Southeast Asia, South Korea and Japan.

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Commonly grown in greenhouses, the plant is a daily ingredient at dinner tables in Guangdong province.

One businessman, however, is finding success in producing the plant by eschewing commonly used methods. Rather than using greenhouses, Yang Shaowen is utilizing the natural habitat of longan forests near Zhangzhou, Fujian province, to grow the precious plant.

Yang is president of Zhangpu Yankee Biotech Co, a company that specializes in growing herbal flowers, including the dendrobium officinale. Born in Zhangzhou, Yang has been working in the TCM industry for more than 20 years.

Over the past three years, the wholesale price for dendrobium officinale has soared from 800 yuan (\$128; 96 euros) per kilogram to 1,200 yuan. With more and more home cooks using the plant in soups and porridges and as a medicine to treat the flu, the price is climbing.

Yang is not the first to grow the herb on a large scale. In recent years, Fujian's neighboring province of Zhejiang has used greenhouses to grow it. Zhejiang is now a major base for cultivating and processing herbs in China.

In its natural environment, dendrobium officinale grows on rotting leaves and moss; if grown in soil, their roots are easily affected by bacteria. Replicating this delicate environment in a greenhouse costs millions of yuan.

But Yang has a big advantage in Zhangzhou. The average temperature here is higher compared to Zhejiang and its winters are less harsh. The city's other distinct advantage is its thick longan forests, 35 hectares of which Yang has turned into his farm to cultivate 100,000 sprouts annually.

In his natural farm, he mixes pine sawdust with soil and places the sprouts in a basket. He then hangs the baskets on branches, where the lush leaves shade the plants from sunlight. Tiered in layers of branches, this method saves space as compared to conventional flat greenhouses.

Under these conditions, a tree can generate an annual output of 30,000 yuan and every hectare of longan forest can yield plants with a total value of 4.5 million yuan, Yang says.

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Yang says a listed company in Hong Kong has been negotiating with him to invest in another 30 hectares of what he calls "forest plantation".

Yang says one issue is that the supply of dendrobium officinale isn't meeting market demand, so he is telling local farmers to grow the plant under their own longan trees with the promise that he will buy their mature plants at a decent price.

He says health products made with dendrobium officinale are already popular in major cities. In five-star hotels in Fujian province, a cup of tea made from the plant's flower charges for 168 yuan.

With popularity high, he says many plantations have begun to grow the herbs using his method. "We have to be efficient because many places have turned eyes to these plants," Yang says.

To make their products more competitive, Yang is extending its industry chain to product processing and development. "Compared with our competitors in Zhejiang province, we lag behind in processing and marketing."

Yan Jianhong, deputy general manager of Zhangpu Yankee Biotech, says they are exploring the medicinal value of the herbal plants by working with pharmaceutical companies.

"In the next two to three years, we will focus on health food development," Yang says. "But in the long term, we plan to develop new medicines. By extending the industry chain, we gain a better position in the competition landscape so our company can escape the low-level price competition." (Source: China Daily)



AQSIQ Issues Import & Export Inspection Measures for Dairy Products

On February 2, 2013, the State General Administration of Quality Supervision, Inspection and Quarantine issued the Import & Export Inspection and Quarantine Supervision Management Measures of Dairy Products (General Order No. 152, hereinafter referred to as the Measures). The Measures clearly defines the inspection and regulatory requirements on import and export of dairy.

For the countries and regions that export their dairy products to China for the first time, they are required to provide written materials of the products from their government departments that are in charge of the veterinary health and public health, veterinary service system, health and safety control system, residue monitoring system, animal epidemic inspection and monitoring system, etc. The overseas dairy manufacturers should register at the AQSIQ in accordance with its relevant provisions.

For the dairy products exported to China, they should be accompanied with a health certificate issued by the government authorities of the exporting country or region. The certificate should demonstrate the following: (A) The raw materials of the dairy products should come from healthy animals; (B) The dairy product that is processed should not contain animal diseases; (C) The dairy producers are in the custody of the local government authorities; (D) The dairy product is safe for human consumption.

The Measures will come into force on May 1, 2013. (Source: AQSIQ)

SFDA Partners with Search Engine Company

China's top drug authority, State Food and Drug Administration, forged a partnership on Monday with the nation's Internet search giant Baidu, to help crack down on counterfeit drugs and illegal websites trading shoddy products.

The new alliance means Chinese netizens, of which there are 560 million on the mainland, will have access via Baidu to basic information, authorized by the State Food and Drug Administration, about more than 180,000 kinds of drugs including the producer, description and dosage, said Zhu Guang, vice-president of Baidu.

Online drug stores approved by the administration will be identified by Baidu in related search results, to help consumers make the right choices, he said.

Statistics from the SFDA revealed China now has 27 legal online drug sellers.

Sun Xianze, deputy director of the SFDA, said at the partnership launch: "The cooperation, the latest move in the administration's ongoing efforts to fight counterfeit and substandard drugs, will deal a heavy blow particularly to Web-based fake drug retailers".

As the public's access to the Internet widens, a growing number of people have begun to resort to the Internet and Web search engines for drug and healthcare information and related purchasing, he said.

However, there is an abundance of information on the Internet, and the public is not sure what is accurate, Zhu said.

According to Zhu, the partnership with Baidu will enable the Chinese public to access SFDA's official drug database and thus the most accurate information.

In addition, an online channel will be created where people can report problem drugs they come across and illegal online drug traders to SFDA for further investigation, he added.

"These will substantially help with more targeted efforts to crack down on counterfeits and illegal online drug sales and with wider rational drug use among the public," Sun said.

He said the drug database will be constantly updated to better guide the public in proper drug use and purchasing via the Internet.

"Given wide Internet usage, we'll devise and introduce in the near future Web-enabled tools regarding food, dietary supplements, cosmetics and medical appliances to guide consumer practices online," Sun added.

However, some doubts were expressed over how the partnership will be implemented and its effect.

"As we all know, the online search engines have long profited from sponsored searches so will Baidu be faithful to the partnership in practice?" asked Li Yufeng, an office clerk in Beijing.

"For quite a while I have not trusted all the information provided by search engines including Baidu," she noted.

Industry analysis showed that advertising revenue related to healthcare products and services accounted for approximately 30 percent of Baidu's total advertising revenue. (*Source: China Daily*)

MOH to set up Expert Group on Food Standards

Ministry of Health released an announcement that it will set up a leadership team and expert group.

The main purpose of setting up these groups is to help integrate the existing food standards. They will focus on making comparative analysis on the current quality and safety standards of agricultural products, food hygiene standard, food quality standards and the enforced industry standards to identify the contradictions, overlaps and reiterations, in order to lay the foundation for the integration of the national food standards.

The expert group consists of eight working groups, i.e., working groups of food products, physical and chemical testing methods, microbiological testing methods, toxicology evaluation procedures, special dietary foods, food additives, food-related products, and production and management specification. (*Source: Ministry of Health*)

The Rise of the Middle Class

By Chris Devonshire-Ellis

The issue with any new, emerging market lies within a study of its demographics. In the early 1990s, China had plenty of young, energetic men and women that had just reached the working age, in addition to another generation behind them ready to do the same. The catch was that although the population of China topped over one billion people during this time, there was no middle class to speak of, and very little in terms of domestic consumerism. In fact, China continued to issue ration coupons to the entire population for commodities ranging from rice to oil until as late as 1992.

Consequently, foreign entrepreneurs that turned up in China 20 years ago to “sell to one billion Chinese” very quickly found themselves disappointed in the actual market conditions. However, the foreign entrepreneurs that did come to China to offer jobs and invest in the development of China’s infrastructure and in factories to manufacture export-quality goods to sell to countries with sizable middle class populations – such as the United States and Europe – did very well indeed. Over the past two and a half decades it has essentially been this business and economic truth that has dominated foreign investment practices in China. But this is now changing, and has increasingly been so for the past 10 years.

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Over the past five years in particular, China has instituted a nationwide policy to upgrade the income levels of Chinese nationals in an attempt to spread that wealth around. The results to date have been erratic in terms of national income equality, but this gap will likely narrow after reaching a peak.

There are a number of reasons why Chinese nationals have grown wealthy, but not all of that wealth is sustainable. Unsustainable policies, such as the existing closure of China’s capital account, have seriously limited the amount of money that may be transferred out of China by Chinese nationals. Unlike most Western nations, China’s money is largely staying in China and much of the money has been invested in property. As a result, property prices have reached beyond reasonable levels in primary cities such as Shanghai, Beijing and Guangzhou, among many others. With nowhere to place capital and interest rates relatively low, property offers one of the only places to put cash, which pushes demand up, which raises prices...and so the dreadful cycle continues.

The capital account bubble in China is also manifesting itself in other ways, and with fancy cars now within reach, an explosion of high-end foreign automobiles, including Ferraris and Porsches, have begun to flood China’s streets. What were once global luxury brands have become relatively commonplace in China even despite the vastly inflated prices on such goods thanks to China’s luxury tax on these products. One wonders in fact what “luxury” or “status” means in terms of product value when sales volumes are so high. When a correction comes, it will be at this end of the market. So attention to detail as to how China proposes to manage its capital account and loosen the restrictions on Chinese nationals sending money overseas is crucial.

More sustainable for foreign investors in China is the opportunity to break into the middle class consumer market on a national basis. Again, this is driven by State policy as the government is keen to spread the wealth around.

What this means is that a middle class consumer may aspire to purchase a Louis Vuitton handbag or a pair of Armani sunglasses in Shanghai or Beijing, but the desires in China's second and third-tier cities (and even down to the fifth and sixth-tiers) amounts to owning a pair of Levi jeans or Nike shoes opposed to some no-brand local wear or canvas pumps. It means taking a date to Starbucks instead of a local café for tea, or buying Ferrero Rocher chocolates instead of the local variety. The dynamics of this discrepancy of latent Chinese consumerism is truly mind-boggling.

China has over 500 cities with populations of approximately 1 million, and we can examine a tiny fraction of these compared to some of their American or European counterparts (in terms of population) below:

Chinese Cities and Western Equivalents			
Chinese City	Population	U.S. Equivalent	EU Equivalent
Mianyang	782,000	San Francisco	Amsterdam
Neijiang	696,000	Detroit	Frankfurt
Luzhou	668,000	Memphis	Zaragoza
Nanchong	621,000	Baltimore	Wroclaw
Zigong	601,000	Seattle	Rotterdam
Panzhihua	562,000	Oklahoma City	Malaga
Leshan	459,000	Kansas City	Toulouse
Suining	428,000	Atlanta	Bratislava
Yibin	427,000	Cleveland	Bristol

My bet is that while many readers will be familiar with most of the American and European cities, hardly any will be familiar with their Chinese counterparts. There's also one other aspect that I should point out: all of the Chinese cities mentioned above are in just one province: Sichuan.

What is happening in these lower-tier Chinese cities is that the local populations are now themselves becoming more affluent. Crucially, this is a phenomenon driven by State policy, as Beijing wishes to reduce the national income gap and raise the standard of wealth across the country by way of aggressive policies that increase minimum wages on a national basis (especially in the inland and central regions).

China has increased its national minimum wage by an average of 12.6 percent each year from 2008-2012, and there are no signs of this policy being altered anytime soon. These minimum wage increases have effectively increased China's disposable income levels, and Chinese consumers are now moving from purchasing purely indigenous Chinese brands towards purchasing more expensive and well-known Western products.

Using the United States as a foreign investment case study in China, the past two decades have seen the pan-China establishment of a massive American sales platform right across the country. Brands such as KFC, McDonald's and Starbucks have all introduced the concept of American quality and the American lifestyle experience that the bulk of Chinese consumers strive to attain. It's a little known phenomenon because these brands are not considered "high-end" in the United States, but in China they really are a big deal.

The environment these outlets provide for the average Chinese consumer is one of a lifestyle upgrade in terms of exoticism, value, quality and entertainment. It is of significance that these brands are perceived as being representative of American values and are recognized as being U.S. lifestyle products, a factor that has enhanced the concepts of viability and trustworthiness of American products in China.

Let's take a look at the consumer base these companies have already built and are continuing to develop on a national basis across China:

- Starbucks – Targeting to open 1,500 stores in 70 cities across China by the end of 2015
- McDonald's – 1,600 stores already opened by the end of 2012, and a total of 2,000 stores spread across 150 cities are planned to be opened by 2013
- KFC – 4,000 outlets currently open across more than 650 cities in China. Currently opening at a pace of one new outlet per day

With a development platform such as this on which to base the acceptance of American products and quality, I predict a huge surge over the next decade for middle market global brand exports to China. The development of these consumer outlets represents a great opportunity for other global manufacturers to build on what has already been achieved here and also provides a fairly large Chinese consumer market base already familiar with the Western concepts of value, quality and consistency – issues that China's domestic brands have largely failed to emulate.

The Louis Vuitton bag may still represent the pinnacle of having made it as part of China's super wealthy in Shanghai, but in cities such as Mianyang, the youth are looking to trade up from their cheaper Chinese sports shoes for Nike sneakers and upgrading their wardrobe with Levis jeans.

These consumer patterns being replicated throughout China's inland provinces means that the time to invest in – or stay in – China to take advantage of the massive surge of middle class consumerism is now. This trend will likely continue to happen for the next two decades on a national basis, and entrepreneurs now truly have the ability and chance to “sell to one billion consumers.” The time to sell to China has arrived, and now is the time to be looking at doing so. Despite the difficulties export-driven manufacturers face, conversely, international business wanting to sell to China are on the cusp of a sales bonanza.

In summary, the key to understanding China's potential – and downside – lies within each individual foreign investor's business model. Manufacturers looking for cheap labor and land are better off now considering Southeast Asia, while international companies with products to sell should be looking at China and getting over here fast – because if you don't, your competition will.

Finally, is it possible under today's global trade circumstances to both have your cake and eat it too? Right now, the answer is yes. Cheaper manufacturing can be found elsewhere in Asia, and China now has the means and desire to buy. For global business executives, there has never been a better time to be in both China – and Asia. (*Source: www.china-briefing.com/news/2013/02/22/the-reasons-to-stay-in-china.html*)

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