



# CHINA UPDATES

May 13 , 2015– Issue 141

## INSIDE THIS ISSUE

**Health Product Ad should be Better Regulated**

**CFDA: Hot Pot Seasoning should be Better Regulated**

**Lanzhou FDA Crack Down on Illegal Health Product**

**Chinese State TV Investigates Rice Switcheroo Scam at National Grain Warehouse**

**Aliyun, An Alibaba Unit, Is Building China's First "Cloud Hospital"**

**Chinese Children Rub Eyes to Improve Vision**

**Beijing's Air Pollution is Getting a Little Less Deadly**

**Why Chinese hospitals are boycotting Baidu**



## **Health Product Ad should be Better Regulated**

The latest draft of national ad law adds one new line that targets the advertisement of health product: these ads should not include any statement of disease prevention or treatment.

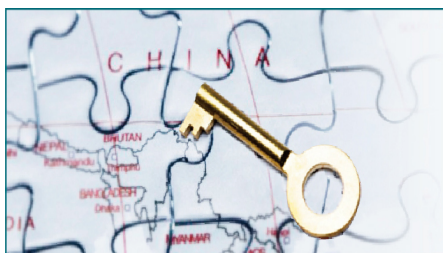
A statement of "this product cannot replace drugs" should also be placed properly on the package of the products, says the new draft.

The draft also requires the TV shows about health should not release health product or drug ads. TV stations should not promote any drug or health product in the name of introducing health information. (Source: Beijing News)

## **CFDA: Hot Pot Seasoning should be Better Regulated**

In the past few years, thanks to the rapid development of catering industry, the favors and ingredients of hot pot are developed as well. However, based on the inspection result last year, an increasing number of restaurants are adding illegal additives to the soup of hot pot and use substandard seasonings in the food.

To better protect the interests of local consumers, the inspectors should strengthen regulation on hot pot. Special inspection should be launched to address this issue. Any illegal food additives or substandard ingredient in the hot pot



Are you seeking a reliable partner to help you navigate and successfully enter the China dietary supplement market?

**TSI** has the **expertise** to help.

Contact your TSI representative today to learn more.



**TSI**  
[www.tsichina.com](http://www.tsichina.com)  
[www.tsiinc.com](http://www.tsiinc.com)

should be spotted in time. (Source: CFDA)

## Lanzhou FDA Crack Down on Illegal Health Product

The state broadcaster has exposed a number of illegal health products which have been sold in 27 provinces with over 600 cities, which severely hurt consumers' interests.

On April 14, Lanzhou's local FDA has launched a campaign to crack down on illegal health food. The city regulators asked authorities of each county and district to severely punish the illegal vendors based on law.

The local regulator has recently launched inspection on health food companies to check for illegal additives, productions and operations. The local major warehouse and pharmacies are all specifically checked in the campaign. Spot checks were conducted towards products that claim to help control weight, protect stomach and regain energy. (Source: Lanzhou Daily)

## Chinese State TV Investigates Rice Switcheroo Scam at National Grain Warehouse



If you're eating in China, beware: Your rice might be older than you think it is.

China's history of famine and starvation led it in 2004 to set up a price system that guarantees that the

**So little.**  **So much.**

Powerful Phospholipid EPA & DHA

Excellent User Experience

Smaller Dose, Easy Digestion

 **AkerBioMarine™**  
Antarctic

 **SUPERBA®** KRILL

[www.superbakrill.com](http://www.superbakrill.com)

state would buy grains from farmers if the market falls below a preset level. The price floor encouraged farmers to produce even under expectations of weak markets.

The policy has been credited with an 11-year run of bumper harvests, but it's also produced some problems. For one thing, it has sometimes resulted in a huge surplus of grains. For another, as the state-owned China Central Television charged in a televised expose last week, it has helped grow a crop of scam artists looking to illicitly profit from the annual differences in the state's minimum purchase prices, as Beijing's system is known.

In a four-minute segment broadcast on CCTV's news report, video footage showed a grain merchant in China's northeastern Jilin province buying 47 metric tons of old rice from state stockpile China Grain Reserve Corp., also called Sinograin, and then reselling the shipment as newly harvested rice via a second trader to another state warehouse. The old grain was purportedly from the 2011 harvest and was bought by the merchant from Sinograin at 2.84 yuan (around \$.50) per kilogram, the state support price from that year. But it was resold as 2014 grains at 3.1 yuan a kilogram, CCTV said. The single illicit transaction resulted in a profit of about 10,000 yuan, the report said.

Sinograin responded on Friday to say it's investigating the matter.

It's not the first time price floors have produced scams. Smuggling of rice has also been a big problem along China's border with Southeast Asia, as cheaper Vietnamese and Thai rice flows northward in search of higher Chinese prices.

It isn't clear how widespread the problem highlighted by the CCTV report has become in the murky expanse of China's grain belt. Sinograin vowed to work with local governments to "deal seriously" with the matter, calling such illicit manipulation one of the "four problems" of grain reserve management. These "problems" are listed as the illegal use of grains; manipulating quality grades and prices; illegal loans; and illegal stashes of money. So far, there's no indication that the list includes the grain market's price floor itself. (Source:WSJ)

### **Aliyun, An Alibaba Unit, Is Building China's First "Cloud Hospital"**

Alibaba's power doesn't just stem from being the largest player in the world's fastest-growing e-commerce market. The company also sits on hoards of data, gathered from its shopping sites, as well as its financial and cloud computing businesses. Now Aliyun, Alibaba's cloud computing subsidiary, has entered a deal to build what it calls the first "cloud hospital" in China.

Aliyun announced today that it has partnered with Xi'an International Medical Investment and DHC Software to create a hospital administration platform that they claim will improve the quality of medical care by making it easier for organizations to manage individual patient cases and analyze aggregated health data.

Xi'an International Medical Investment, which manages department stores and real estate as well as medical facilities, will be in charge of bringing the "cloud hospital" platform to market, while DHC

Software will focus on its development. Aliyun, meanwhile, will contribute data analysis, cloud computing services, online-to-offline healthcare, and online payment support.

In a prepared statement, Xi'an International Medical Investment's chairman Jin Shi said that the new platform will allow hospitals to share information more quickly and reduce the amount of

time patients spend in waiting rooms by allowing them to register for appointments or make payments online. The software's analytic tools may also eventually help doctors make accurate diagnoses by making it easier for them to access a patient's medical records from other hospitals and also check family health information.

The "cloud hospital" Aliyun is building with its two partners is the latest step Alibaba has taken to apply its resources to healthcare. The company announced last year that it plans to use features and data borrowed from its other platforms, including Taobao, to help remake China's health system.

More recently, Alibaba Group announced that it will transfer its online pharmacy business to Alibaba Health Information Technology, a separate company that is listed in Hong Kong. In a statement, Alibaba Group chief operating officer Jonathan Lu said "health care is especially important to Chinese consumers, and we expect that this integration (of Alibaba Health) will enable Alibaba Group to build a healthcare ecosystem that can utilize e-commerce, big data, and other technologies to improve the healthcare supply chain and ultimately provide users with a better healthcare experience."

Alibaba Health, of which Alibaba Group currently holds a 38 percent stake in (the amount will increase to 53 percent after the online pharmacy deal closes later this year) already runs an appointment-booking site, as well as an app that

lets users fill prescriptions at nearby pharmacies.

Like other pharmaceutical companies, however, Alibaba Health is limited by China's current regulations, which do not allow the online sale of prescription drugs, though those laws are expected to be reversed this year.

The ambitious healthcare plans of Alibaba and its various subsidiaries are just one example of how deeply entrenched the company may become in the daily lives of Chinese people outside of their online shopping demands. Others include launched by Ant Financial, such as a new economic index that uses big data from Alipay and a credit-scoring service that looks at that track records of people who use Alibaba's e-commerce sites.(Source:tech crunch)

## Chinese Children Rub Eyes to Improve Vision

Every day, millions of Chinese children sit at their desk and diligently massage around their eyes in an attempt to improve their eye health and vision.

These acupressure eye exercises, based on traditional Chinese medicine ideas, have been carried out by decades of schoolchildren in China and are thought to help stave off near-sightedness, also called myopia. Rates of myopia among the country's youth have reached epic proportions, with one 2015 study of Beijing high school students finding that 80% of youth studied were near-sighted.

But very little high-quality research exists about whether the eye exercises really work, say vision researchers. The few studies that have tried unpack the usefulness of the practice have found no strong link between the exercises and lower rates of nearsightedness. For instance, results from the

2013 Beijing Myopia Progression Study, which studied 409 school children, showed that there was a "modest" effect of relieving temporary vision symptoms, like eyestrain and headaches, but no benefit to preventing myopia.

The impact of eye exercises is difficult to study because they are considered valuable by so many people in China. From that perspective, withholding the exercises from some children – the best way to study whether they have the desired effect or not – might be considered unethical by some people, says Ian Morgan, a retired professor at the Australian National University who conducts research at the Sun Yat-sen University in Guangzhou.

Other studies on eye exercises are still underway, but are unlikely to show much effectiveness in preventing myopia, says Jost Jonas, a professor of ophthalmology at the University of Heidelberg in Germany, who studies myopia in China and India. If the exercises really worked, the rates of myopia wouldn't be so high, he says. "I would believe that they do not work very strongly, otherwise [the effect] would show up in these studies," he says.

Rather, the finding that the amount of time spent outdoors is linked to lower rates of myopia is "without doubt much stronger," says Mr. Jonas.(source:wsj)

## Beijing's Air Pollution is Getting a Little Less Deadly

China's war on pollution is starting to make some headway. In the notoriously smoggy Chinese capital of Beijing, air pollution—measured by the concentration of PM2.5 particulate matter—fell by 13% during the first quarter of this year.

That's according to a new study by Greenpeace, which also found levels that of PM2.5 fell by 31% in



**GMP Services**  
注册服务

To learn more about NSF cGMP Services, [click here](#)  
Experts in auditing, consulting, training and testing

欲了解更多服务信息请点击  
审核、咨询、培训和测试专家团队

the neighboring province of Hebei. In the central Chinese city of Xi'an, PM2.5 concentrations dropped by 48%. In contrast, provinces where stricter pollution controls haven't been enacted, such as Henan, Hubei, Hunan and Sichuan, were among the ten most polluted areas for the quarter. Last year, Chinese premier Li Keqiang declared curbing pollution as one of the key necessities for upgrading the Chinese economy. Since then, China has pledged \$277 billion toward cleaning up its air, and updated its environmental law to allow for stricter penalties on companies that violate state pollution regulations. Steel and cement production in Hebei, responsible for much of the smog in Beijing, has been reduced—although it has also caused the poor industrial province's economy to take a hit.

The improvement detected by Greenpeace is only a small step forward. "This is the only silver lining in a situation where 90% of cities still record levels of pollution that far exceed China's own air quality standards," said Zhang Kai, Climate and Energy Campaigner at Greenpeace East Asia, in a statement. The average concentration of PM2.5 for 360 Chinese cities analyzed by Greenpeace was 66 micrograms per cubic meter, almost double the national limit.

There's still a long way to go, but environmentalists are applauding the fact that Chinese cities are making an effort to be more transparent about pollution levels. Now, 367 Chinese cities are monitoring and disclosing levels of PM2.5 under a recent rule that has set limits on PM2.5 concentrations for the first time—a regulation that will be applied across China as of 2016. According to Greenpeace, "the quantity of city-level air quality data available to the Chinese public now is unprecedented."

## Why Chinese Hospitals are Boycotting

## Baidu

A high-stakes clash between search engine Baidu and an association representing about 8,600 hospitals is rocking a relationship at the heart of China's online-advertising sector.

Baidu has asked police to investigate the association — the Putian (China) Health Industry Chamber of Commerce — for its possible role in an alleged extortion scheme targeting the search engine's clients.

The Putian chamber and its member-hospitals, meanwhile, are continuing a boycott of Baidu's advertising service that began March 22 over what they're calling exorbitant fees. Some 98% of these small hospitals, each of which has principal investors hailing from the city of Putian in southeast China's Fujian Province, are participating in the protest.

A research report by J.P. Morgan Chase said Putian hospitals last year may have contributed 5% to 12% of Baidu's 49 billion yuan (\$7.9 billion) in revenue and warned that the boycott could dent the search engine's 2015 income.

That estimate may be low. The city of Putian's Communist Party chief Liang Jianyong, for example, said in 2013 that these hospitals may have contributed 12 billion yuan of the 26 billion yuan in ad revenues reported by Baidu that year.

Baidu said Liang's estimate was an exaggeration but did not react to the J.P. Morgan Chase report. A former Baidu ad-department employee who asked not to be named acknowledged that the ads bought by Putian Chamber members contributed significantly to search engine revenues.



VeggieSoft™ **Make your brand stand out**



www.siriopharm.com

Companies in China's health-care, education and e-commerce sectors are the biggest generators of Baidu ad revenues, the source said, and Chamber-member hospitals together comprise the biggest health-industry client.

Baidu has lashed out at the protesting hospitals, initially by claiming the boycott was in response to the search engine's decision to block from search results all Putian hospitals that violated industrial regulations or that had generated too many consumer complaints.

On April 7, the search engine said it was asking for a police probe after the Putian Chamber allegedly "severely interfered with (Baidu) clients' normal operations." Police have not commented.

Baidu said on Sina Weibo (China's equivalent of Twitter) that its clients had reported being intimidated by representatives of the hospital group's regional branches. According to these clients, the representatives threatened to flood the clients' promotional links on Baidu pages with hits — and thus dramatically increase their search-engine fees — unless they obeyed the Chamber by stopping their advertising on Baidu. Baidu vowed to block all "malicious clicks."

The Chamber's executive president, Wu Xidong, denied Baidu's extortion claim. But he did acknowledge that member-hospitals participating in the boycott had been trying to convince other hospitals to join the protest.

Despite their vitriolic war of words, Baidu and the hospital group may be close to settling the dispute, J.P. Morgan Chase said. A settlement would be needed to minimize damage to the search engine's bottom line.

The Putian Chamber has made it clear that the boycott is designed not only to drive down ad prices, but also to lay a foundation for better cooperation in the future.

The Chamber has blamed Baidu's ad-pricing system

for the deteriorating relationship, saying the system has been hammering hospitals at a time when "the industry is facing severe problems. Many medical facilities have been reduced to practically working for Internet companies."

This year, the Chamber said, the search engine has doubled its mandatory spending floor for a single advertiser to 10 million yuan annually. Moreover, the chamber said, a multi-year client was told by Baidu that it must increase its ad spending every year by at least 40%.

Previously, a source at a Putian hospital told Caixin, Baidu had required that hospitals increase their ad spending by 10% to 20% annually.

Most hospitals advertise on Baidu by buying space on search-result pages. An advertising client first deposits money into a Baidu account. That account is slowly drained as search results generate clicks. Usually, the higher a result appears on a search page, the higher the fee charged.

Final bills can thus vary widely. Some hospital investors said Baidu charged several hundred yuan per click, while a Putian hospital owner in Beijing who uses the alias Huang Xin said "some have reached even 2,000 yuan. I have also heard about charges as high as 4,000 and 5,000 yuan" per click.

That means a hospital must make an average of at least 2,000 yuan from each patient just to pay for its Baidu advertising, Huang said.

Acknowledging this price was the president of a Chamber-member hospital, who declined to be named, who said hospitals pass their ad costs on to patients. Those costs can range from 1,000 to 3,000 yuan per person.

The latest dispute marks the second major blow-up for relations between Baidu and these hospitals. In 2011, for example, several Putian hospitals specializing in male-reproductive-system diseases claimed that Baidu's fees of up to 600 yuan per

click were too steep. The protest fizzled, though, and sources said the price then jumped to 999 yuan per click.

Hospital officials said Baidu ad prices effectively squeeze money out of their patients. Some hospitals have been so desperate to cover their Baidu bills that they threatened to punish any doctor that did not collect at least 1,000 yuan from each patient. Hospital mark-ups on medicine have been blamed on Baidu advertising charges too.

“A drug that normally costs no more than 10 yuan would be sold for 400 or 500 yuan at a hospital that promotes itself on Baidu,” said a source who worked at a Putian hospital.



“And there are examination fees, which are more important,” he said. “For what would normally cost only 200 or 300 yuan at a hospital, we would charge at least 1,000 yuan.”

Relations between the search engine and hospitals supported by investors from Putian were much better between 2003 and 2011, when the health-care business was booming. Many hospitals switched to advertising on Baidu during that time and phased out less-sophisticated promotional campaigns, such as the use of paper ad fliers glued to city-street lampposts.

And even today, some Putian hospital owners have no qualms with Baidu and have objected to the boycott. Huang is among them.

Huang said he didn’t want to stop advertising on Baidu but is complying with the Chamber’s decision

anyway. In fact, his hospital and the hospitals of some 207 other investors are members of the 10-month-old association, which was established by powerful Putian investors with an aim to consolidate resources and pave the way for the creation of a conglomerate with wide-ranging operations in the medical industry. The association said most hospitals owned by Putian investors are its members.

An ad manager at a Beijing-based hospital said, however, about 40% of hospitals owned by people from Putian do not take orders from the association. And even members of the association may disagree with the boycott decision as time goes on, he said.

In the end, he said, it may be that only 10% of hospitals backed by Putian investors would actually stop advertising on Baidu completely.

At an April 4 membership meeting to discuss the boycott, the association’s Wu said, about 90% of those present voted to continue the protest indefinitely. Huang said he voted against it.

“I just want to run a business,” Huang told Caixin. “But the association keeps pulling me along.”

Over the years, as hospital revenue growth slowed, some investors from Putian have branched out into other fields, such as the medical-equipment business, real estate and financial services. Some started reorganizing their hospitals to provide better service.

“I’ve also noticed the phenomenon that Putian hospitals are changing,” said Pan Zhongying, president of United Family Healthcare, a Beijing hospital.

Chinese private-equity firms CDH Investments, Zero2IPO Venture and Sequoia Capital have seen opportunities as well by banking on a “second generation” of Putian hospital investors, who they hope will improve the businesses.

“Many Putian hospitals are indeed becoming more

professional and more standardized, especially in recent years,” said a medical-industry investor.

But some analysts wonder whether Putian hospitals can be transformed. “As long as the original Putian investors still have controlling rights, and their values don’t change, outside investors won’t make much of a difference,” said an analyst.

Moreover, some hospitals have braved the Chamber’s threats by continuing to advertise with Baidu.

The association said about 150 member-hospitals were still bidding for advertising space on Baidu as of April 6, although the boycott was still being observed by 98% of its members.

Baidu said the dispute is not about pricing but claimed that the Putian Chamber was hitting back after the search engine last year started barring bad hospitals from search results. In fact, Baidu said, last year it turned down requests for ads from more than 13,000 medical facilities, among which about 60% were Putian hospitals.

Some analysts say Baidu is trying to improve its own image by weeding out hospitals with bad reputations.

“Everyone knows Baidu’s fee-based (search-

result page) ranking is a snare,” said an investor with a stake in a boycotting hospital. “Its credibility has been hurt a lot.”

The association, though, insists the boycott is aimed at convincing Baidu to negotiate ad charges with its hospital clients as a first step toward better relations. And in fact, some analysts say Baidu and the hospital association are bound to reach an agreement, since each needs the other.

“Unless there’s a new platform that can rival Baidu, Putian (association) hospitals and Baidu will still rely on each other,” said a medical industry analyst. “There’s no way that their relationship is going to break down in the short term.”

Over the long term, say some analysts, the squabble is bound to yield good results.

“Baidu has dominated in the field of medical media, and no other voice has been able to match it,” said Wang Hui, a former executive at CDH Investments.

The Putian association “is an organization able to communicate with (Baidu) or challenge it. This will force and encourage both sides to think about how to improve.”(Source: caixin)

China Updates is published weekly by the U.S. – China Health Products Association, a non-profit organization dedicated to the promotion of dietary supplements and nutritional ingredients. The association’s major focus is the continued development of China’s overall natural health product industry as well as offer business services to its global members.

**ADVERTISE WITH “CHINA UPDATES” FOR AS LITTLE AS \$1,400 FOR 52 WEEKS**

**CONTACT US NOW: [news@uschinahpa.org](mailto:news@uschinahpa.org)**

Copyright© 2015 U.S. – China Health Products Association. All Rights Reserved