# CHINA UPDATES

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## Health Product Brand Seminar Held in Nanjing

"To better implement the guidance of Health China 2030, and establish branding awareness, a new development model of general health industry should be explored," reads the slogan of the latest forum on branding and operations of health industry held in Nanjing.

Nanjing is the capital city of Jiangsu province, which pioneers branding model of health industry nationwide. Officials with the provincial government addressed the forum.

The local health industry faces many development opportunities, but is also caught by many challenges, including backward measures to operate business and absence of professional branding approaches.

The forum addresses issues existed in the industry, and calls for promotion of innovative branding operations and development. (Source: eastday.com)

## China Cross-Border E-Commerce Quality Monitoring Center Launched

A national quality monitoring center for cross-border e-commerce was launched on Wednesday in Hangzhou, China's e-commerce capital.

The online system, approved by the General Administration of Quality Supervision, Inspection and Quarantine in June 2015, went into operation after more than a year's preparation.

The platform will form a big data center to monitor cross-border e-commerce and will have several functions, such as risk monitoring, evaluation and treatment, quality source tracing, and credit rating.

Wang Yichen, an official with the Hangzhou entry-exit inspection and quarantine bureau, said the center will lower risks concerning commodity quality, protect consumer rights and help create a safer and more trustworthy e-commerce environment.

The center has agreed to cooperate with Alibaba's cross-border retail platform Tmall International on policy innovation, data sharing, quality supervision and information exchange.

China currently has over 5,000 cross-border e-commerce platforms. The Ministry of Commerce predicts the volume of cross-border e-commerce will reach 6.5 trillion yuan in 2016 and that it will soon account for 20 percent of China's foreign trade.(Source: Xinhua)

## Domestic Dairy Products Win Back Consumers' Confidence

The history of one company owning 180 formula of dairy product is no longer going to repeat itself in China's dairy industry.

Since this October, management guidance on infant formula products starts to be officially implemented. No company is allowed to have over nine kinds of formula in principle.

Thanks to the strengthened regulation by food and drug regulators, the substandard rate of domestic infant formula products has fallen from 1.5% in 2014 to the current 0.46%. The market share of domestic products accounts for 65% of the total number.

China has 103 infant formula companies, with over 2000 formulas. This has generated a lot of safety risks as some problematic companies simply change their brands and keep producing the same formula. (Source: People Daily)



## Pig Raised By NetEase Sells For RMB100,000 On Online Auction

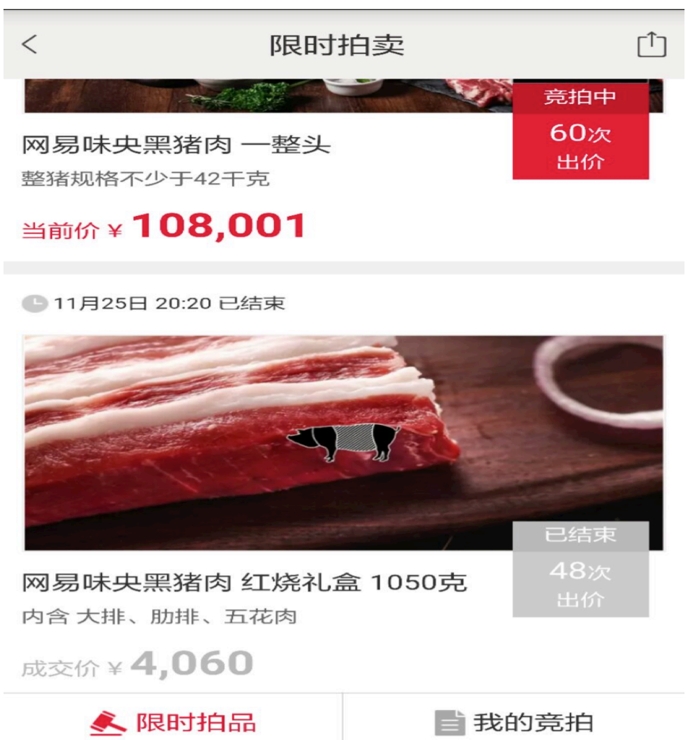
So far, the whole black pig that NetEase raised was auctioned at RMB108,001 after 60 biddings. Up till 22:00, one gift package of the braised black pork was auctioned at RMB4,060 after 48 biddings.

On the third World Internet Conference, NetEase's black pig business already gained lots of attention as industry leaders praised highly of the pork. Gu Yongqiang for example commented that Ding Lei's pork was indeed incredible and that his son really liked it. Yang Yuanqing on the other hand said in an interview that Ding Lei's pork was incredibly delicious. Shen Hongfei and Chen Xiaoqing who are very picky also commented that the pork had a good taste to the mouth.

After seven years of making, NetEase's Weiyang(the company's food platform) pork is finally launched into the market. It seems that the pork has a rather good reputation whether it's from the perspective of the market bidding or the comments from people who had tasted it.

It's reported that NetEase's Weiyang black pigs go through a 300-day slow raising plan. The farm house is located in a natural surrounding among bamboos and the pigs are fed entirely natural food free of chemicals. The farm house is under 24-hour monitoring and the pigs can even use the toilet themselves. The facility is kept in a hygienic condition. Shen Hongfei and Chen Xiaoqing etc. even commented that NetEase's Weiyang pig farm is as clean as Aman Resorts. By far, NetEase Weiyang has completed its exploration in the 4th generation of international breeding model and achieved over ten innovations on the process of breeding and waste processing.

Ding Lei once stated in an interview that he wanted to enter the pig breeding sector for the fact that he wanted to transform the traditional breeding industry with the Internet spirit by applying technologies in agriculture and changing the horrible food safety issue in China. In March 2011, after one whole year of selection process, NetEase chose to set the pig farm in Anji, Zhejiang province. Then NetEase established an independent brand named Weiyang. The Weiyang black pork had gone through a long process of four years from the internal dinning halls of NetEase to the dinner of World Internet Conference.




NetEase Weiyang's relevant director stated that the auction wasn't aimed for getting a specific pricing when asked about opinion on the expected final bidding. Weiyang set the beginning price at ￥1 since this is the first time that the brand enters the public arena and it's hoping to share its outcome on raising pigs with the general public. The brand also wants to attract consumers to once again notice the value of safe and quality pork.

Some might wonder if Ding Lei is just big givers that wants to improve the food safety issue in China or he just senses the potential in the pig breeding sector.

According to third-party research institute Zhiyan's report, the scale of the Chinese pig breeding sector is around RMB1.4 trillion while live pigs are valued at RMB1.2 trillion and pork products account for ￥200 billion. At present, the tendency in the Chinese pig breeding market is the growth of scale after applying new technologies in the breeding process. So can Weiyang become a leading force in this market?

FreesFund's research shows in 2015 China produced 54.87 million tons of pork, which was four times more than that in the early 80s (11.34 million tons in 1980), with an average growth of 11%. Chinese people on average last year ate 700 million pigs, which means everyone on average ate half of a pig (40 kilograms) in one year. The production of pork is still on the rise and it will only continue. On contrast to that the pork production in Europe and the U.S is rather stable and is in a relatively lower lever compared with China.

It took the American pig breeding sector about 20 years to accumulate scale, from 1980 to 2000. Before that, the American pig breeding sector was similar to that of China as the market was a mess and individual farms scattered. In 1980 there was

700,000 pig farms and the number was cut to70,000 to 80,000 in 2000, a 90% slump.

The pig breeding sector in China today is similar to the American pig breeding sector in the 80s. According to statistics in 2011, the number of pig farms that output less than 50 pigs had been changing at the reduction rate of several hundred every year. However, the Chinese pig breeding industry only outputs a couple million pigs on average. What really changes is the number of the farms that output more than 500 pigs. The change started in 2013. (Source: itdadao.com)

## Ali Health: A Revolution for China's Healthcare Industry?

Private-sector actors in China, led by Alibaba, are taking significant steps to do what they believe will earn a handsome profit in the growing Chinese healthcare industry. With a market expected to reach one trillion dollars by 2020, companies are working fast to secure their slice of the expanding Chinese healthcare pie.

Ali Health, Alibaba's healthcare subsidiary, has pinpointed the prescription drug market as a potentially significant source of earnings. Today in China, hospitals sell almost three-quarters of all medicine prescribed in the country.

This de facto monopoly in prescription drug sales contributes significantly to inflated prescription drug prices for patients and incentivizes corruption, as Yanzhong Huang explains in his book Governing Contemporary Health in China.

The hospitals are not the only ones looking for alternate sources of revenue. Chinese doctors themselves are not paid salaries commensurate with the medical services that they provide. Thus, many Chinese doctors seek "gray income" to supplement their salaries.

"Gray income" can come in the form of a so-called rebate from pharmaceutical sales companies. It is paid to doctors by a pharmaceutical sales company in exchange for a commitment that the doctor will prescribe that company's products.

To guarantee the pharmaceutical sales companies' own profits, they then hide the so-called rebate in the sales price of the pharmaceutical product, which is the price at which they then sell to the hospital. As a result, before a drug enters the hospital, its purchase price is already significantly inflated.

Alibaba and other players are hoping to benefit from the growing Chinese healthcare industry while searching for creative solutions to break the racket. Alibaba has piloted a mobile application that enables customers to upload a photo of their prescription and receive price bids from nearby retail pharmacies. Once the customer chooses which retailer they would like to use for that particular transaction, they make payment through Alibaba's mobile payment system, AliPay, and the medication is delivered to their door. This application has been piloted in Hebei Province in cooperation with local governments. The prescription mobile application, called Alijk, has facilitated the purchase of prescription drugs often around 20 percent below average market prices, saving customers up to 50 percent in total spending. Alijk takes advantage of the widespread use of mobile phones in China and combines it with GPS technology to facilitate cost savings for the customer through the existing system of prescription drug sales.

However, an Internet prescription drug marketplace, the company's next goal, would disrupt the supply-chain entirely and offer an online prescription drug store, circumventing retail pharmacies and hospitals altogether. If it succeeds, Ali Health would hold a large share of the $149 billion market for prescription drugs. This would have the effect of cutting out some of the price distortions that drive up costs for everyday Chinese.

Three factors must be taken into account before a significant shift in the prescription drug market can take place in China. First, doctors and hospitals will most likely oppose any licensing of Internet prescription drug sales as it threatens their ability to raise revenue.

For example, in response to Alijk, some hospital administrators have complicated the availability of an "uploadable" version of the prescription so as to create strong incentives to use the hospital's pharmacy and preclude patients from using the mobile application. This resistance can be eased by reforming the provider payment system, so that doctors' salaries are commensurate with the services they provide. Of course, this is easier said than done, but the revenue doctors need to support their families should not weigh so heavily on the wallets of the average Chinese national.

Second,  Ali Health could face competition from its counterparts at the intersection of technology and healthcare. For example, Tencent, another major Chinese Internet company, has added doctor appointment systems and payment services into its mobile chat application WeChat, invested in a health portal, and created an online healthcare service. For now, Tencent is mostly focusing on medical service payments, but it may yet try to enter the Internet drug market should it take off in the near future. Past experience in China indicates that a profitable market attracts a flood of competition. Perhaps a cooperative effort to combine Tencent's service and payment platforms with Ali Health's marketplace would benefit both the pioneer companies as well as China's healthcare industry.

Third, and finally, is the challenge of implementation. Ali Health and its competitors will need to develop an effective platform for sales together with reliable distribution mechanisms. The incentives for doctors to overprescribe, or prescribe certain brands of medication, can endure in an online marketplace system. Pharmaceutical companies will still be interested in offering financial incentives to doctors to prescribe their medication, no matter if the patient makes the purchase online or offline.

Ultimately, if the Chinese government elects to grant licenses to sell prescription drugs online it will have profound implications for healthcare reform in China. Will Beijing opt to favor the status quo despite its inefficiencies, or will it begin to see that this seemingly minor issue of Internet pharmacy marketplaces demonstrates a need for more sweeping reforms to the Chinese healthcare system? We will have to wait and see. (Source: thediplomat.com)

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.

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