

# CHINA UPDATES

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### **Regulators Coordinate in Cracking Down Fake Drugs**

Food and drug regulators of six provincial capitals in middle China, including Wuhan, Hefei and Changsha, have recently signed an agreement to set up coordination system for drug regulation and cracking down fake drugs.

According to the agreement, regulators of the six cities are scheduled to meet regularly every year to discuss related tasks and come up with solutions to problems and difficulties in drug inspection and launch campaigns against counterfeits.

Yang Zefa, chief of Wuhan FDA Bureau, told Xinhua that regulators of the six cities will learn from each other by holding seminars and training programs. Officials will be dispatched to other cities among the six for field work and practices. (Source: Xinhua)

### **CFDA Steps Up Efforts to Regulate Infant Formula**

The China Food and Drug Administration (CFDA) recently requested the local food and drug regulators to reinforce regulations on the production of infant formula milk powder, according to the official statement.

China Updates is a service provided by U.S.-China Health Products Association. The Newsletters are issued approximately three times a month. China Updates provides news on regulatory environment, new legislation, association activities and any information related to China's natural health products industry.

The local regulators are asked to better address the safety issue of formula milk powder in response to the State Council's statement. Local officials are requested to set up working groups in bid to address this issue. Different divisions are requested to specify their duties, and take active measures to ensure the product quality.

Inspectors are expected to pay regular visit to infant formula enterprises and check their production procedures and quality control.

The companies who fail to meet the official standard will face harsh punishment from the government.

The local food and drug regulation system is said to be under reform in efforts rebuild the consumer's confidence. (Source: CFDA)

## Health and Beauty Businesses are Lucrative in China

Industries of drugs, health products, cosmetics and diet are listed among the most lucrative in China by local media, together with bank and real estate industries.

The healthcare industry in China lacks for order and regulation. It does not set a high bar to select people to work for this industry. High commission for medical staffs is regarded as one of the main reasons of why the public has to overpay for medical visit.

For example, a kind of drug, which costs 12 yuan in production, can be sold at 40 yuan. And in the 28-yuan profit margin, 7 to 15 yuan is used as commission for sales, according to people in the industry.

Overpricing of drugs is widely criticized by consumers in China. The so-called low-price pharmacies thus have sprung up nationwide, many of which say they sell drug at a 45% discount of the original retail price. But even with such a big discount, these pharmacies can still make a decent profit.

The exposé of GSK scandal can partly tell why the drug industry is so lucrative: there is a profit chain in the industry. The travel agencies bribe the senior executives of pharmaceutical firms for the chance to be commissioned to hold meetings and exhibitions; the firms will then use the money from travel agencies to promote their products to related officials, institutions and doctors, and bribe them with cash or else; doctors are thus impelled to prescribe the firm's drugs to patients so as to answer the request by the firms. Consumers or patients have to bear the high price of pharmaceuticals. Liang Hong, former operation manager of GSK in China, said: "if there can be fewer meetings, the drug price will be lower and the public can benefit from it."

Compared with drugs, the health products cost less in R&D. As long as it does not bring harm to the consumer, the effect of the product can hardly be told in a short period of time. This may help the producers accumulate a large sum of wealth quickly.



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It is said that the number of registered health products in China has reached 11,862 by the end of 2011. The industry value of health product and related services has bloomed to about 300 billion yuan (\$49 billion), only second to the U.S. It is estimated that the market value will exceed 450 billion yuan (\$73.6billion) by 2020.

On the other hand, the value of beauty industry has reached 300 billion yuan(\$49 billion). The number is growing at the rate of 15% annually. Each year, countless new cosmetic products, medical and diet equipments have been put in the market.

The Annual Report of China Beauty Economy pointed out that China’s beauty economy has become the fifth biggest consuming area after real estate, auto, telecom and tourism in China. The beauty industry has employed 11.2 million people in China, with around 1.52million beauty institutions that help to generate over 168 billion yuan (\$27.5 billion) annually. The industry accounts for 1.8 % of the total GDP of the world’s second largest economy.



The profit margin of cosmetics in beauty parlors is phenomenal, the local report says. Most cosmetics used in the beauty parlor are produced by small and medium companies, and are commissioned to agencies which are responsible to sell the products to beauty parlors. The agencies can usually buy the products from the producing company at an 80%-90% discount of the original price.

Industry people told the local media that an eye cream of some big brands of high-end cosmetics is sold at more than 900 yuan(\$143)/50ml in mainland China, and 600 yuan (\$98)in Hong Kong, while its R&D and production cost is as little as around 20 yuan(\$3). The cost of some pricey perfumes may actually equal the production cost of the perfume bottles. (Source: China Business.com)

### **China’s Foreign Trade of Medicines & Health Products Increases**

The China Chamber of Commerce for Import & Export of Medicines & Health Products (CCCMHPIE) released the report on China’s foreign trade of medicines and health products of the first half of this year.

The import &export trade of medicines and health products reached \$43.24 billion, a year-on-year increase of 10.28%. The export reached \$25.1 billion, up by 7.11%. The import reached \$18.1 billion, increased by 15.01%, resulting in a trade surplus of \$7.1 billion.

In the first half year, the global economy lacks for driving force to boost growth, and the demand in international market is still gloomy. This leads to a dive in the international medicine trade.

For a better trade prospect, the CCCMHPIE is coordinating enterprises to deal with the Directive 2011/62/EU and organizing large-scale medical exhibitions including CPHL. It is also involved in activities which aim at promoting the international trade and alleviate the difficulty in exporting and importing so as

to boost the confidence of related enterprises.

The features of the first half year's foreign trade are: the market of developed countries stays gloomy; the demand in emerging market is strong; the cost advantage of Chinese products has shrunk a lot, which weakened the competitiveness of surgical dressing and disposable medical supplies; the export of Chinese herbal medicines and botanical extracts has surged to a great extent; the import of medicines is growing gradually.

Xu Ming, deputy chairman of CCCMHPIE, expects the foreign trade of medicine in China to usher in a long and complicated period, with more unstable elements involved. The export of drug substance to EU has weathered the most difficult time. The trade of special drug substance, western medicine preparation and medical equipment will increase rapidly. The annual import and export trade volume this year is expected to increase by a small percentage compared to last year. (Source: CCCMHPIE)

### **China's Vitamin Industry is Caught in a Bottleneck**

On August, 12<sup>th</sup>, the Shenzhen Stock Exchange claimed that the Northeast Pharmaceutical Group Co., Ltd had been delisted temporarily, after media report what the Group did not disclosed. The Group will be listed again after it releases related announcement.

Local media reported that four drug substance giants, including the Group, had suspended production lines for a couple of years. The report also says that many industry people said this suspension was not incidental. The drug substance market is oversupplied. The overstocked products have deterred the development of production companies in the north part of the country.

Local media reported that the increase of inventory, shrinking demand and tight capital inflow are the main reasons of these two companies' production suspension. According to the public announcement of the Northeast Pharmaceutical Group Co., to solve the cash crunch, the company planned to issue stocks to ten designated investors last April.

After having financed around 3 billion yuan (\$5 billion) last October, North China Pharmaceutical Group financed another 1.1 billion yuan (\$180 million) in July, two third of which was used to pay back the bank loans, and the rest was added into the capital flow. The North China Pharmaceutical Group was accused of wasting money by local media as it had asked money from its parent company for twice in less than one year.

At this moment, the price of Vitamin C is at around 20-30 yuan /kg, less than the production cost of many companies. "Though the industry has no bankrupt company yet, some have suspected their operations and are experiencing maintenance," said Cao Gang, the director of western medicine department of the China Chamber of Commerce for Import & Export of Medicines & Health Products (CCCMHPIE).

Since the second half year of 2012, the international drug substance market has been quite gloomy. The inspection of drug substances by the western countries they are exported to is getting harsher. The domestic drug substance enterprises are generally oversupplying, and wage price war to compete with each other. The official survey by the National Development and Reform Commission on the Vitamin C industry shows, due to the new illegal vitamin production projects in many cities, the production capacity

overcapacity of Vitamin C industry, suspension cannot help factory to keep the selling price as it was.

In July, the Northeast Pharmaceutical Group Co. has reported a lost between 25-45 million yuan in the first half this year. The North China Pharmaceutical Group experienced a net profit decrease of more than 50%. Last March, this company was punished by American court for manipulating the price of Vitamin C, and was fined for over \$160 million. It was also put in a warning list for side effect of antibiotic drugs by the FDA of the U.S.



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In China, the five giants take 80% share of the Vitamin C market. They are the Northeast Pharmaceutical Group Co., The North China Pharmaceutical Group, and Jiangsu Nutraceutical Group, CSPC Pharma, and Shandong Luwei Pharmaceutical Co., Ltd. Though the industry is caught in homogeneous competition and overcapacity, no solution has been brought forward so far to address all these problems.

Mr. Cao of CCCMHPIE suggested that the industry need to be reconstructed so that the market can regain vitality, and it may take two to three years.(Source: International Finance News)

### **China Gives Agricultural Modernization A Boost**

The Chinese government has allocated 500 million yuan (81.2 million U.S. dollars) to promote agricultural modernization, the Ministry of Finance announced Friday.

The money will mainly be used to promote large-scale farming; support farmers in joint partnership, family farms or cooperatives; and to boost agriculture-related technological innovation.

The money will be channelled to eight provinces, including Jiangsu, Anhui, Shandong and Hunan.

In April, the State Council - China's cabinet - rolled out its first major reforms in agriculture since its inauguration, floating schemes to accelerate modernization.

The development of modern agriculture practices is "an important strategic mission" that will sustain economic growth, increase income for farmers and improve people's well-being, according to a statement issued by the State Council in April after an executive meeting presided over by Premier Li Keqiang. (Source: Xinhua News).

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