



# CHINA UPDATES

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## INSIDE THIS ISSUE

**Herbal Tea Brand Sued Over False Advertisement**

**CFDA Discuss Registration Management of Food of Special Use**

**China Plans Expanded Serious Illness Insurance**

**Hard Liquor: Chinese Firms Investigated Over Viagra-Laced Alcohol**

**In Rural China, Shoppers Go Online - With A Little Help**

**Foreign Firms Find The Going Tough in China's FMCG Market**

**Kind of Blue: China's Air Pollution Not as Terrible as Before**



## **Herbal Tea Brand Sued Over False Advertisement**

Jiaduobao, a prominent local herbal tea brand, has been sued for promoting itself as a beverage brand and hiding its status as health product.

Kang Wei, who reported this case to the local industry and commerce regulator in Jiangxi province, said that Jiaduobao has been hiding its status as health food in its advertisement for 14 years, which deserves investigation by the local food and drug regulator as well as discussion by medical expert.

Mr. Kang pointed out that Jiaduobao says in its ads that “among every 10 bottles of herbal tea sold in China, there are 7 from jiaduobao”, the data of which lacks for an authoritative source. “This number goes against the fact” he said.

“If the number used in its ad is not from an authoritative source, it violates ad law and misleads the consumers, “says Mr. Kang.

“Herbal tea product should make it clear that it is not suitable for those whose body might reject food or drink that are identified as ‘cold food or drink’,” said a local regulator with Jiangxi province. "Herbal tea can be identified as a kind of 'cold drink'".(Source: Jiangxi Morning News)

## **CFDA Discuss Registration Management of Food of Special Use**

The state authority of food and drug recently held a seminar attended by experts to discuss the registration system of formula food of special use.



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The authority pointed out that registration management of formula food is a new designated function by the food safety law to CFDA. The state regulator has paid special attention to this issue and set up a special work team.

The work team is responsible for conducting research and gathering information to draft a management plan.

The experts in the seminar said that the entry bar of production companies should be raised and registration review should be strengthened. (Source: CFDA)

### **China Plans Expanded Serious Illness Insurance**

The Chinese government has proposed extending serious illness insurance to cover more of the population.

The proposal by the State Council, China's cabinet, on Sunday said the insurance should benefit all urban and rural residents covered in the nation's basic health insurance by the end of 2015.

Serious illness insurance, so far used only on a trial basis, reimburses patients when their medical bills far exceed basic medical insurance. It is intended to help prevent people being dragged into poverty by medical costs.

According to official statistics, the number of Chinese covered by the scheme has surpassed 700 million, half the population.

The system should be integrated with the entire healthcare infrastructure by 2017, connecting with other programs like medical assistance system, which was established in 2008 to allocate money to help disadvantaged people purchase medical insurance and to subsidize healthcare not included in insurance programs.

As of April, serious illness insurance pilot programs have been set up in 31 provinces, municipalities and autonomous regions, 16 of which have all their

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residents covered by the insurance.

In 2014, the serious illness insurance program helped 1.15 million patients in China, with the total fund reserve for the program reaching 9.7 billion yuan.

The State Council suggested the scheme's reimbursement ratio should reach at least 50 percent this year and increase gradually in future.

Zhu Minglai, a medical care researcher at Nankai University in Tianjin, predicted that more than 70 percent of bills incurred through serious illness would eventually be reimbursed. (Source: Xinhua)

### **Hard Liquor: Chinese Firms Investigated Over Viagra-Laced Alcohol**



Two popular liquor makers are under investigation

in China, exposing demand for a lesser-known, stiff cocktail in the country: spirits and Viagra.

Authorities in central China said Saturday they are investigating the Guikun Alcohol Plant and Deshun Alcohol Plant to determine if the distillers added impotence drugs to their liquor, specifically to a popular Chinese white spirit known as baijiu. One of the liquors was allegedly called “Pot of Gold Kung Fu Wine,” the statement from the authorities said.

An employee at the Guikun Alcohol plant declined to comment on the investigation. A legal representative for Deshun was not available for comment.

Citizens typically take food adulteration very seriously in China, where dairy makers added the chemical melamine to milk in 2008, resulting in the death of six infants and illnesses in hundreds of thousands of others.

Consumers frequently protest outside markets where they’ve purchased contaminated food. But this time, many are showing rising support for the product rather than taking a hard line against it.

“Please buy me a few bottles,” one social media user wrote on Weibo, in response to an article on the investigation.

“Just supplementing a little,” said another Weibo user.

While the concoction is illegal in China, there appears to be a reason many are making it. Infused alcohol is quite common in China. And the erectile dysfunction drug Sildenafil is as well. Many street-side pharmacies sell it almost like an over-the-counter drug — consumers merely have to ask for it.

Last year, police detained the owner of a liquor factory in China’s central Jianshi County, alleging

that he had also distilled this new powerful blend, according to the state-run People’s Daily.

The factory owner added 130 milligrams of the drug to 100 milliliters of the liquor, the People’s Daily said. It’s unclear how he came up with this proportion. He gave 810 bottles to his friends and sold others for 30 yuan per bottle, the report said. (Source:WSJ)

## In Rural China, Shoppers Go Online - With A Little Help

Cheng Yonghao left his village in central Henan province almost 20 years ago, not expecting to return. He's now back home, and this week opened a village store to help locals shop online.

Cheng is just one of an army of local recruits who are part of Alibaba Group's big bet on rural e-commerce as China's internet giants invest billions in outpost service hubs to tap a market twice the size of the United States.



E-commerce growth in the countryside now outpaces that in major cities, though fewer than one tenth of online purchases made on Alibaba platforms were shipped to rural areas in the first quarter of this year. Alibaba estimates the potential

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market at 460 billion yuan (\$74 billion) by next year.

Rival JD.com also says that developing rural e-commerce is a key strategy this year.

While the rewards are enticing, few are making money yet.

"We don't know when our rural e-commerce operations will become profitable, but there's value in what we're doing, there's consumer demand," Gao Hongbing, director of Alibaba's research arm, told reporters earlier this month.

Before it can reap the rewards, Alibaba is having to teach a rural population - which tends to be older, poorer and less comfortable with technology - how to browse and buy.

That's where Cheng and the others come in.

Alibaba has been on a recruitment drive to find and train local 'partners', who set up service centres in their home villages, helping locals shop online.

Partners - mostly younger, educated, and more familiar with navigating websites like Taobao, Alibaba's online emporium - go through a written exam, computer test and interview. More than 1,000 applied for one batch of 50 jobs, said one applicant from Henan. Training takes place at local government business offices over 2-3 days in groups of around four-dozen. Trainees are asked about their aspirations and how they can reach their potential.

"My dreams aren't that big," said Cheng, 29. "I just want to live in the countryside and give back to the people there so they can have the same quality of life as people in cities."



Having some of its surplus of university graduates return to the countryside also fits government policy for developing the rural economy.

"Some are university students, others have spent a couple of years working in cities and want to come home, some have been working in the village all along," said Xing Guanjie, who trained with Cheng. "You've got all kinds, but almost everyone is between 20 and 35 years old."

Training also covers Alibaba's corporate values and history; how to choose where to set up shop, open a Taobao account, operate at village level, and match products to consumers.

"There's pressure for us to go out and promote the company," said Zhu Ling, 25, who runs a service centre in Zhejiang province. "But it's difficult as I know most people here and they're skeptical of my motives."

Alibaba declined to say how many partners it has trained, but it has said it plans more than 100,000 rural service centres.





There are signs the rural retail landscape is shifting.

"I'm planning on retiring early, it's getting too tough to do business here," said Chen Tiehua, 45, who runs a lighting store in Zhejiang's Tonglu county. "A lot of my friends who run small businesses face the same problem: we can't compete against e-commerce."

A half-hour's drive away, villagers in Yuzhao fetch packages and check on orders at a Taobao service centre - little more than a dusty computer and wall-mounted TV in a corner of the village general store.

"I tell people to buy whatever's ranked highest in terms of sales," said Zhu, scrolling through recent orders that include a child's bike, underwear, phone data packages, industrial gloves and a tent. "They often just want to buy the cheapest, but I tell them not to," she said, adding some villagers worry that online shopping is a scam or that products ordered online won't be as good as those bought in the store.

Zhu said she makes around 1,000 yuan (\$161) from Taobao sales each month.



In nearby Duji, Shen Zhixiang and his friends sit outside the village's small general store, where the walls are lined with orange and green Taobao

posters. Inside, the computer is switched off, and the store owner is out back playing mahjong.

"People come to order things after work," said Shen, 52. "I buy everything on Taobao now. My online order for dog food just arrived, I'll take it home later," he said. "Not just dog food, but corn, flour, rice, millet, clothes, shoes, everything."

While the potential is vast, these are early days, and Jin Jianhang, Alibaba Group president, concedes that China still lacks rural infrastructure.

"Bluntly, China's county-level towns are built like European ones, but its villages are like African ones," he said in a speech promoting rural e-commerce this month. (Source: Reuters)

## Foreign Firms Find The Going Tough in China's FMCG Market

Growth slowed further in China's fast-moving consumer goods market during the first three months of the year, with foreign brands seeing a steeper erosion in market share, an industry report said on Wednesday.

Fast-moving consumer goods saw growth drop to 4.4 percent during the first quarter of 2015 from nearly 12 percent between 2011 and 2012, according to a report jointly published by global management consultancy Bain & Co and market research firm Kantar Worldpanel. The report tracked the shopping behavior of 40,000 Chinese households.

There were, however, some interesting highlights in the study. Skin care products were the sole exception among all product categories and saw significant growth rebounds in the last part of 2014 and early this year.

"Changing shopping habits of consumers, the rapid



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expansion of online channels and pricing dynamics have put the brakes on FMCG company growth in China once again," said Jason Yu, general manager of Kantar Worldpanel China.

Among the 26 FMCG categories spanning the four largest consumer goods sectors - personal care, home care, beverages and packaged food - volume, not price, is largely responsible for the slowdown.

Growth in spending per household remains much lower than China's disposable income growth rate, which is reflected in the total fast-moving consumer goods volume - which remained flat at about 0.1 percent in 2014 compared with 2013.

Retailers exhibited different patterns of growth with hypermarkets' growth rate slowing from 7.9 percent in 2013 to 3.7 percent in 2014 due to declining traffic. Consumer demand at smaller format supermarkets, mini-marts and convenience stores remained relatively stable during the same period.

However, e-commerce continues to reign supreme in China, the largest digital retail market in the world. Online sales now represent 3.3 percent of all FMCG goods with sales growing by 34 percent last year. Chinese consumers are also rapidly making the leap to mobile retail.

In China's lower-tier cities, the impact of the slowdown was minimal due to increasingly healthier sales growth - 8 percent compared with 2 percent in first-and second-tier cities - which accelerates Chinese FMCG companies gaining share over foreign competitors, said Yu.

Last year, on an aggregate basis, local brands gained share in 18 of the 26 categories in the Bain and Kantar Worldpanel study and grew on average by 10 percent. They now account for approximately 70 percent of the market value of these 26 categories. Meanwhile, foreign brands, also on an aggregate basis, gained share in only eight categories and grew by a mere 3 percent.

Bruno Lannes, partner in Bain's greater China

consumer products practice and co-author of the report, said: "Consumer behavior and new market trends have led FMCG companies, both foreign and local, to take a hard look at their cost structures and operating models. Cost-savings and faster decision-making and execution will help attract more shoppers." (Source: China Daily)

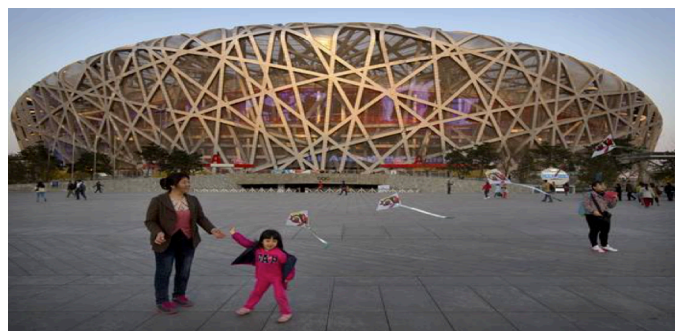
## Kind of Blue: China's Air Pollution Not as Terrible as Before

If you're living in China and have the vague impression that the skies have been bluer than usual this year, it's not just wishful thinking.

According to an analysis released Wednesday by Greenpeace East Asia, China's air is not as awful as it used to be. Among 189 cities examined by the environmental nonprofit, PM2.5 levels in the first half of 2015 were down an average of 16% compared to the same period last year. Only 18 cities saw their levels of PM2.5 increase.

Health experts say that small particles such as PM2.5 are particularly worrisome for human health, given their ability to creep deep into the lungs and aggravate heart or lung disease.

"I think this is the first time I've seen a massive reduction on PM2.5 concentrations at a national level," said Dong Liansai, Greenpeace East Asia energy and climate campaigner. In recent years, the frequent grey pall and onset of periodic "airpocalyses" have helped discourage tourism to Beijing and have spurred expats and locals alike to leave for more oxygen-rich environments.



In the country's notoriously smoggy capital, residents have seen PM2.5 levels drop by 15.5%,<sup>6</sup>

with levels of sulfur dioxide – which can contribute to respiratory problems — experiencing a still more precipitous drop of 42.6%, the group said. The capital has been making a concerted push to clean up its skies, closing or relocating 185 firms in the first half of this year, according to the Beijing government. Since last July, the city has also shuttered three of its four coal-fired power plants.

Mr. Dong said the bump in clean air doesn't appear to be just a blip. He credited more aggressive government standards on emissions and efforts to shutter its dirtiest factories. He also cited the government's 2013 air pollution control plan, which mandates that by 2017, certain regions must reduce their PM2.5 levels by as much as 25% compared to 2012 levels.

Compared with the rest of the world, the Middle Kingdom's air still ranks as wretched: the average PM2.5 level in the 385 cities ranked by the group was 53.8  $\mu\text{g}/\text{m}^3$ , more than five times the World Health Organization's recommended annual mean.

To keep skies blue-hued for events such as last November's APEC summit, the city periodically shuts down nearby factories and orders cars off the streets. Such a strategy has in the past paid health dividends for residents. A recent study found that women pregnant during the 2008 Beijing Olympics—when the Chinese government worked aggressively to keep air pollution down for a seven-week period—gave birth to heavier, and presumably healthier, babies. (Source: WSJ)

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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