



Health Foods In China

Consumer appetite for imported health foods is huge but foreign firms must overcome barriers



Introduction

From luxury to necessity

Chinese consumers have a centuries-long tradition of linking food and health — it is one of the key tenets of traditional Chinese medicine. The modern health foods industry, made up of functional foods and dietary supplements, is based on scientific substantiation rather than anecdotal evidence, but crucially it shares the same over-riding objective: disease risk reduction.

The Chinese health foods market is one of the fastest growing in the Asia Pacific region. In 2016 it was valued at RMB 260 billion (around US\$40 billion), and it is expected to grow at a rate of 10-15% a year to reach RMB 400 billion (US\$62 billion) in 2021¹.

A key consumer group behind this growth is the middle-aged and elderly, who are preoccupied with retaining good health and boosting immunity. At the end of 2016 there were 231 million over-60s in China, representing 16.7% of the population; their ranks are expected to swell to 437 million by 2050².

Younger consumers — or 'Millennials' — are very concerned with a healthy outward appearance, and understand the fundamental link between looking good and good digestive health. Other important categories are fatigue alleviation/sleep induction, blood lipid reduction, eye health, and lung health (especially in major cities with very poor air quality)³.

Rising incomes, especially among the urban middle-class, mean health foods are increasingly seen as every day products rather than a luxury⁴.



¹ HKTDC Research: <http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Health-Food-Market/ccm/en/1/1X000000/1X002L54.htm>

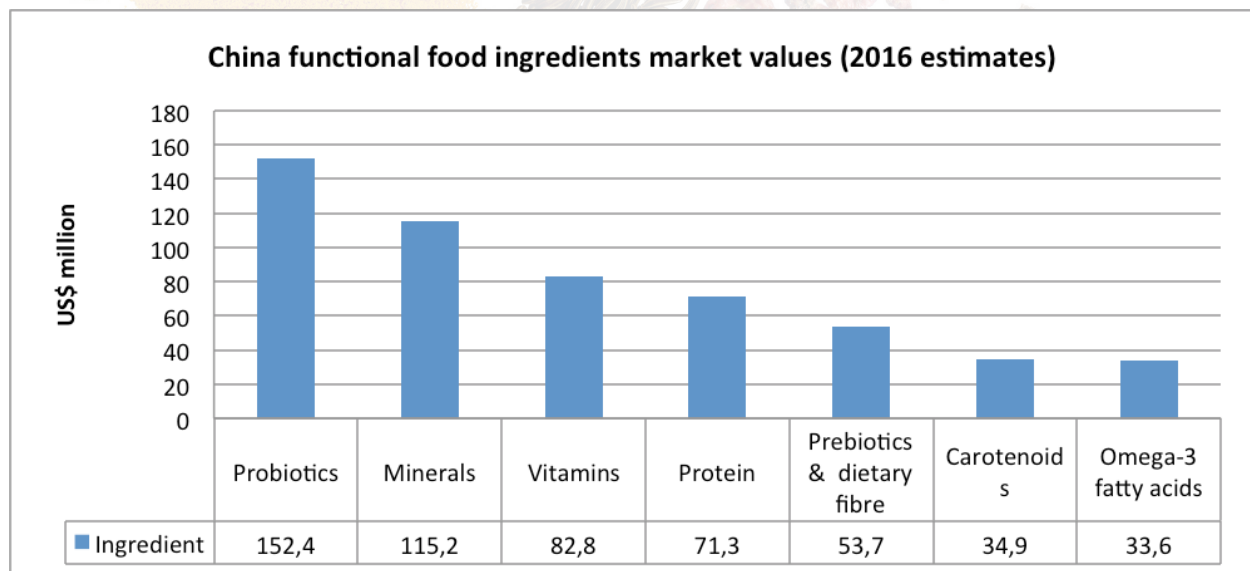
² United Nations Department of Economic and Social Affairs http://www.un.org/en/development/desa/population/publications/pdf/ageing/WPA2015_Report.pdf

³ Nutraingredients-Asia: <https://www.nutraingredients-asia.com/Article/2017/09/14/The-four-key-health-concerns-driving-Chinese-consumers-to-spend-more-on-functional-foods>; HKTDC Research: <http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Health-Food-Market/ccm/en/1/1X000000/1X002L54.htm>

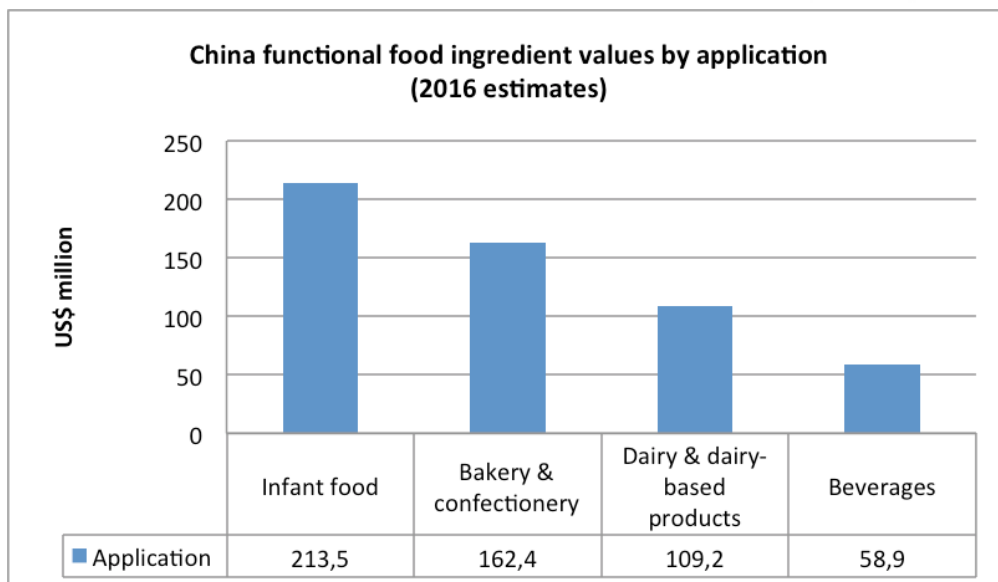
⁴ HKTDC Research

There is also a growing awareness of the link between unhealthy food consumption and lifestyle-related diseases — prevalence of diabetes, heart disease and cancer in China has increased nine-fold in a generation⁵.

Meanwhile, the government has been making a concerted effort to boost nutritional intake of the population, with the China Food and Nutrition Development Outline 2014-2020⁶.



Source: Future Market Insights⁷



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⁵ Chen, J. and Zhao, W. (2012), Diet, Nutrition and Chronic Disease in Mainland China, *Journal of Food and Drug Analysis*, Vol. 20, Suppl. 1, 2012, Pages 222-225

⁶ Ministry of Agriculture of the People's Republic of China: http://english.agri.gov.cn/news/dqnf/201402/t20140212_21191.htm

⁷ Asia Pacific Functional Food Ingredients Market: APAC Industry Analysis and Opportunity Assessment, 2016–2026

⁸ Asia Pacific Functional Food Ingredients Market: APAC Industry Analysis and Opportunity Assessment, 2016–2026

Opportunities for international companies...

The rapid growth of health foods in China, together with increasing consumer purchasing power, represents a massive opportunity for international health food manufacturers with existing R&D, production and marketing capacity, as well as the financial means to invest.

The domestic market is highly fragmented. As of 2016 there were 2320 domestic health foods manufacturers, mostly concentrated in the coastal provinces and cities of Beijing, Guangdong, Shandong, Shanghai, Yiangsu and Zhejiang⁹. The majority of these are relatively small players; only 2% have total investment over RMB 100m. Many lack funds to conduct R&D to take advantage of evolving consumer needs, and lack of competition between the larger players means there is little incentive for innovation¹⁰.

Meanwhile, as a result of repeated food safety scandals and a history of false and misleading claims, counterfeit products and poor post-market regulatory supervision in the health foods sector, Chinese consumers tend to view foreign brands favourably. The two leading sources of health food imports into China are the United States (23.4% of imports) and Australia (15.8%)¹¹. The US is particularly well-regarded for its sports nutrition products; while Australia, which has a free trade agreement with China, is perceived as having clean water and pollution-free food. Europe is also seen as a source of clean and safe food, if more industrial than Australia¹².

Health food products are becoming more readily available in supermarkets, convenience stores and pharmacies/drug stores, as well as non-traditional channels such as direct selling. In addition, e-commerce is a major growth area in China. In 2015, Chinese online retail transactions (all industries) reached RMB 3.8 trillion, up 36.2% on the previous year, and contributed around 46% to global online retail growth¹³.

...and challenges

Despite these opportunities, breaking into the Chinese health foods market is not easy. The main barrier is regulatory: China's regulations are strict and have recently undergone a major overhaul. A manufacturer wishing to launch a finished product bearing a health claim in China must first conduct a battery of scientific trials and submit dossier to the CFDA. As of July 2017, China Food and Drug Administration (CFDA) had approved 16,631 health foods, of which just 752 were imported¹⁴.

The new Food Safety Law and its attendant regulations and administrative measures has sought to make the process less onerous — whilst, at the same time, ensuring substantiation of efficacy and safety. The jury is still out on whether the changes will make a material difference, with a number of commentators doubting that international market entrants will find China much easier to crack in the future.

What is more, despite the appetite for foreign products and desire for scientific substantiation, the traditional culture of Chinese medicinal food and therapeutic cuisine still has a strong influence. Health food products need to be culturally appropriate and to bear in mind local taste and texture preferences, which can be very different from elsewhere in the world.

⁹ CFDA Food & Drug Statistical Yearbook 2016

¹⁰ Paul O'Brien, Chemlinked: Regulation of functional foods in China: A framework in flux

¹¹ Korea International Trade Association: <http://kita.org/about/newsView.do?id=&no=2067&searchWrd=&pageIndex=1>

¹² Qualitative research conducted by The Silk Initiative

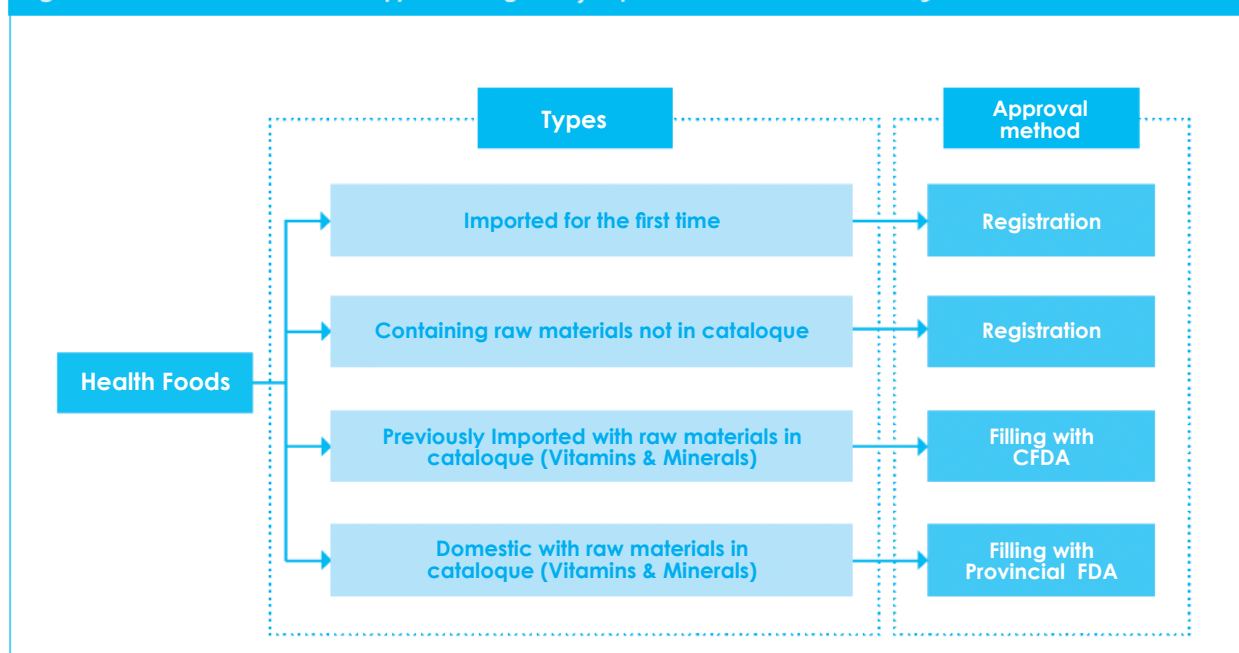
¹³ Deloitte/eMarketer: <https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/cip/deloitte-cn-cip-china-online-retail-market-report-en-170123.pdf>

¹⁴ HKTDC / CFDA Food & Drug Statistical Yearbook 2016

A simpler regulatory system?

The health foods category in China includes both dietary supplements and foods containing functional ingredients. In addition, under the new Food Safety Law¹⁵ (FSL) that came into effect on 1 October 2015, dietary/nutritional supplements, foods for special purposes, and infant formula are classified as 'special foods'.

Figure 1: Health food and nutrient supplement regulatory requirements after 1 October 2015.



(Based on: Paul O'Brien, Chemlinked, Regulation of functional foods in China: A framework in flux)

A health food is defined as "a food with health function claims or for supplementing nutrients (such as vitamins/minerals), for regulating body functions, not intended to cure diseases, containing specific functional ingredients, suited for specific groups of people, and with fixed amount consumption."

A special dosage food product with fixed amount consumption is defined as: "food in special dosage forms, such as capsule, oral agent tablet, granules, and pills; such foods shall be consumed at fixed amount, or have daily intake volume."¹⁶

¹⁵ Unofficial English translation: https://www.hfgip.com/sites/default/files/law/food_safety_-_16.02.2016.pdf

¹⁶ FSA Implementing Regulations (draft), article 195; http://www.iadsa.org/images/userfiles/file/2016/agm_2016/4_china.pdf

Foods and supplements making an approved health claim (see list on next page) are subject to pre-market authorisation and carry the official 'blue hat' (baojian shipin) logo.



China's 'blue hat' logo for approved health foods

Until recently, all 'blue hat' health food products — whether domestic or imported — had to go through an onerous registration process. However the new FSL sought to make the approvals system less expensive and time-consuming. Under the FSL and subsequent new Administrative Measures on Health Food Registration and Filing¹⁷ (which came

into effect in July 2016), only health foods containing raw materials not included in the Catalogue of Raw Materials for Health Food¹⁸ or imported for the first time (with the exception of vitamin and mineral nutrient supplements) need to go through the full registration process. All other products can be filed with the CFDA (for imports) or provincial FDA (for domestically produced products) before being placed on the market.

The registration process requires the compilation of a detailed dossier containing scientific data (pre-clinical and clinical) supporting the health claim and supporting literature. The CFDA then organises an expert appraisal conference and conducts a technical evaluation of the safety, function and quality of the product before deciding whether or not to approve it. While the dossier should be submitted by the manufacturer, a Chinese entity will be required to handle the evaluation process.

The filing process still involves submission of a scientific dossier. The dossier is reviewed by the CFDA (or provincial FDA for domestically produced products), which makes a decision on whether or not to grant approval without the need for technical evaluation.

¹⁷ Chinese version: <http://www.sda.gov.cn/WS01/CL0847/166399.html>

¹⁸ The Catalogue of Raw Materials for Health Food (first batch) was finalised in January 2017 and includes only vitamins and minerals: <http://www.cirs-reach.com/news-and-articles/cfda-released-revised-health-food-raw-materials-directory-the-first-batch-nutrition-supplement-raw-materials-vitamins-and-minerals-directory-draft-for-public-comments.html>

Labelling

Approved (registered or filed) foods with specific health functions may carry one of 27 designated functional health claims to alter human physiology so as to reduce or improve specific risk factors (see table). These claims are, however, under review¹⁹.

Permitted functional health claims

- 1) Enhancing immune function
- 2) Aiding blood lipids reduction
- 3) Aiding blood sugar reduction
- 4) Increasing antioxidants
- 5) Improving memory
- 6) Relieving body fatigue
- 7) Relieving eye fatigue
- 8) Facilitating lead excretion
- 9) Clearing throat
- 10) Aiding blood pressure reduction
- 11) Improving sleep
- 12) Increasing milk secretion and anti-mutation
- 13) Improving endurance during anoxia
- 14) Aiding protection against irradiation
- 15) Aiding weight loss
- 16) Improving growth and development
- 17) Increasing bone density
- 18) Improving nutritional anaemia
- 19) Aiding protection against chemical liver injury
- 20) Removing acne
- 21) Removing chloasma
- 22) Improving skin moisture
- 23) Facilitate digestion
- 24) Regulating enteric bacteria flora
- 25) Facilitating digestion
- 26) Improving constipation
- 27) Aiding protection against gastric mucosa

Source: ChemLinked by REACH24H Consulting Group, Handbook on Food Label Claims in China

The above functional claims are applicable only to foods with specific health functions; they do not apply to nutrient supplements. Nutrient supplements may, however, carry a claim relating to their vitamin or mineral content. The Directory of Health Function Claims, finalised in January 2017, contained only one claim pertaining to supply of vitamins and minerals²⁰.

Under the FSL, no health food product may make any disease prevention or treatment claim.

Grey areas and cross-border e-commerce

Despite the existence of a regulatory framework for health foods, a grey area remains for food products that do not carry a health claim but which Chinese consumers might, nonetheless, associate with good health. This is largely because of the centuries-old tradition of Chinese medical foods.

Until recently, health food products sold in China via cross-border e-commerce (CBEC) platforms were not subject to the same degree of scientific testing and regulatory compliance as those sold through traditional retail outlets, such as supermarkets, convenience stores and drug stores. This led some consultants to suggest CBEC as a helpful short-term strategy, enabling products to be launched quickly without the need for registration or notification; profits could then be put towards the costs of full regulatory compliance.

This door has now closed, as China is drastically revising its laws on CBEC. While the final version of the E-Commerce Law has yet to be released, in April 2016 a List of Products Eligible for CBEC was released; consequently, health foods imported via CBEC are subject filing or registration, as set out in the Administrative Measures for Health Food Registration and Filing²¹.

¹⁹ http://www.iadsa.org/images/userfiles/file/2016/agm_2016/4_china.pdf

²⁰ Attached to the Catalogue of Raw Materials for Health Foods (first batch). <http://www.cirs-reach.com/news-and-articles/cfda-released-revised-health-food-raw-materials-directory-the-first-batch-nutrition-supplement-raw-materials-vitamins-and-minerals-directory-draft-for-public-comments.html>

²¹ <https://www.khlaw.com/9209>

Strategies for entering the Chinese health foods market

1) Conduct bespoke product development for the Chinese market

Health foods that are successful in other markets are unlikely to appeal to Chinese culture and tastes, and may contain prohibited ingredients (or higher-than-authorised levels). Moreover, it is easier to compile data to support product registration or filing from the outset of product design than retrospectively.

2) Tap into existing knowledge and beliefs

Do some consumer research and tap into existing knowledge and beliefs on the health benefits of certain foods and ingredients, including those that are used in traditional Chinese medicine. Even if there is a stack of Western scientific evidence, it can be an uphill struggle to educate Chinese consumers on the benefits of new or unfamiliar ingredients from scratch.

3) Do not treat China as one market

Each city and province has a distinct food culture, demographics and climate, and foods and ingredients that are appropriate in one part of the country might be unacceptable in another. Consider targeting a closely defined geographical area, or developing more than one product variant, adapting the formulation to local preferences.

4) Weigh up the merits of different channels for market entry

While it may no longer be possible to launch health foods in China via CBEC without full regulatory compliance, it remains a cheaper route to market as the fees for product listing are lower than for bricks-and-mortar stores. On the other hand, it is hard to build a loyal consumer base on e-commerce platforms, where premium brands are not differentiated from other, cheaper products. One strategy is to flood convenience stores with a new brand to ensure maximum visibility, then scale back that relatively expensive channel and make the product available via e-commerce once brand recognition has been achieved.

5) Form partnerships to access expert knowledge

For newcomers to China, partnering with other companies that are focused entirely on China can be a way to tap knowledge and experience of the best way to approach the market. Potential partners include:

- Brand consultancies to help identify consumer needs and interests, and to fine-tune the product concept to appeal to them.
- Legal partners, whether a law firm or a regulatory consultancy. This is particularly helpful to ensure packaging compliance and to ensure that the Chinese wording is accurate.
- PR agencies are particularly helpful to get the message out to target consumers in highly competitive market segments, such as dairy.
- Distributors or agents to target specific geographical areas or to help cement a corner of a highly competitive product category, particularly where they can provide bona fide connections (guan-xi).

Strategies for entering the Chinese health foods market - cont.

6) Attend trade shows

Industry events are very important for companies that are new to China, especially small and medium enterprises. Trade shows are useful forums for obtaining feedback from Chinese people, for finding partners, and for learning about Chinese culture and trends through networking, conference presentations, and competitors' activities.

"Don't try to re-educate Chinese consumers. Try to tap into existing beliefs rather than try to educate them on new ones".

Joel Bacall,
senior client manager, The Silk Initiative

"Do not underestimate the size, diversity, fragmentation of the Chinese market. It is huge, with a population of almost 1.4 billion, and there are big differences between cities and provinces, and between rural and urban areas."

Paul Collins, director of international sales and marketing, GNT Group

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The information provided here was compiled with due care and up-to-date to the best of our knowledge on publication. Please note that the regulatory landscape in China is developing rapidly and the information provided here is subject to change.