



Australian Government
Australian Trade and Investment Commission



CHINA: COMPLEMENTARY MEDICINE REPORT

August 2022



FOREWORD



Buoyed by health-conscious consumers and the rapid expansion of ecommerce, China's AUD 70bn complementary medicine market offers a range of opportunities for Australian businesses.

The central government's Healthy China 2030 initiative underscores the importance of preventive care and alternative remedies, providing a foundation for growth in the complementary medicine market. Younger generations have become major consumers in this space and will increasingly drive demand for innovative products.

With its strong capabilities in health services, medtech and biotech, digital health, and health consumer products, the Australian healthcare sector is well placed to take advantage of the opportunities presented by this growing market.

As always, we encourage Australian companies to weigh the commercial risks and benefits of entering the market before doing so, and to seek advice from Austrade and other third-party professionals to help in their decision making.

We hope that this report, produced in partnership with Intralink, provides Australian companies with a better understanding of China's complementary medicine industry such that they may be able to harness future opportunities that exist in the market.

If you are an Australian registered business and are seeking additional support in the Chinese market, the Austrade Greater China Health Team are here to help.

A handwritten signature in blue ink, appearing to read 'Rhett Miller'.

Rhett Miller
Trade and Investment Commissioner
(Mainland China, Hong Kong and Taiwan) (Health)
Australian Trade and Investment Commission
(Austrade)



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The Australian Trade and Investment Commission (Austrade) is the Australian Government's international trade promotion and investment attraction agency.

We deliver quality trade and investment services to businesses to grow Australia's prosperity. We do this by generating and providing market information and insights, promoting Australian capability, and facilitating connections through our extensive global network.

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- connect export-ready Australian businesses to overseas opportunities and work with them to achieve commercial outcomes
- win productive foreign direct investment
- work with priority industry sectors to drive sustained long-term growth of Australian exports
- reduce the time, cost and risk for our clients doing business internationally
- provide authoritative commercial insights and information to help clients to make informed business decisions
- inform and influence policy to support positive trade and investment outcomes
- provide financial assistance for exporters through programs such as the Export Market Development Grants scheme
- support Australia's regional exporters through the TradeStart network.

We also contribute to economic diplomacy and protect the welfare of Australians abroad through timely and responsive consular and passport services in specific locations.

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Intralink is an international business development and innovation consultancy specialising in East Asia. The firm's mission is to make commercial success in new global markets fast, easy and cost effective.

Intralink has over 120 multilingual employees, a 30-year track record and offices in Mainland China, South Korea, Japan, Taiwan, Singapore, the United Kingdom, the United States, France, Israel, Poland and Australia. The company helps western businesses to expand in East Asia, Asian companies to collaborate with western innovators, and governments from around the world to grow their exports and attract foreign direct investment.

Intralink doesn't just develop its clients' strategies but plays a hands-on role in building their businesses. Its teams in Asia – immersed in the cultures and business practices of their local markets – identify opportunities, negotiate deals and generate revenues. And when the client is ready, they will help set up an in-country presence through a local subsidiary, partnership or acquisition.

Intralink's clients range from startups and SMEs to multi-national corporates and supra-national organisations like the European Union. The company has teams specialising in fast-growing sectors such as energy, mobility, healthcare and ecommerce, and in transformative technologies such as AI, IoT, quantum computing, cybersecurity and robotics.

Intralink is the proud winner of the UK's Queen's Award for Enterprise and the US's President's E Award for Export Service for helping companies develop their international business growth.

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GLOSSARY

CBEC	Cross-border Ecommerce
CCCMHPIE	China Chamber of Commerce for Import & Export of Medicines & Health Products
GACC	General Administration of Customs
HMB	Hydroxymethylbutyrate
NMN	Nicotinamide Mononucleotide
SAMR	State Administration for Market Supervision
TCM	Traditional Chinese Medicine
VDS	Vitamins and Dietary Supplements

EXCHANGE RATES

USD – AUD	1 – 1.4
AUD – RMB	1 – 4.7

ACKNOWLEDGMENT

Austrade would like to thank the China Chamber of Commerce for Import & Export of Medicines & Health Products (CCCMHPIE) for its assistance in the preparation of this publication, particularly its data and insights on China's imports of healthfoods and supplements.

INTRODUCTION

China's massive complementary medicine sector presents exciting opportunities for Australian companies. Strong economic growth – generating richer and more discerning consumers – combined with the COVID pandemic has amplified demand for preventive care, health protection, and immunity-boosting products. The industry has increased substantially in the past five years, growing from RMB 234.5bn (AUD 49.9bn) in 2016 to RMB 328.9bn (AUD 70bn) in 2021. Policy support will boost growth well into the future: the government's *Healthy China 2030* blueprint sets out a long-term strategy to reform the healthcare industry, focusing on disease prevention and healthy living as a means to reduce the burden of higher healthcare costs from a rapidly ageing population.

Vitamins and dietary supplements (VDS), herbal and traditional products (primarily herbal tonics and supplements derived from Traditional Chinese Medicine (TCM)), weight management products, and sports nutrition are the four major areas in China's complementary medicine market. Of these, VDS is by far the largest sub-sector, constituting 57% of the overall market. The herbal and traditional products space is the second biggest, with industry sales exceeding RMB 112bn (AUD 23.9bn) in 2021. Weight management products and sports nutrition, while still having relatively modest market shares, have both experienced explosive growth in the past five years, more than doubling and quadrupling in size, respectively.

We identified product categories within all four of these areas that have promising market potential for Australian firms. For VDS, interest in preventative health solutions among Chinese consumers has driven demand for probiotics, visual protection, liver protection, bone health, beauty drink, and cardiovascular protection products. In the herbal and traditional products space, a key innovation has been integrating ingredients and extracts found in TCM into a wider array of goods, such as herbal-based digestive remedies and dermatological treatments. Finally, in the weight management and sports nutrition areas, novel meal replacement products, starch blockers, and non-protein powders are in vogue among China's newly rich keen to control waistlines and boost results in the gym.

Australian firms should consider generational differences when marketing their products. Millennials and generation Z have become major purchasers of complementary medicines and demand innovative products that, while similar in function, differ in form than those favoured by older generations. For instance, they prefer snack-like VDS products, which deliver the same dietary value without the stigma of taking pills. Our research illustrates that products promoting immunity enhancement, sleep improvement, bone health, and anti-fatigue are the most popular among this age cohort. The expansion of live streaming by celebrities and social media influencers is a new way to engage this demographic, a trend that savvy Australian companies can exploit to win business.

Cross-border ecommerce has emerged in recent years as the most realistic way for many international brands to enter the market. The Chinese government formalised a special 'Cross-Border Ecommerce Channel' (CBEC) in 2016 to help facilitate this trade. The CBEC enables foreign companies, often with the help of local agents, to sell their products via virtual stores on China's ecommerce platforms, such as Tmall Global or JD. Goods imported via the CBEC pass through a streamlined customs clearance process and do not need to obtain China's time-consuming 'blue hat' certification for healthfoods prior to sale. While this channel has restrictions – firms cannot sell products offline, for example – it allows Australian businesses, especially SMEs, an accessible window into China without having a physical entity there.

In this report, we introduce key opportunities in China's vast complementary medicine market and strategies that Australian SMEs can employ to access it. We also explore how to leverage China's CBEC and other channels, as well as challenges firms can expect during entry.

COMPLEMENTARY MEDICINE MARKET



Market Overview and Trends

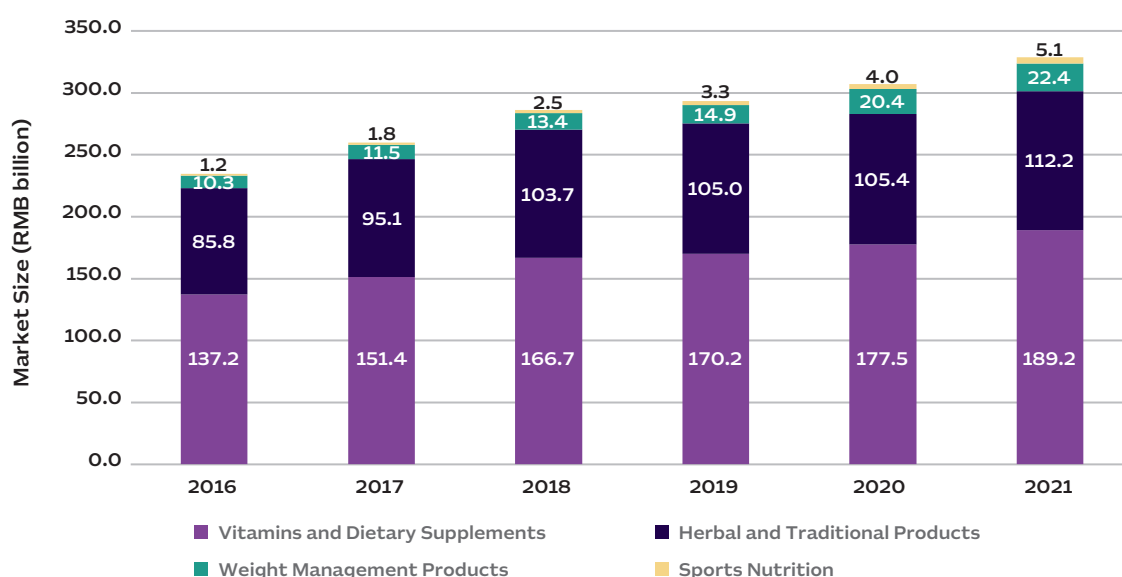
Industry estimates indicate that China's complementary medicine market size exceeded RMB 328.9bn (AUD 70bn) in 2021 and consists of four major areas – vitamins and dietary supplements (VDS), herbal and traditional products, weight management products, and sports nutrition. VDS represents the largest space with a market value of RMB 189.2bn (AUD 40.1bn) in 2021. The market for herbal and traditional products is the second largest, valued at RMB 112.2bn (AUD 23.9bn) in 2021. The weight management products and sports nutrition sub-sectors are relatively small – albeit fast-growing, as illustrated in Figure 1 – with market sizes of RMB 22.4bn (AUD 4.8bn) and RMB 5.1bn (AUD 1.1bn), respectively.

We project that strong growth will continue well into mid-2020s, with the market increasing in value to RMB 436.6bn (AUD 92.5bn) by 2026, a 5.8% CAGR over the five-year period.^[1] More affluent and health-conscious consumers will buoy demand for VDS products in the mid to long-term, especially as the population ages.

Similar trends underpin growth in the weight management and sports nutrition categories: consumers are considering a variety of products to control their weight and improve fitness.^[2]

Interest in applications of TCM for health and well-being has driven demand for herbal and traditional products, particularly on the back of positive news regarding TCM's efficacy in treating malaria and possible usefulness as a COVID remedy. Another key driver for herbal and traditional products is a phenomenon known as 'Guochao', roughly translated as 'national tide', it reflects a growing interest in goods and treatments linked with traditional culture, which in some ways translates into increased demand for Chinese-made goods. This also means, however, that consumers and firms are sourcing a wider variety of exotic herbs, extracts, and ingredients from other countries that they might not have previously considered.

Figure 1: Complementary Medicine Market Size



Source: Euromonitor (Sept. 2021), Intralink Research

According to the China Chamber of Commerce for Import & Export of Medicines & Health Products (CCCMHPIE), imports of complementary medicines (including ingredients and finished products) totalled USD 5.2bn (AUD 7.3bn) in 2021, more than 10% of the overall market. Supplements from the US, Australia, and Germany are the most popular among Chinese consumers, with gross import value from these countries of AUD 1.4bn, AUD 1bn, and AUD 650m, respectively.

Both international and domestic brands are capitalizing on ecommerce. Online sales of complementary medicines reached RMB 129.8bn (AUD 27.6bn) in 2021, close to 40% of the market. Many imported products go through China’s special ‘Cross-Border Ecommerce Channel’ (CBEC). The CBEC allows goods to be shipped directly to bonded zones within China, bypassing the normal customs clearance process for general trade, where they can be dispatched upon receiving an order. As we explore later in this report,

while the CBEC has limitations – sales are restricted to ecommerce platforms like Tmall Global and JD, for instance – it has become essential for many international brands, especially with the demise of ‘Daigou’ as a viable means of selling goods in the country.

With the expansion of cross-border ecommerce and online pharmacies, younger generations (namely millennials and generation Z) have become major consumers of complementary medicines. They prefer innovative edibles, instead of those in pill forms. In response, more brands are creating gummy and jelly products which integrate active ingredients – melatonin, collagen, enzymes, l-carnitine, multivitamins, and probiotics – to attract consumer attention. According to a recent iResearch (a Chinese consulting firm) consumer survey, immunity enhancement, sleep improvement, bone health, and anti-fatigue are the sought-after qualities by members of this cohort.^[3]

Vitamins and Dietary Supplements

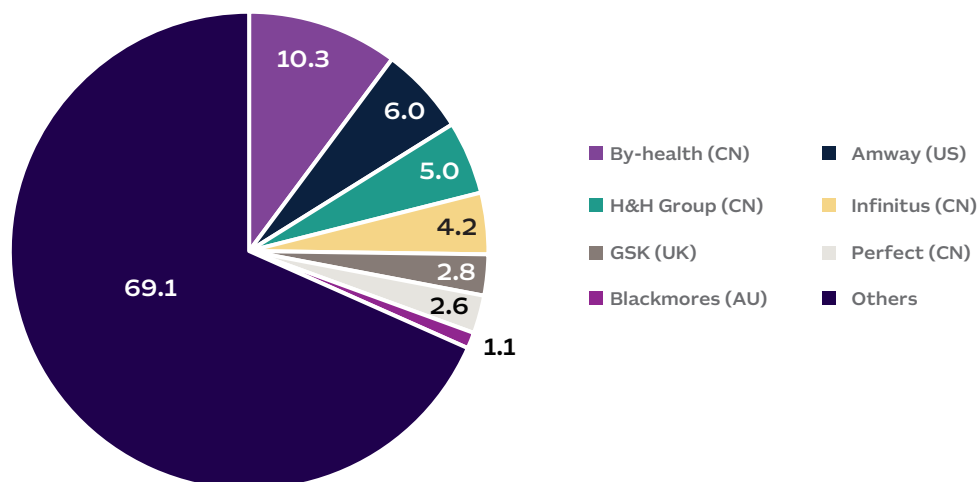
MARKET LANDSCAPE

China's VDS market is highly fragmented and competitive, with the top 10 companies constituting less than 35% of the market. By-health, headquartered in Guangzhou, is the largest player and had a 10.3% market share in 2021. Its best-selling categories include glucosamine and milk thistle and it has expanded its footprint into rapidly growing areas like probiotics and visual health products. Hong Kong-based H&H Group – owner of Australia's Swisse – had the third largest market share in 2021, aided by its strong brand awareness and dynamic engagement with influencers on Redbook, Douyin, Kuaishou, Wechat, and Weibo.^[4] Swisse sells more VDS products on ecommerce platforms like Tmall and JD than any of its competitors. Foreign firms have found success in VDS, including the US's Amway and Australia's Blackmores. Blackmores entered China in 2013 and its main products in the country focus on women's health, bone health, and cardiovascular health; its business heavily relies on ecommerce channels.

KEY PRODUCT CATEGORIES

Millennials and generation Z have driven demand for imported supplements. Spending in this demographic grew a whopping 51% YoY in 2021, especially for VDS products claiming to enhance immunity, improve sleep, combat fatigue, beautify skin, and increase bone health.^[5] Table 1 underscores interest in products claiming these attributes, showing the most popular product searches in the VDS categories on ecommerce platforms Tmall and Taobao during August 2021. While just a snapshot, it aligns with recent research into consumer trends and spending in the area.

Figure 2: Competitive Landscape of Vitamins and Dietary Supplements (2021)



Source: Euromonitor (Sept. 2021), Intralink Research

Note: CN: China, US: the United States, AU: Australia, UK: the United Kingdom

Table 1: Top Product Searches on Tmall and Taobao

CATEGORIES	CHINESE NAME	SEARCH VOLUME*
Probiotics	益生菌	1m
Vitamin B	维生素B	858k
Vitamin C	维生素C	830k
Beauty Drinks	口服美容	674k
Melatonin	褪黑素	648k
Calcium tablets	钙片	539k
NMN	β -烟酰胺单核苷酸	78k
Multivitamin Gummies	维生素软糖	59k

Source: Data Insider, Intralink research

* Search volume in August 2021

Probiotics were the most searched category. Leading probiotics brands include Life Space (acquired by By-health), Lactofit, Nutrition Care, and Garden of Life (owned by Nestlé). Vitamin products are widely used for skin health and innovative multivitamin gummies have attracted many first-time customers. Japanese brands like Pola and Axxzia have secured top positions in the beauty drink market by targeting young female users. While the NMN (nicotinamide mononucleotide) category has garnered significant consumer attention, authorities have expressed concerns about the safety of such ingredients and are conducting further assessments, somewhat clouding the outlook for products containing NMN.

The customization of VDS products is also growing in popularity and creates opportunities for brands to target specific consumer groups by age, gender, and individual demand. For example, LemonBox – a US start-up founded by Chinese scientists – is a leader in this space and offers personalized vitamin supplements based on questionnaires filled out on its WeChat (the most popular Chinese messaging app) store. Similarly, international brands should identify their target consumer segments and leverage social media platforms to increase product accessibility.

Herbal and Traditional Products

MARKET LANDSCAPE

Positive publicity about the potential of TCM to relieve COVID symptoms and other ailments has boosted demand for herbal and traditional products based on TCM principles. Like VDS, the market is also highly fragmented with the top five players only taking a combined 18.5% share in 2021. Infinitus (China) is the market leader with over 30 subsidiaries and 7k offline stores. Dong-E E-Jiao has developed more than 40 e-jiao (a gelatine derived from donkey hide) products to attract younger consumers and maintain its competitive edge. By-health also launched its herbal brand – 28 Chen – to diversify its product line away from VDS.

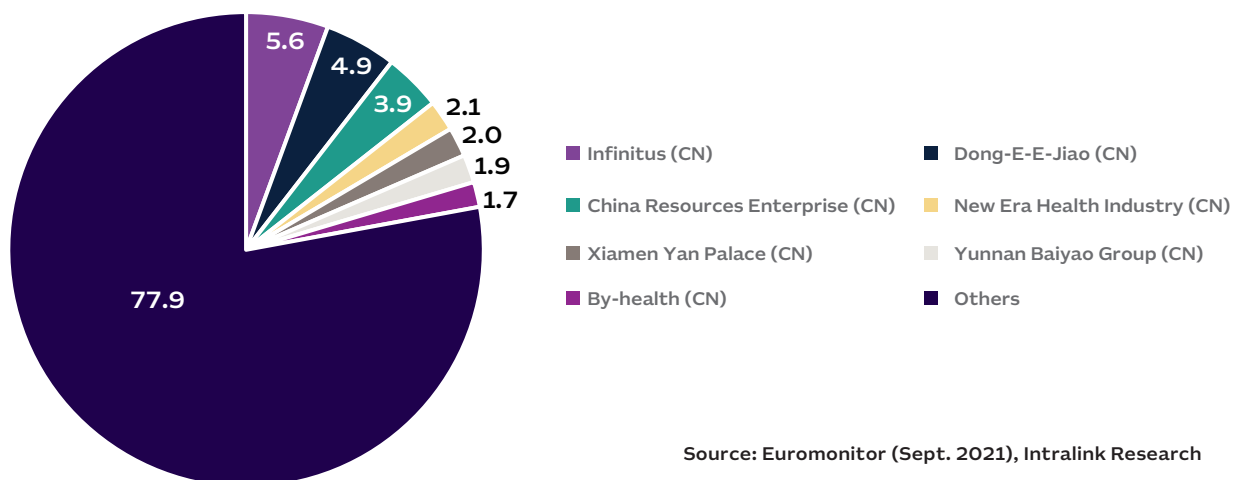
KEY PRODUCT CATEGORIES

Consumers explore herbal and traditional supplements to improve immunity, energy, sleep, and skin conditions. Key products categories include plant extracts, e-jiao, and edible bird nests. According to Euromonitor, digestive remedies are the most dynamic category in this area, with an 18% increase YoY in 2021.

Herbal and traditional products have an intimate connection with Chinese culture. For example, edible bird nests are treated as high-value skin improvement supplements in TCM for their rarity and high protein content. Local brands are investing in creating new designs to make products easier to consume. Dong-E E-Jiao launched ‘Little Gold Bar’, an innovative e-jiao power product that resembles a protein powder dissolved in liquid to appeal to younger generations.

We expect more herbal and traditional products to enter online platforms to attract millennials and members of generation Z. We also see opportunities for foreign brands: Australian companies can leverage novel plant extracts and other ingredients unique to Australia to appeal to consumers in this sub-sector.

Figure 3: Competitive Landscape of Herbal and Traditional Products (2021)



Source: Euromonitor (Sept. 2021), Intralink Research

Note: CN: China

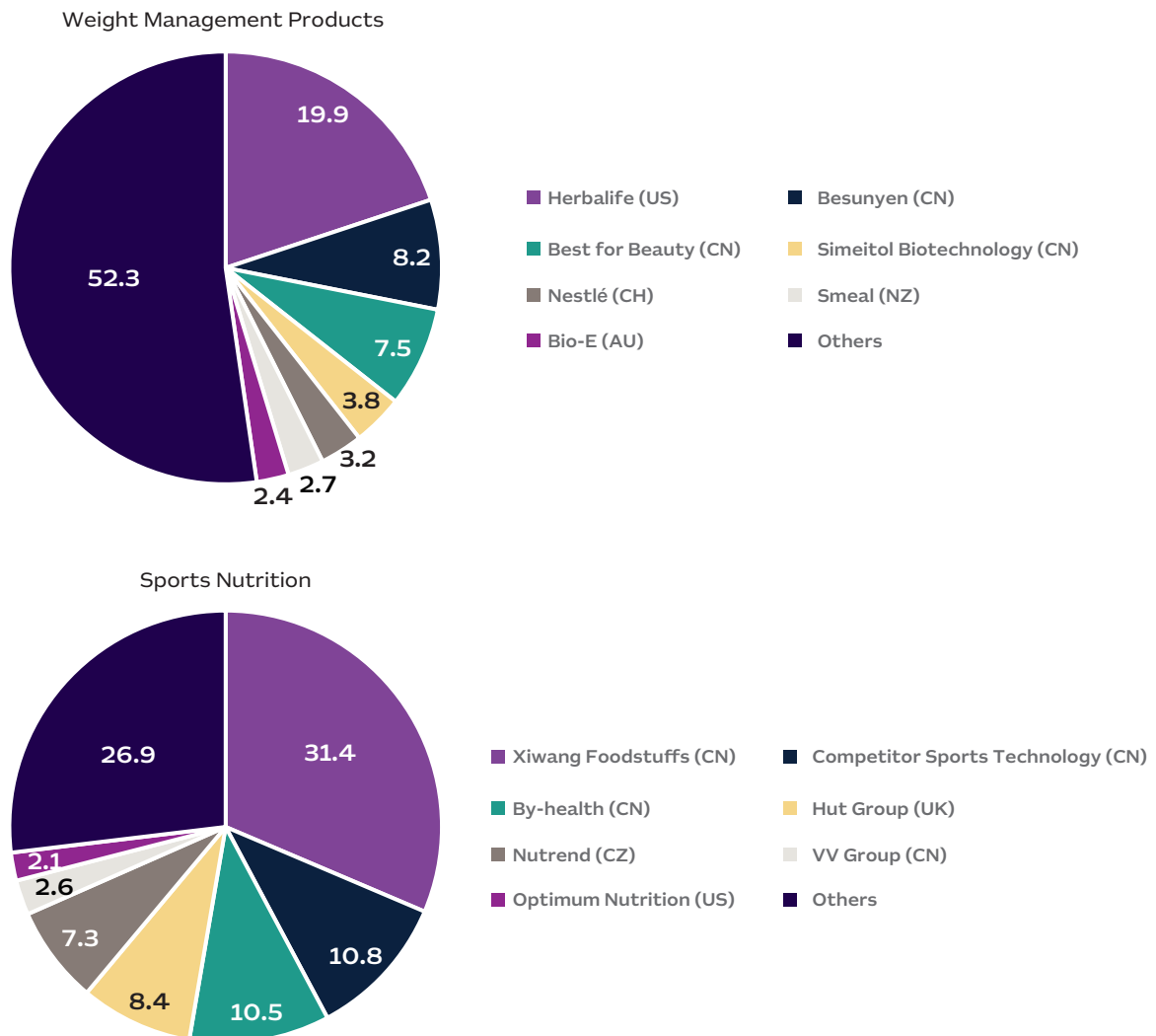
Weight Management Products & Sports Nutrition

MARKET LANDSCAPE

The weight management products and sports nutrition markets are both relatively consolidated. In the weight management space, foreign companies predominate. US-based Herbalife is the largest player, with nearly a 20% market share in 2021, followed by Besunyen, a Chinese producer of weight management tea products with about 8%.

Bio-E Australia has won business through its starch blockers and enzymes products. On the sports nutrition side, China's Xiwang Foodstuffs (owner of MuscleTech) is the market leader with a 31.4% share. International brands still have a significant foothold, however: Hut Group, Nutrend, and Optimum Nutrition are all in the top ten.

Figure 4: Competitive Landscape of Weight Management Products and Sports Nutrition (2021)



Source: Euromonitor (Sept. 2021), Intralink Research

Note: CN: China, US: the United States, AU: Australia, UK: the United Kingdom, CH: Switzerland, CZ: Czech Republic, NZ: New Zealand

KEY PRODUCT CATEGORIES

In the weight management sub-sector, meal replacement is the largest product category and is sold by newer entrants like Smeal. Such firms are developing localized flavours to better fit the Chinese palate. Weight loss supplements are another popular category: US-based Herbalife launched L-carnitine and vegetable-based products with fat-burning claims specifically for the China market. Our research illustrates that more international brands are entering this space via cross-border ecommerce: Australian Bio-E takes, for instance, has established flagship stores on both Tmall Global and JD and derives most of its sales from online channels.

Protein products, especially protein powder, dominate the sports nutrition market. Major players are racing to diversify, however, and introduce non-protein products such as those designed to increase stamina. International brands such as Optimum Nutrition have leveraged the CBEC to expand their business in the country, with nearly all of its sales through ecommerce platforms.










Investment Activity & Trends

We identified seven recent mergers and acquisitions in China's complementary medicine market. Probiotics categories received the bulk of investments, while funding for start-ups with edible supplements – of particular appeal to younger generations – also grew rapidly.

Recently, the British F&B giant Tate & Lyle acquired China's Quantum Hi-Tech Biological, reflecting the growing interest in Chinese healthfood raw material suppliers. Table 2 provides an overview of investment activities in the market.

Table 2: Recent Investment Activity

COMPANY	PRODUCTS	INVESTOR	DATE & SIZE/ROUND
 QHT Biological	<ul style="list-style-type: none"> – Organic probiotics – Fructooligosaccharides (FOS) – Galactooligosaccharide (GOS) 	Tate & Lyle	31 March 2022 USD 237m
	<ul style="list-style-type: none"> – Probiotics 	By-health	30 August 2018 AUD 670m
	<ul style="list-style-type: none"> – Probiotics – Bio-fermented products 	Go Believe International	March 2017 Undisclosed
	<ul style="list-style-type: none"> – Anti-alcohol supplements – NMN supplements – Sleep-aid products 	Meridian Capital China; Dalton Venture; K2VC	17 March 2021 B round
	<ul style="list-style-type: none"> – Multivitamin gummies – Liver protection tablet – Starch blocker capsule – Probiotic 	IDG Capital; BAI Capital; Vision Knight Capital	28 January 2021 A round
	<ul style="list-style-type: none"> – Collagen jelly – Plant extract – Skin whitening tablet 	Northern Light Venture Capital; Legend Star	26 August 2021 A round
	<ul style="list-style-type: none"> – Starch blocker capsule – Sleep-aid gummies – Vitamin tablet 	GGV Capital; Sequoia Capital; Plum VC	13 January 2021 A round

Source: Intralink research

MARKET OPPORTUNITIES



China's central government released its Healthy China 2030 blueprint in 2016 that sets out a long-term strategy to reform the healthcare industry and promote healthy living. This blueprint highlights the importance of alternative remedies and preventive care outside of the established healthcare system, providing a foundation for growth in the complementary medicine market and generating a plethora of opportunities across the four sub-sectors covered in this report for international brands.

In this section, we explore specific in-demand products and ingredients in each space that Australian companies can focus on to better position themselves in the market.

Vitamins and Dietary Supplements

Rising awareness of preventative health among Chinese consumers will continue to drive the sales of VDS. According to several of our interviewees, the 'Made in Australia' label has a strong reputation and credibility in the country, and consumers have confidence in the quality of Australian supplements. We believe that the best opportunities are for products and ingredients aimed at improving microbiome and digestive health, anti-ageing, and general immunity, especially for:

- Stomach care: digestion and nutrient absorption remedies (contains probiotics, glutamine, and curcumin) for different consumer groups, especially for elderly consumers
- Liver protection: anti-inflammatory ingredients that can prevent liver damage from infections and exposures to toxins, such as milk thistle
- Beauty drinks: skin whitening, hydrating, and anti-ageing products with NMN, hyaluronic acid, anthocyanin, and resveratrol components
- Bone health: reduces the risk of osteoporosis and joint pain by adding ingredients like glucosamine
- Visual protection: lutein and zeaxanthin ingredients that protect the eyes from sunlight and ultraviolet rays
- Cardiovascular protection: fish oil (contains omega-3) and co-enzyme Q10 to reduce the risk of cardiovascular diseases

Herbal and Traditional Products

Encouraging data to suggest that TCM is beneficial in treating a variety of diseases has enhanced consumer confidence and helped stimulate demand for a variety of herbal and traditional products. We have identified three promising product areas that Australian businesses in the herbal and traditional products sub-sector should target:

- Digestive remedies: mainly plant extracts of aloe vera, barley leaves, and prunes
- Herbal paediatric products: enzymes to improve intestinal health of children
- Dermatological treatments: yeast and calendula extract to improve skin conditions

Weight Management Products and Sports Nutrition

Our research indicates that people are paying more attention to obesity-related diseases. Based on an iResearch survey from 2021, more than 35% of consumers expressed a strong willingness to adjust their eating habits and take weight management and/or sports nutrition products.^[7] The expansion of live streaming, especially with social media influencers, has emerged as a key means to promote products in these areas. For instance, Bio-E, an Australian supplements provider, launched its enzyme-based weight management tablet and appointed a Chinese celebrity – Wang Yibo – as its brand ambassador in 2020. Chinese consumers are specifically demanding the following products and ingredients:

- Weight loss supplements: starch blockers extracted from beans (known as Phaseolus vulgaris extract)
- Meal replacement: balanced nutrition, high-quality protein, and multiple vitamins and minerals
- Non-protein products for sports: joint protection (includes chondroitin) and performance boosters (such as testosterone, HMB)

Key Business and Industry Associations

We identified seven organizations in China with which Australian companies can engage to understand regulatory changes and discuss potential collaboration and partnership where suitable. Table 3 provides an overview of these seven institutions.

Table 3: Key Government and Business Institutions

PROSPECTS	BACKGROUNDS
 <p>国家市场监督管理总局 特殊食品安全监督管理司</p> <p>Division of Special Food Safety Supervision, State Administration for Market Supervision</p>	<p>The Division of Special Food Safety Supervision formulates and implements administrative measures for healthfoods filing and registration.</p>
<p>食品安全标准与监测评估司</p> <p>Division of Food Safety Standard Inspection, National Health Commission</p>	<p>The Division of Food Safety Standard Inspection formulates national food safety standards, monitors food safety risk, and oversees the safety review of new food raw materials.</p>
 <p>中国医药保健品进出口商会 服务产业链 助力国际化</p>	<p>The China Chamber of Commerce for Import and Export of Medicines and Health Products (CCCMHPIE) is a national industrial association in China. The chamber has over 2.5k members and is devoted to promoting international trade and investment in the medicinal and consumer health sectors.</p>
 <p>中国营养学会 Chinese Nutrition Society</p>	<p>Founded in 1945, the Chinese Nutrition Society (CNS) is a nationwide non-profit academic organization dedicated to supporting the development and application of healthfoods and nutrition to improve public health.</p>
 <p>SINH 中国科学院上海营养与健康研究所 SHANGHAI INSTITUTE OF NUTRITION AND HEALTH, CAS</p>	<p>The Shanghai Institute of Nutrition and Health (SINH) of the Chinese Academy of Sciences focuses on the research of healthy ageing, chronic diseases, nutrition, and food safety. It also serves as a think tank, advising the government on health-related issues.</p>
 <p>CNHFA 中国营养保健食品协会 China Nutrition and Health Food Association</p>	<p>The China Nutrition and Health Food Association (CNHFA) is an industry association founded by local healthfoods and supplements enterprises.</p>
 <p>China Health Care Association</p>	<p>Established in 2003, the China Health Care Association (CHCA) is an industry association committed to the development of the healthfoods industry by organizing industry events and drafting industry standards.</p>

Source: Intralink research

DISTRIBUTION CHANNELS

Complementary Medicine Distribution in China

There are three main distribution channels in China's complementary medicine industry: ecommerce, direct sales (primarily door-to-door sales or through private marketing events), and sales at physical outlets like pharmacies and supermarkets. Reforms in 2019 increased regulatory scrutiny of direct sales channels, mostly in response to rampant counterfeit healthfoods and fake advertising. As a result, direct sales declined from 39% in 2015 to 25% in 2020 and sales via pharmacies from 31% to 23%.^[6] Ecommerce has been a beneficiary of this initiative, with the sales on online channels rising from 18% to almost 40% in the 2015-2020 period.

Based on our conversations with industry stakeholders, ecommerce, via the CBEC, remains the most viable way for foreign firms to enter

for foreign firms to enter China. There are three routes for Australian brands to sell complementary medicines on online platforms. The first is through an intermediary, primarily a specialised ecommerce agent to import and connect with platforms such as Tmall Global and JD. The second way is by establishing a China-registered entity and building an online store with a local sales team. The third route is through 'Daigou', directly purchasing products from overseas and selling them through the mail or physically carrying them to China on flights in personal luggage. New quarantine requirements introduced in the past few years have greatly restricted Daigou-acquired goods. Moreover, COVID has also dramatically curtailed international flights to China, cutting off another important Daigou channel.

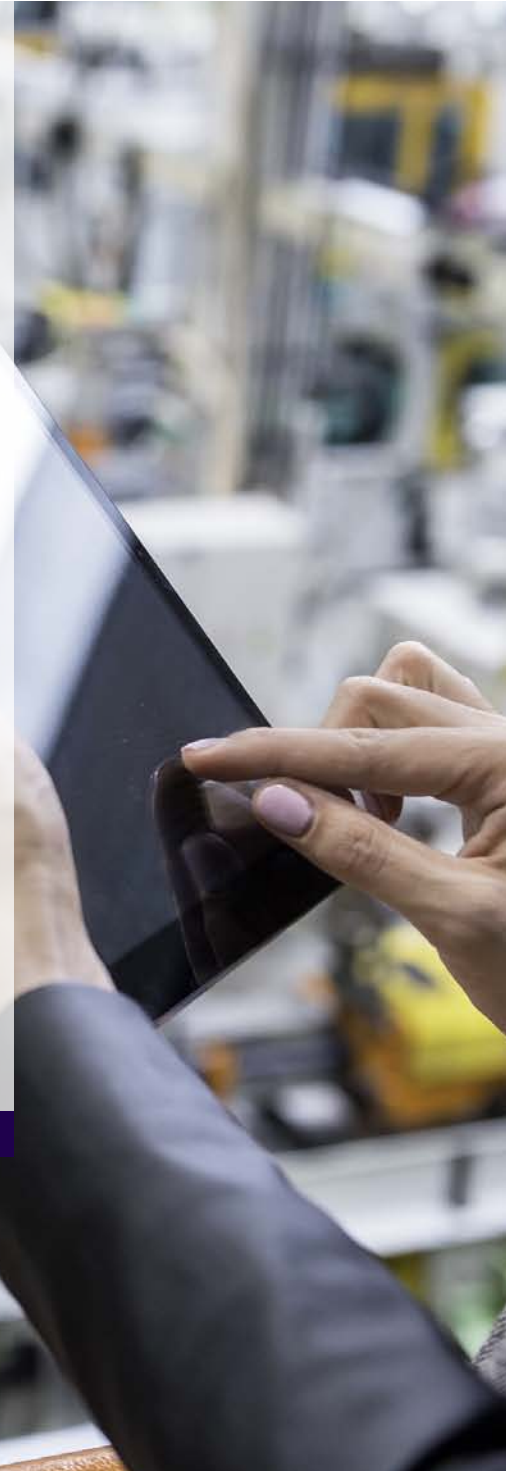
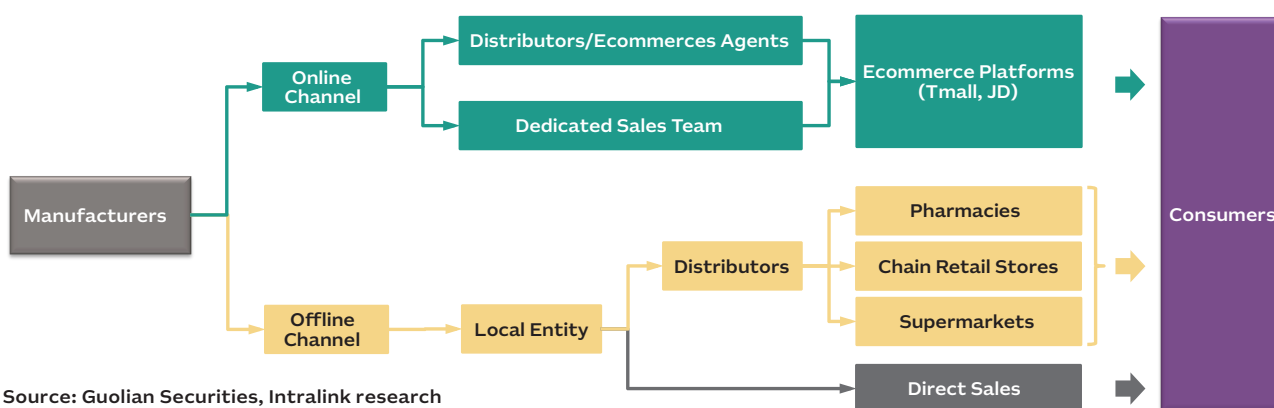


Figure 5 illustrates the relationship among the stakeholders involved in the manufacturing, distribution, and consumption of complementary medicines.

Figure 5: Structure of Distribution System



Source: Guolian Securities, Intralink research

Ecommerce Agents

Ecommerce agents play a vital role in the CBEC ecosystem. In addition to providing sales and operations services, many also offer after-sales services, marketing support, and promotion activities. We have identified four such firms that focus on complementary medicines and routinely work with Australian SMEs. Table 4 provides an overview of these four agents.

Table 4: Overview of Potential Distribution Partners and Ecommerce Agents

PROSPECTS	SERVICES	BACKGROUND	LINK
	<ul style="list-style-type: none"> – Online operations – Digital marketing – Channel distribution – Supply chain solutions 	<p>Founded in 2013, Bicheng has partnered with leading enterprises, such as Siemens, HealthyCare, Rinnai, and BMW</p>	Website
	<ul style="list-style-type: none"> – Online operations – Digital marketing – Channel distribution – CRM and after-sales services 	<p>Founded in 2008, Data Intelink is responsible for the operation and marketing of Blackmores' Tmall Global flagship store and GNC's JD flagship store</p>	Website
	<ul style="list-style-type: none"> – Online/offline operations – Live streaming promotion – Marketing and sales – Distribution and logistics 	<p>Ruoyuchen is a leading ecommerce agent that has partnerships with top international brands like P&G, Swisse, Bayer, Selsun, and McDonald's</p>	Website
	<ul style="list-style-type: none"> – Online/offline operations – Media and marketing – IT solution – CRM Service – Distribution and logistics 	<p>Baozun was listed on both NASDAQ and HKEX, it has partnered with over 280 brands and offers digital strategy to accelerate product localization</p>	Website

Source: Intralink research

REGULATIONS

Overview

China allows complementary medicines to be sold in the country through two main routes: the Cross-Border Ecommerce Channel (CBEC) and dual-track registration system (commonly known as 'blue hat'). As we noted previously in this report, goods imported through the CBEC can only be sold via online channels, directly to end customers (B2C).

Foreign companies wishing to sell their products offline (B2B or B2C) will need to complete a product filing or product registration under China's blue hat registration system, primarily regulated by the State Administration for Market Regulation (SAMR). Table 5 outlines key regulations pertaining to complementary medicines in China.



Table 5: Key Regulations for Complementary Medicine Market

REGULATIONS	EFFECTIVE DATE	RELEVANCE
Administrative Measures on Health Food Registration and Filing	1 July 2016	Established the dual-track registration system
Ecommerce Law of the People's Republic of China	1 January 2019	Standardised labelling of healthfoods
Guideline on Warning Statements for Health Food Labelling	26 August 2019	Standardised labelling of healthfoods
List of Cross-Border Ecommerce Retail Imports (2019)	1 January 2020	Updated the whitelist of goods that can be imported via Cross-Border Ecommerce
Health Food Raw Materials Directory - Nutrient Supplement (2020)	1 March 2021	Products containing coenzyme q10, broken ganoderma lucidum spores, spirulina, fish oil, and melatonin only require a blue hat 'filing' (previously needed a blue hat 'registration')
Dosage Forms and Technical Requirements for Health Food Filing (2021)	1 July 2021	Two dosage forms (gelatin gummy and powder) can be used for blue hat 'filing'
Health Function Catalogue Allowed for Health Food Claims - Nutrient Supplement (2022 Draft)	19 January 2022	Adjustments to functional claims that healthfoods can make

Source: Intralink research

The Cross-Border Ecommerce Channel (CBEC)

The *Ecommerce Law of the People's Republic of China* and *List of Cross-Border Ecommerce Retail Imports* are the two most important regulations pertaining to goods imported through the CBEC. The former allows foreign products to be imported to special bonded zones in the country, bypassing normal customs procedures, before they are shipped to individual consumers. The latter established a list of approved products that can be imported through the channel. The most recent version, released in 2019, lists 1413 products, identified by their HS codes. There is no formal product registration required: companies with products on the whitelist can immediately start preparations to enter the market via China's ecommerce platforms.

Our research indicates that the vast majority of Australian companies operating in the complementary medicine industry will be able to tap into the China market via the CBEC. Prior to market entry, however, Australian firms should verify that their products' HS codes are whitelisted. If they are not, companies will need to certify products through China's often onerous dual-track registration system prior to commercialisation in the country.

Dual-Track Registration ('Blue Hat' Certification)

Foreign firms that want to establish offline distribution networks, selling directly to other businesses like pharmacies and supermarkets, or those with products not on CBEC's whitelist, will need to certify their product through SAMR's dual-track system. Once approved a product will receive a healthfoods certification (also known as 'blue hat').

The name 'dual-track' refers to the two options that firms have when completing blue hat certification, either a 'Product Filing' or 'Product Registration'. Product filing is generally faster – between 6 to 12 months – and is for companies selling vitamins or minerals, such as multivitamins or calcium tablets. Product registration is for goods that would like to make wider beneficial health claims on their label and is a lengthy and expensive process that can take up to 36 months to complete. We outline the major steps for each below.

PRODUCT FILING

The filing process consists of four steps, as follows:

- Step A: Product samples preparation
- Step B: Sample testing
- Step C: Submission to SAMR
- Step D: Administrative approval and issuing of blue hat certificate

PRODUCT REGISTRATION

The registration process consists of seven steps, as follows:

- Step A: Claim health effect(s) or benefit(s) of the product
- Step B: Product samples preparation
- Step C: Sample testing
- Step D: Submission to SAMR
- Step E: Technical evaluation
- Step F: On-site verification
- Step G: Administrative approval and issuing of blue hat certificate

REQUIRED TESTS FOR FILING AND REGISTRATION

Table 6: Required Tests for Product Filing and Registration

PRODUCT FILING	PRODUCT REGISTRATION
(1) Active ingredients, hygiene, stability test	(1) Safety test (toxicology test)
(2) Technical requirement test of full inspection items	(2) Health function test
	(3) Human consumption evaluation materials (as needed)
	(4) Efficacy/Active ingredients, hygiene, stability test
	(5) Stimulant/banned drug ingredients test (as needed)
	(6) Strain identification/virulence test (as needed)

Source: Chemlinked, Intralink research

In 2020, a total of 2532 complementary medicines obtained blue hat certification, only 40 of which went to imported products (about 1.6% of the total).^[8] While this low ratio in part underlines the difficulty that international firms have in filing or registering products through the dual-track channel, another important factor is the CBEC: it allows companies an alternative route to market without the cost and hassle of obtaining the blue hat designation.

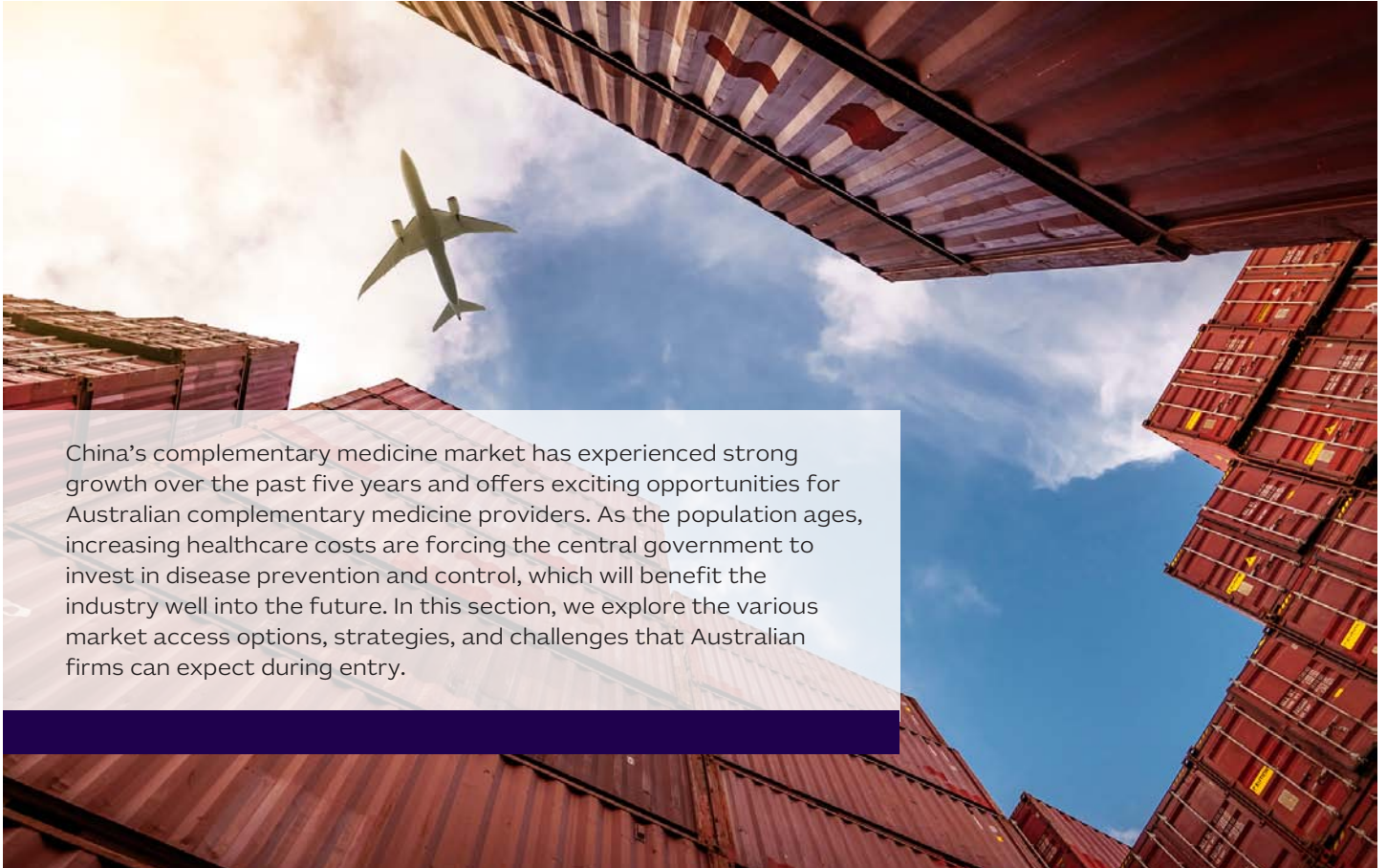
In January 2022, SAMR issued *Health Function Catalogue Allowed for Health Food Claims - Nutrient Supplement (Draft)*, which made adjustment to 24 functional claims. See Appendix B for the latest version of this catalogue.

Advertising and Labelling Restrictions

China tightened its healthfoods advertising and labelling requirements in 2019 to increase consumer protection and cut down on fraudulent practices.

According to Administrative Measures on Import and Export Food Safety, issued by China's General Administration of Customs (GACC) in 2022, Chinese labels must be printed on instead of affixed to the minimum sales package of general trade commodities before importation. Domestically manufactured products and products imported through normal trade channels with advertisements and labels claiming various beneficial health effects must first complete a blue hat product registration (as detailed above). Labels should clearly display the blue hat mark and indicate for which age groups it is suitable. Advertisements must also state (in Chinese) that 'healthfoods are not a drug and cannot replace drugs to treat diseases.' Products imported through the CBEC, however, are not subject to the same restrictions and can continue to make health benefit claims on their labels and when marketing on ecommerce platforms.

MARKET ENTRY STRATEGIES



China's complementary medicine market has experienced strong growth over the past five years and offers exciting opportunities for Australian complementary medicine providers. As the population ages, increasing healthcare costs are forcing the central government to invest in disease prevention and control, which will benefit the industry well into the future. In this section, we explore the various market access options, strategies, and challenges that Australian firms can expect during entry.

Market Entry Channels

The CBEC is the best – and most practical – route for most Australian exporters of complementary medicines to initially expand into China. The CBEC neither requires a physical entity in the country nor product regulatory approval from SAMR (so long as the product is on the CBEC whitelist, as outlined in the 'Regulations' section). Goods imported via the CBEC are shipped to bonded zones within China, where they can be dispatched upon receiving a customer's order. To date, there are more than 100 such bonded zones in China, including in nearly all of its largest cities. In most cases, consumers receive their orders within three days. As previously mentioned, companies using the CBEC can only sell to consumers on one of the country's ecommerce platforms and cannot sell through offline channels.

Australian brands using the CBEC can either work directly with online platforms through a local sales team (which would require a local presence) or with ecommerce agents. We believe that working with agents, at least initially, is the most realistic option for most firms. They can assist with importing goods, storing products in bonded warehouses, liaising with ecommerce platforms, and keeping track of market trends. We also recommend that companies first sell products on Tmall Global, a dedicated cross-border ecommerce platform owned by Alibaba Group. Australian firms should then explore options on platforms such as JD, Tmall Supermarket (separate from Tmall Global), and Kaola once they meet initial sales targets. Entry onto these platforms is generally stricter than Tmall Global: they require brands to first have proven sales and name recognition in China to apply.

Digital Marketing

While the CBEC is the fastest way that most Australian firms can enter China, they should still expect three to six months before selling their first product. This is because it still takes time to vet and on-board ecommerce agents, select the most suitable bonded zone(s) to use when importing (and possibly arrange storage in a bonded warehouse, though most agents can provide this service), and devise a sales strategy.

Australian enterprises can also choose traditional trade channels to enter the market. While this route is strictly regulated by customs and SAMR, there are benefits to this model, especially for companies with ample resources to invest in blue hat certification (which can take between 6 to 36 months). This enables firms to sell products through offline channels, which still accounts for more than 60% of all sales in the complementary medicine markets.

Once approved, companies can either operate in the country directly with their own entity and sales team, indirectly through distributors, or via a hybrid model. Note that companies pursuing blue hat certification can also sell products through the CBEC: the two are not mutually exclusive.

Digital marketing will also be central to a brand's success in China. Nonetheless, campaigns can be costly, and firms should consider a variety of marketing strategies during entry, augmenting budgets once they hit sales milestones.

Online shopping events like 'Double 11' (held on November 11th and similar to Black Friday) have become some of the most important battlegrounds for complementary medicine manufacturers, especially to reach younger consumers. Leading brands – both domestic and international – are taking integrated marketing strategies to 1) increase brand awareness through marketing campaigns and live streaming on social media and short video platforms like Tiktok, Kuaishou, Weibo, and Redbook and 2) convert leads into paying customers on Tmall Global and JD.

Figure 6: Routes to Market



Source: Intralink research

Australian firms should also clearly identify their target consumer groups and adopt appropriate advertising strategies on social media platforms (like Wechat and Redbook) and short video platforms (like Tiktok and Kuaishou) to establish fan clubs. We also recommend leveraging live-streaming on Tmall Global as a starting point to find leads and generate sales. Once established, companies should actively participate in online shopping events such as Double 11 for product promotion.

Finally, companies should explore appointing social media brand ambassadors and influencers to promote their products. Australian brands like Bio-E and Swisse have both successfully employed this strategy. While this has the potential to greatly magnify a firm's accessible market, note that it will likely most expensive of the three options introduced in this section.

Market Entry Challenges

While the China market presents exciting opportunities for Australian complementary medicine companies, new entrants, especially SMEs, can expect some challenges when selling their products. In this section, we introduce some of the more common challenges – and possible solutions – that firms may encounter. Ultimately, in a market as multifaceted as China's, some form of local representation is essential to bridge business, language, and cultural gaps, to effectively vet partners, and to determine the most appropriate strategies for success.

PARTNER MANAGEMENT AND PRICE CONTROL

The development of cross-border ecommerce, and the CBEC, has greatly benefited many international brands. While the CBEC remains the most convenient route for many firms to enter China, it can, however, be challenging for brands to keep control of the final retail prices and their online distribution networks on various platforms.

Australian firms should rigorously vet partners during the on-boarding process, including interviews with multiple candidates and conducting due diligence to verify suitability. While working with a single agent is reasonable for some firms and under certain circumstances, in a country as large and complex as China we recommend considering a multi-partner approach depending on their strength in a particular region, product expertise, or target age cohort.

BRAND RECOGNITION AND LOYALTY

The robust growth of the complementary medicine market in China has intensified the competition in many sub-sectors, particularly VDS. Leading brands are employing integrated marketing strategies to increase brand awareness through marketing campaigns on Chinese social media platforms like Tiktok (known as 'Douyin' in China), Kuaishou, Weibo, and Redbook. Converting leads into paying customers and building brand loyalty is a key challenge facing foreign entrants, especially since domestic competitors are more familiar with the local culture, trends, and consumption patterns.

We recommend working closely with local partners to keep abreast of the changing market. Australian firms should also consider appointing influencers as part of a broader digital marketing strategy, as budgets permit.

TIGHTENING ADVERTISING AND LABELING REGULATIONS

As noted in the 'Regulations' section, in 2019 authorities tightened the advertising and labelling rules of complementary medicines, to clearly delineate them from ordinary foods and drugs. Regulations can sometimes change rapidly, leaving foreign companies wrongfooted. To mitigate this risk, we advise Australian SMEs to engage with the associations listed in the report to keep up-to-speed on the shifting regulatory environment.

SCANT REGULATION OF HERBAL AND TRADITIONAL PRODUCTS

Products in this category, especially TCM, have strong cultural roots and significantly different regulatory and labelling requirements than conventional medicine and healthfoods; there are few regulations overseeing the production of locally made herbal and traditional remedies. As a result, many loosely regulated products are currently sold through offline channels, distorting the competitive landscape.

Although there is a rising interest among Chinese consumers for herbal and traditional products, there is still a high level of scepticism regarding health claims and product safety. Australian firms should emphasize the quality and purity of their products during promotional activities, somewhat blunting the effects of an uneven playing field.

INCREASING THREAT FROM LOCAL STARTUPS

Venture capitals are financing numerous complementary medicine start-ups in China, especially in the VDS space. Start-ups like KOOYO and BUFFX are capturing the attention of younger generations with novel hangover, NMN, sleep-aid, starch blocker, and probiotics products, adding another layer of competition to an already crowded market.

Australian firms should attend industry events and expos to remain current on the local start-up and competitive scene. Regular communication with ecommerce partners and industry associations is also crucial to understanding competitor products and consumer trends.

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APPENDIX B

– HEALTH FUNCTION CATALOGUE

Table 7: Health Function Catalogue Allowed for Health Food Claims - Nutrient Supplement (2022 Draft)

NO.	FUNCTIONAL CLAIM	CHINESE NAME
1	Enhances immune function	有助于增强免疫力
2	Contains antioxidants	有助于抗氧化
3	Assists in improving memory function	辅助改善记忆
4	Relieves eye fatigue	缓解视觉疲劳
5	Eases throat disorders	清咽润喉
6	Improves sleep	有助于改善睡眠
7	Alleviates physical fatigue	缓解体力疲劳
8	Assists anoxia tolerance	耐缺氧
9	Facilitates weight loss	有助于控制体内脂肪
10	Increases bone density	有助于改善骨密度
11	Improves hypoferric anaemia	改善缺铁性贫血
12	Reduces acne	有助于改善痤疮
13	Dispels chloasma	有助于改善黄褐斑
14	Improves skin moisture	有助于改善皮肤水份状况
15	Improves intestinal flora	有助于调节肠道菌群
16	Promotes digestion	有助于消化
17	Relieves constipation	有助于润肠通便
18	Assists in protecting gastric mucosa	辅助保护胃粘膜
19	Assists in maintaining healthy blood lipids level	有助于维持血脂 (胆固醇/甘油三酯) 健康水平
20	Assists in maintaining healthy blood sugar level	有助于维持血糖健康水平
21	Assists in maintaining healthy blood pressure level	有助于维持血压健康水平
22	Assists in protecting against chemical liver injury	对化学性肝损伤有辅助保护作用
23	Assists in protecting against ionizing radiation hazards	对电离辐射危害有辅助保护作用
24	Facilitates lead excretion	有助于排铅

Source: Intralink research



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