China’s Cosmetics Market

I. Market Overview

China’s cosmetics sector has been growing at a fast pace in recent years, in tandem with the rapid development of the economy. According to Euromonitor, retail sales of skincare products in China reached RMB212.2 billion in 2018, while sales of make-up products totalled RMB42.8 billion, representing year-on-year growth of 13.2% and 24.3% respectively. The table below shows how retail sales of cosmetic products by wholesale and retail enterprises above a designated scale have grown since 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail sales (RMB billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>162.5</td>
</tr>
<tr>
<td>2014</td>
<td>182.5</td>
</tr>
<tr>
<td>2015</td>
<td>204.9</td>
</tr>
<tr>
<td>2016</td>
<td>222.2</td>
</tr>
<tr>
<td>2017</td>
<td>251.4</td>
</tr>
<tr>
<td>2018</td>
<td>261.9</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics of China

The current structure of China’s consumer market of cosmetic products is as follows:

- Skincare products: the fastest-growing sector in the cosmetics market.
- Shampoos and hair-care products: a market niche becoming saturated, seeing growth decelerating.
- Make-up products: this market far from saturated, particularly for enhancement items, such as colour correcting (CC) and blemish balm (BB) cream. Sales of eye make-up products have recorded significant growth in recent years.
- Products for children: sales of products designed for use by children continue to soar.
- Sunscreen products: these help ensure sales will not slow down during traditionally quiet seasons.
- Anti-aging products: cosmetic products that help consumers stay looking youthful and fight aging are increasingly popular.
- Sports cosmetics: many consumers who love sports and fitness pursuits are keen to look good as well. They use sports cosmetics that help prevent moisture loss and are anti-odour, anti-sweat, anti-bacteria, packaged in compact, portable sizes.
Cosmeceuticals: consumers are increasingly aware of products that combine cosmetic and pharmaceutical features, such as spot lightening cream, acne treatment lotion and acne ointment.

Green/natural cosmetics: these contain natural or nutritional ingredients, such as aloe and vitamins.

China’s skincare-products market is becoming more high-end. Euromonitor figures show that though the retail sales value of high-end skincare products was still below that of mass-market alternatives in 2018, the market share of the former has been rising gradually, from 25.3% in 2013 to 32% in 2018. Consumers favour major international brand skincare products, and spending habits are switching from being price-focused to being driven by quality and brand.

China’s domestic cosmetics brands are performing very well and now have a market share of about 56%, the main reason for this being their expansion into second- and third-tier markets. They have also been vigorously developing online sales and boosting advertising on new-media platforms (WeChat and Weibo) to raise brand recognition.

The men’s cosmetics sector is growing strongly. According to estimates by Euromonitor, the male skincare products market expanded by 7.8% year-on-year in 2018, with men’s skincare and make-up products becoming increasingly popular. When it comes to cosmetics, men are mainly concerned with cleansing and dealing with oily skin. While facial cleansers make up the lion’s share of the male cosmetics market, demand for specialty products such as masks, sun-blocks and those with whitening and moisturising functions is also on the rise. This demonstrates that male consumers are beginning to pay more attention to skin conditions such as aging and coarseness.

Cosmeceuticals, especially Chinese herbal cosmetics, are opening up a new sector in the cosmetics market. Cosmeceuticals only make up about 20% of the market in the mainland at present, whereas in Europe, the US, Japan and South Korea, cosmeceuticals command a 50-60% share. China’s cosmeceuticals market appears to have plenty of potential for growth. With young consumers beginning to concern themselves more about the ingredients and quality of the products they buy, the age at which they start to purchase cosmeceuticals is becoming increasingly lower. While cosmeceuticals have medical properties, they are classified as cosmetics since there is still no official definition for the term “cosmeceuticals” on the mainland. According to the Regulations on Cosmetics Hygiene Supervision, no medical jargon or claims of medical efficacy should be used in cosmetics items’ packaging or instructions.

Consumers can be grouped into three major tiers - upper, middle and lower, based on their preference for brand, quality and price, along with their purchasing power. Buyers of imported brand products in the high-end market are mostly high-income earners in large and medium-sized cities. Most are young and middle-aged women who prefer famous cosmetics brands from Europe, the US and Japan.

People are increasingly aware of cosmetics safety issues. A series of problems arising from unsafe products have put consumers, manufacturers and regulatory authorities on alert. The introduction of hygienic and safety technology standards for cosmetics should help regulate the behaviour of cosmetics manufacturers and protect the rights of consumers.
All-natural DIY cosmetics have gained popularity in recent years. Consumers buy the ingredients themselves and create tailor-made cosmetics and skincare products with their own formulas. Today, DIY cosmetics have become increasingly commercialised, mass-produced and sold through e-commerce platforms such as Taobao.com and Tmall.com. Nevertheless, DIY cosmetics for online sales tend to have quality problems. They do not meet the requirements stipulated in the Regulations on Cosmetics Hygiene Supervision and have not applied for cosmetics production and sales permits.

China’s imports of major cosmetic products in 2018 are summarised below:

China’s Imports of Major Cosmetic Products in 2018

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>2018 (US$ million)</th>
<th>YoY change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>33030000</td>
<td>Perfumes and toilet waters</td>
<td>404</td>
<td>57.2</td>
</tr>
<tr>
<td>33041000</td>
<td>Lip make-up preparations</td>
<td>647</td>
<td>47.1</td>
</tr>
<tr>
<td>33042000</td>
<td>Eye make-up preparations</td>
<td>209</td>
<td>59.3</td>
</tr>
<tr>
<td>33049100</td>
<td>Powders, whether or not compressed</td>
<td>222</td>
<td>59.5</td>
</tr>
<tr>
<td>33049900</td>
<td>Others (including preparations for the care of the skin, suntan preparations, etc.)</td>
<td>8,810</td>
<td>71.7</td>
</tr>
<tr>
<td>33051000</td>
<td>Shampoos</td>
<td>265</td>
<td>44.7</td>
</tr>
<tr>
<td>33052000</td>
<td>Preparations for permanent waving</td>
<td>4</td>
<td>28.9</td>
</tr>
<tr>
<td>3053000</td>
<td>Hair lacquers</td>
<td>11</td>
<td>115.1</td>
</tr>
<tr>
<td>33059000</td>
<td>Others</td>
<td>254</td>
<td>61.4</td>
</tr>
<tr>
<td>33072000</td>
<td>Personal deodorants and antiperspirants</td>
<td>12</td>
<td>92.0</td>
</tr>
</tbody>
</table>

Source: Global Trade Atlas

II. Market Competition

According to statistics from the National Medical Products Administration (NMPA), which is now under the State Administration for Market Regulation (SAMR), there were 4,933 enterprises qualified to produce cosmetics in China at the end of June 2019. Domestic brands are mostly concentrated in the mid- to low-end market segments, while joint ventures and enterprises with foreign investment dominate the high-end segment.

Because of the rapid development of domestic cosmetics companies, domestic brands’ market share is gradually growing and creating increasing competition with their foreign counterparts. Domestic cosmetics brands have been active in image-building in recent years – for example, promoting marine-based skincare products, natural plant-based skincare products and modern Chinese herbal skincare products. Their reputation is on
the rise both at home and abroad.

Domestic companies are paying increasing attention to product development and quality. Domestic make-up products are also becoming more diversified. Domestic companies have successfully opened up a cosmetics market with Chinese cultural characteristics, launching items like limited editions of Chinese-style vanity gift boxes. Domestic brands are actively applying traditional Chinese medicine concepts and natural extraction methods in their development of skincare products, such as the Tai Ji and Yu Wu Xing series from Herborist. In the past, domestic brands emphasised value for money and mostly targeted second- and third-tier markets. Today, some large domestic companies have started to develop high-quality products, aiming to meet the demands of increasingly discerning consumers in the domestic mid- and high-end markets.

The cosmeceuticals market is dominated by foreign brands like VICHY, La Roche-Posay, Freeplus and Simple. Some domestic brands, including Tongrentang and Herborist, have also ventured into the cosmeceuticals market and are gradually achieving growing recognition from consumers.

Children’s skincare products is a sector with huge potential and an increasing number of international childcare heavyweights are eyeing the China market. Frog Prince, Pigeon, Yumeijing, Giving and Johnson & Johnson are major players in the children’s market. Competition is expected to become increasingly intense.

III. Sales Channels

The main sales channels for cosmetics on the mainland include integrated e-commerce platforms, wholesale markets, supermarkets and department stores, dedicated counters, specialty chain stores, drugstores, beauty parlours and direct selling. Integrated e-commerce platforms, department stores and specialty stores are now the top three sales channels.

The ‘dedicated counter’ is a major traditional sales channel for cosmetics, adopted by most world-renowned brands. Dedicated counters play a huge role in brands’ image building. According to iiMedia Research, brand and word-of-mouth are the two factors that mainland consumers care about most when buying cosmetics. Top global brands such as Lancôme, Estée Lauder, Chanel and Dior dominate the sales of cosmetics through dedicated counters on the mainland. Only a few domestic brands, such as Herborist, are able to compete with these giants.

Some brands expand their business by opening specialty stores - mainly directly operated specialty store and franchise store formats. Many multi-national cosmetics giants prefer directly-operated specialty stores, in which they can display brand image better, ensure quality of service and enforce unified, stable pricing. Franchise chain stores, however, are generally regarded to be the most effective format, involving the least input and achieving the highest rate of success.

Direct selling is a way of trading cosmetic products through distributors’ personal networks. Direct selling companies reward distributors depending on the quantity of goods sold through their networks. Avon was the first brand to launch a direct-selling pilot programme after the Regulations for the Administration of Direct Selling were introduced in 2005. Direct-selling licences were later granted to Amway, Perfect, Longrich and others.
Selling cosmetics through drugstores has become a major feature in China’s cosmetics market. While the cosmeceuticals market is now dominated by foreign players, a number of local pharmaceutical companies have begun to make use of this sales channel.

Cosmetic products are also distributed through traditional, pampering and therapeutic beauty parlours, large and medium-sized high-end beauty spas, franchise chain stores, and grooming and hairdressing parlours.

The retail concept of a ‘cosmetics supermarket’ or ‘one-stop shop’ is becoming more popular, with the entry of players such as Watson’s, Sephora of France and Sasa.

Many foreign brands have entered the mainland market by acquiring domestic brands and using their distribution networks. For example, MiniNurse and MG were acquired by L’Oréal, TJoy by Coty, and Dabao by Johnson & Johnson. Some foreign brands are establishing their presence in the mainland market through online shopping platforms.

Fairs held in China provide an ideal channel for industry players to gather the latest information and to meet dealers. Some of the cosmetics fairs scheduled to be held in China in 2019-20 are listed below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Exhibition</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-7 September 2019</td>
<td>China International Beauty Expo (Guangzhou)</td>
<td>China Import &amp; Export Fair Complex, Guangzhou</td>
</tr>
<tr>
<td>17-19 October 2019</td>
<td>Chengdu China Beauty Expo</td>
<td>Century City New International Convention and Exhibition Centre, Chengdu</td>
</tr>
<tr>
<td>30 October-1 November 2019</td>
<td>Shanghai International Beauty, Hairdressing &amp; Cosmetics Expo</td>
<td>Shanghai Everbright Convention &amp; Exhibition Centre</td>
</tr>
<tr>
<td>13-15 May 2020</td>
<td>China International Beauty Expo (Shanghai)</td>
<td>National Exhibition &amp; Convention Centre, Shanghai</td>
</tr>
<tr>
<td>19-21 May 2020</td>
<td>China Beauty Expo (CBE Shanghai)</td>
<td>Shanghai New International Expo Centre</td>
</tr>
</tbody>
</table>

IV. Import and Trade Regulations

The Detailed Rules for the Implementation of the Regulations on Cosmetics Hygienic Supervision stipulate that, when a cosmetic product is first imported into China, its foreign manufacturer or agent must obtain and complete an Application Form for Hygiene Licence of Imported Cosmetics from the relevant hygiene administration department. They must submit their applications directly to the hygiene administration department under the State Council. Once the application dossiers are received, the hygiene administration department will set up a cosmetics safety panel to inspect the product in question. Products that pass the inspection will be issued with an Approval Document for Hygiene Licence of Imported Cosmetics which is valid for four years. Application for
renewal can be submitted four to six months before the approval document’s expiry date, and attachment of relevant information is not required. Please refer to the website of the National Medical Products Administration (NMPA).

When assessing the mainland cosmetics market, foreign players should pay attention to the relevant standards adopted by mainland authorities. Under the Standardisation Law of the People’s Republic of China (Revised Draft 2017), standards are classified into five levels, national, trade, local, organisation and enterprise standards, in order of descending precedence. National standards are further classified into compulsory and recommended standards, represented by standard codes GB and GB/T. Likewise, trade standards are recommended standards. The cosmetics sector, classified under the category of light industry, is represented by the standard codes of QB and QB/T. Local standards are recommended standards. Enterprise standards are applicable within the respective enterprises. Industry players should refer to www.standardcn.com and the Standardisation Administration of China (SAC) website to look up the standards relevant to them.

On 1 July 2018, the State Council cut most-favoured-nation (MFN) tariffs on 1,449 items of imported daily consumer goods, including garment, shoes and hats as well as cosmetics and household appliances, among others. The average tariff rate for cosmetics such as skincare and haircare products was slashed from 8.4% to 2.9%. See below for the current tariffs on selected cosmetics categories:

**Import tariffs of selected cosmetic products in 2019:**

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>33030000</td>
<td>Perfumes and toilet waters</td>
<td>3</td>
</tr>
<tr>
<td>33041000</td>
<td>Lip make-up preparations</td>
<td>5</td>
</tr>
<tr>
<td>33042000</td>
<td>Eye make-up preparations</td>
<td>5</td>
</tr>
<tr>
<td>33043000</td>
<td>Manicure or pedicure preparations</td>
<td>5</td>
</tr>
<tr>
<td>33049100</td>
<td>Powders, whether or not compressed</td>
<td>5</td>
</tr>
<tr>
<td>33049900</td>
<td>Others (including preparations for the care of the skin, suntan preparations, etc.)</td>
<td>1</td>
</tr>
<tr>
<td>33051000</td>
<td>Shampoos</td>
<td>2</td>
</tr>
<tr>
<td>33052000</td>
<td>Preparations for permanent waving</td>
<td>3</td>
</tr>
<tr>
<td>33053000</td>
<td>Hair lacquers</td>
<td>3</td>
</tr>
<tr>
<td>33059000</td>
<td>Others</td>
<td>3</td>
</tr>
</tbody>
</table>


The Instructions for Consumer Goods – General Labelling of Cosmetics (GB 5296.3 -
which came into effect on 1 October 2009, stipulates that all locally produced cosmetics or imported cosmetic products registered for inspection and distribution on the mainland must truthfully indicate on the product package the standard Chinese names of all added ingredients in the product.

According to the Naming Requirements for Cosmetics, which was implemented on 5 February 2010, the name of a cosmetic product should be concise, easy to understand and in line with the customs of the Chinese language. It must not contain anything that may mislead or deceive consumers. The Cosmetics Naming Guidelines, which were issued to complement the naming requirements, provide a list of expressions allowed or prohibited when naming cosmetic products. Eleven types of expressions are forbidden for use in the names of cosmetic products: these include arbitrary expressions, such as “special effect”, “total effect”, “powerful effect”, “miraculous effect”, “super effect”, “extraordinary”, “skin renewing”, or “wrinkle removing”; expressions that falsely claim a product is “absolutely natural”; expressions that explicitly or implicitly indicate the medical effect of a product, such as “anti-bacterial”, “bacteria-inhibiting”, “bacteria-removing”, “detoxifying”, “anti-allergic”, “scar-removing”, “hair-growing”, “hair-regenerating”, “fat-reducing”, “fat-dissolving”, “body-slimming”, “face-slimming”, and “leg-slimming”; medical jargon; and names of celebrities in the medical field, such as Bian Que, Hua Tuo, Zhang Zhongjing and Li Shizhen.

In the 2015 version of the Safety and Technical Standards for Cosmetics consists of eight chapters, namely: Summary, Requirements on Cosmetics Prohibited and Restricted Ingredients, Requirements on Permitted Ingredients, Physical and Chemical Testing Methods, Microbiological Testing Methods, Toxicological Testing Methods, Human Safety Testing Methods, and Efficacy Evaluation Methods in Humans. In the publication, the general safety and technical requirements for cosmetics have been refined. Revisions have also been made to the lists regarding prohibited/restricted and permitted ingredients as well as to the physical and chemical testing methods in the cosmetics inspection and evaluation methods.

As stipulated in the former China Food and Drug Administration (CFDA)’s Circular on Matters Related to Cosmetics Production Permit, cosmetics produced on and after 1 July 2017 must use new packaging logos labelled with information on the corresponding cosmetics production permit. The “QS” logo is no longer in use.

In accordance with the Administrative Measures on the Inspection, Quarantine and Supervision of Import and Export of Cosmetics, which was revised in 2018 for cosmetics subject to hygiene licensing or state archival filing, the approval documents for hygiene licensing or a certificate of archival filing of imported cosmetics approved by the relevant supervisory department should be submitted. For cosmetics not subject to hygiene licensing or state archival filing, documents to be submitted include the relevant safety assessment data on materials with a potential safety risk, and certification allowing production and sale of the cosmetics in the country/territory of production or a certificate of origin. In addition, samples of a Chinese label, a foreign label and its Chinese version are also required. For finished cosmetic products without sales packaging, information such as the name, quantity/weight, specification and origin should also be provided.

Since 10 November 2018, the pre-approval process for the first-time import of non-special-use cosmetics has been wholly replaced by a unified system of record-filing management across the mainland. The NMPA will no longer accept administrative approval applications related to any such products. The term ‘non-special-use cosmetics’
refers to general beauty products that don’t have a specific application (such as the
promotion of hair growth, hair colouring, hair perming, hair removal, breast re-shaping,
fitness enhancement, odour reduction, freckle removal or protection from the sun). The
manufacturer of the prospective import must appoint a mainland representative to
complete the requisite record-filing procedures via the NMPA website and obtain an
electronic record-filing certificate before importing any such products. Please refer to the
NMPA website for details of the applicable laws and regulations.

Cosmetics imported via cross-border e-commerce retailing channels, such as some lip
and eye make-up preparations, may be treated as goods imported for personal use if
they are on the List of Cross-Border E-Commerce Retail Imports (2018 version) and meet
the conditions stipulated in the policies and regulations for cross-border e-commerce
retail import. The requirements for first-time import licence, registration or filing of goods
do not apply. The revised list took effect on 1 January 2019.

The Announcement of the NMPA on Matters Concerning the Implementation of the
Commitment-based Examination and Approval System for the Renewal of Administrative
Approval for Special-Use Cosmetics, which came into effect on 30 June 2019, is aimed at
improving the efficiency of the examination and approval of special-use cosmetics.
Applicants needing to renew an approval for the import of special-use cosmetics must
carry out comprehensive self-checks of the products concerned, six months before the
expiry date of the approval. They also need to submit the report on the self-checks and
the renewal application on the NMPA’s examination and approval platform for special-use
cosmetics, 30 working days before the expiry date. The renewal application will be
approved within 15 working days if the relevant requirements are fulfilled. If renewal of
the approval is not granted, products may not be produced or imported after the
approval expires.

The Guangdong Cosmetics Safety Regulations, China’s first local legislation regarding the
safety supervision of cosmetics, govern the entire cosmetics market in Guangdong
province. These regulations, which came into force on 1 July 2019, strictly control the
uses of raw materials and the whole process of the production of cosmetics. They also
clearly spell out the rules on labels and logos. E-commerce platforms for cosmetics are
required to conduct real-name registration and verify the business qualifications of
cosmetics vendors intending to use their services. Please refer to the website of the
Guangdong Provincial Medical Products Administration for details of the applicable laws
and regulations.

Find this page at
Market/ccm/en/1/1X000000/1X002L09.htm

Copyright © 2019 Hong Kong Trade Development Council. Reproduction in whole or in part without prior
permission is prohibited. While every effort has been made to ensure accuracy, the Hong Kong Trade
Development Council is not responsible for any errors. Views expressed in this report are not necessarily
those of the Hong Kong Trade Development Council.