China’s Health Food Market

I. Market Overview

Total sales of health food on the Chinese mainland surged to RMB237.6 billion in 2017 from RMB44.2 billion in 2012. By 2021, the size of the mainland health-food market is expected to exceed RMB300 billion. As total sales of health food continue to grow, the market outlook will be rosy.

The Outline of the Programme for Food and Nutrition Development in China (2014-2020) mentions that the state will actively raise the nutrient intake of its people, and will make the development of health food and nutrient-fortified food one of its priorities. This will help boost the development of China’s health-food market.

China’s health-food market first emerged in the 1980s. According to the National Food Safety Standard – Health Foods, health food refers to food products that claim to have specific health functions or supplement vitamins or minerals intake. Health food is suitable for consumption by specific groups of people and regulates human body functions, but is not used for the purpose of treating disease. Furthermore, such food should not pose any acute, sub-acute or chronic hazard.

Classification of health food:

1. Two categories
   - Food with specific health functions: Food that shares common properties with general food that regulates human body functions, but is not used for treating diseases and is suitable for consumption by specific groups of people.
   - Nutritional supplements: These products supplement nutrients, with vitamins and minerals as major ingredients. They include single-ingredient and multi-ingredient nutritional supplements.

2. Three types
   - Traditional health food: This refers to products that are prepared using traditional Chinese methods based on the concept of regulation and balance in traditional Chinese medicine.
   - Modern health food: This refers to health products, which use nutrients or supplements as major ingredients.
   - Functional health food: These products include those for specific health purposes, such as nourishing the heart and the liver, improving sleep or facilitating digestion.

As of June 2018, the China Food and Drug Administration (CFDA), which is now under the State Administration for Market Regulation (SAMR), had approved 17,464 health-food products, of which, 16,690 were domestically made and 774 were imported. The main functional categories of health-food products are immunity enhancers, vitamins, fatigue alleviators, sleep inducers and blood lipids reducers.
Survey data from the *China Health Care Association* shows that sales of health food in China are about RMB200 billion annually, of which consumption by the elderly accounts for more than 50%. This shows that the potential for the health-food market targeting the elderly is the largest. As living standards continue to rise, seniors are paying increasing attention to keeping healthy and enhancing immunity. As a result, health products have become a popular choice for elders to stay fit and healthy. Market forecasts predict that between 2014 and 2050, China’s elderly population consumer market will jump to about RMB106 trillion from about RMB4 trillion, and it is estimated that spending on health, wellness and medical care will grow particularly sharply.

Health food mainly offers such benefits as regulating the immune system, fighting fatigue, anti-ageing and regulating blood lipids. Since Chinese society is beginning to age, nutritional supplements and health foods targeting the elderly will be one of the leading product groups on the market. According to the *Statistical Communiqué on the 2017 National Economic and Social Development* issued by the *National Bureau of Statistics*, at the end of 2016 the population of seniors aged 60 or above stood at 241 million, accounting for 17.3% of the population. It is projected that the mainland’s senior population will peak at more than 400 million in 2050.

The nationwide implementation of the two-child policy is expected to create huge room for further development of the maternal and baby health food market. As pregnant women as well as newborns need the supplementation of various nutrients, the rising number of newborns will markedly increase consumer demand for maternal and baby health food.

On the mainland, the per-capita consumption level of health food is moderate compared with mature markets, so the health-food market has much room for expansion. In 2017, the per-capita consumption of health food in the US and Japan was US$214 and $148, respectively, far higher than China’s US$26.

II. Market Competition

According to the *Food & Drug Statistical Yearbook 2017* published by the *CFDA* under the *SAMR*, there were 2,317 health food manufacturing enterprises in China at the end of 2017.

In terms of geographic distribution, health food manufacturing enterprises are concentrated in the six coastal provinces/cities of Beijing, Guangdong, Shandong, Shanghai, Jiangsu and Zhejiang, which together account for about half of the total number of such enterprises in China. However, in the western region, including Xinjiang, Ningxia, Tibet and Qinghai, which are rich in traditional Chinese medicinal herbs, the number of health food production enterprises is just a few tens.

The enormous market potential and development opportunities in China’s health-food industry would not only induce more players in the pharmaceutical industry to undergo transformation, but also offer some pharmaceutical enterprises the chance of breaking out of their current situation. Given their existing R&D, production and marketing capabilities, pharmaceutical enterprises have an edge in moving into the health-food industry.

The rapid entry of foreign health food is bound to change the market landscape.
Multinational health-food enterprises generally have greater advantages in terms of financial clout, R&D capability, production and marketing. Nevertheless, there are also adverse factors hampering the development of imported health food. For instance, the traditional Chinese culture of medicinal food and therapeutic cuisine has a strong influence on mainlanders.

It is estimated that sales of foreign brands in the Chinese market have continued to grow in recent years. In addition to Amway, the global health food and nutritional supplements giant, Avon and Herbalife were also granted approval by China’s Ministry of Commerce to include health food in the scope of their direct-selling business. Pharmaceuticals manufacturers such as Pfizer and GlaxoSmithKline are also actively developing the Chinese health-food and nutritional-supplements market. Leading enterprises in the traditional health-food market currently include Wanji, Golden Sun, Infinitus, Hong Fu Loi and Dong-E E-Jiao, which account for the lion’s share. In the functional health-food market, Shanghai Jiaoda Only is one of the major suppliers.

China has been adopting an examination and approval system for its health-food market. The new Food Safety Law came into force on 1 October 2015. In this new law, 13 provisions are related to ‘health food’, providing various stipulations in market-access permission, production administration, market supervision and advertising administration, with penalties in case of violation. The new law also provides for the concurrent implementation of a health food record-filing system and a registration system. Regulatory authorities will maintain records on the production and sales of registered products for comprehensive supervision.

According to reports, there are 12,807 types of Chinese herbal medicine resources in China. With 4 billion people worldwide currently using products related to Chinese herbal medicine, the international influence of Chinese medicine is increasing. A number of international health-food companies have successively co-operated with relevant Chinese agencies in building global platforms for Chinese herbal health food and cosmetics research. For example, the Amway Botanical Research Center in Wuxi established by Amway with an investment of US$25 million has been operational since late 2015.

### III. Sales Channels

At present, sales channels used by health-food enterprises mainly include direct selling, conference marketing, traditional marketing, chain operation, e-commerce, academic marketing and other models. Enterprises using the direct-selling and conference-marketing models achieve higher sales revenue.

Following the implementation of the Regulations for the Administration of Direct Selling in 2005, direct selling of health food was granted legal status in China. As a sales channel for health food, direct selling has gained great popularity because it reduces intermediate links in circulation and saves operating costs.

Conference marketing, also known as database marketing or club marketing, is a marketing model whereby enterprises collect consumer data through various channels and build databases after analysing and aggregating the information. Targeted marketing is then carried out at specific customer groups during conferences by bundling various promotional tactics.

Traditional marketing still plays a prominent role in the health-food market. In traditional
marketing, sales channels and sales strategies are determined in accordance with product features. The sales channels for general nutritious or gift type products are mainly shopping malls and hypermarkets, while the main seasons for promotion and sales are the Chinese New Year and festival holidays. For products with therapeutic functions, drug stores are the leading sales channel. Advertising has a relatively professional look, with promotion and sales carried out during seasons appropriate to the products.

The emergence of specialised health-food chain stores marks the separation of health-food sales from that of drugs and food. In the past, supermarkets and drug stores were the most direct health food sales channels. According to the trade, sales channel specialisation is becoming a trend.

Online has become an important channel for the sales of health food. It can also save the cost of setting up counters in department stores or supermarkets, so that products can be priced lower than in physical outlets. It has been reported that, from 2011 to 2016, the share of online sales has been increasing at a compound average annual growth rate of 57%. As a result, in 2016, online platforms have become the second-largest sales channel, after direct sales.

In recent years, foreign health-food brands have expanded into the mainland market through cross-border e-commerce. For example, Swisse and Blackmores, two Australian health-food brands, have set up overseas flagship stores in Tmall Global to sell natural and health food.

Academic marketing for health products is targeted at the potential demand of specific consumers through educational and interactive activities, which can stimulate interest in further understanding product functions or even purchases. An effective tool in stimulating market demand, academic marketing usually comes in the form of exchange activities, such as academic forums for medical practitioners and clients, and health seminars for local communities. Scientific publications often serve as giveaways to enhance promotional effects.

Selected trade fairs for the health industry lined up for 2018 and 2019 include:

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<th>Venue</th>
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<td>31 August - 2 September 2018</td>
<td>Chinese Congress on Gerontology and Health Industry</td>
<td>Shandong Hotel, Jinan, Shandong</td>
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<td>9-11 November 2018</td>
<td>Beijing International Ageing Industry Expo</td>
<td>China International Exhibition Center, Beijing</td>
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<td>4-6 December 2018</td>
<td>Natural Health &amp; Nutrition Expo</td>
<td>China Import and Export Fair Complex, Guangzhou</td>
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<td>17-19 December 2018</td>
<td>Natural &amp; Nutraceutical Products China, Guangzhou</td>
<td>PWTC Expo, Guangzhou</td>
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<td>17-19 April 2019</td>
<td>China International Health Industry Expo</td>
<td>China International Exhibition Center, Beijing</td>
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IV. Import and Trade Regulations

The Regulations for the Administration of Direct Selling and Regulations on the Prohibition of Pyramid Selling were passed and implemented in 2005. Under these two sets of regulations, direct selling of health food is permitted in China.

To address the confusion caused by irregularities in advertising in the health-food industry, the Provisional Rules on the Examination of Health Food Advertisements issued in 2005 stipulates that the contents of a health-food advertisement must be consistent with the contents of the user manual and label approved by the food and drug administration department. Advertisers must first apply to the provincial-level food and drug administration department before releasing any health-food advertisements. Furthermore, the efficacy of health food must not be compared with that of other healthcare equipment or drugs.

When an application is made for health-food certification, it can be classified either as functional health food or as nutritional supplement, but cannot be classified as both.

Enterprises wishing to produce health food must apply to the provincial-level administrative department of health and can only engage in production after obtaining a food hygiene licence. To import health-food products, an imported health-food approval certificate from the food administration department must be obtained. This document is a certification granting approval for the product to be imported and sold on the market within Chinese territory.

For certification purposes, the functions of health food are classified into two main categories. The first consists of 16 functions related to prevention of diseases, alleviation of symptoms and auxiliary therapy. The second consists of 11 functions related to enhancing human health and physical fitness. Health food of the same formula can only apply for certification in not more than two health functions.

The Regulations on the Administration of Consigned Production of Health Foods were implemented on 1 January 2014 to address the irregularities in sales and promotional activities of enterprises engaging in the consigned production of health food. Under the new rules, domestic enterprises are not allowed to produce, deal in or import health-food produced on a consigned basis. In addition, to further regulate the health-food market, food products without a health food approval document number may not make health claims in their labels or instruction manuals.

In the Opinions on the Further Strengthening of the Supervision of Health Foods (For Public Comment) issued in 2017, it is proposed that health functions should not be used in naming health-food products and that the warning “This product is not a substitute for medicines” should be shown in health-food advertisements. It is also suggested that daily supervision and inspection of health food should be strengthened, while severe measures will be taken against such activities as illegal production, illegal running of businesses, illegal adding of ingredients and deceptive advertising.

National Food Safety Standard – Health Foods (GB 16740-2014) was implemented on 24 May 2015, replacing General Standard for Health (Functional) Foods (GB 16740-1997). In the new standard, stipulations on the scope, product classification, label identification and technical requirements have been revised.
The **Administrative Measures on the Registration and Record Filing of Health Foods** took effect on 1 July 2016. Under the new **Administrative Measures**, health food with ingredients falling outside of the catalogue of health-food ingredients and health food imported for the first time (with the exception of health foods that are nutrient substances such as vitamin supplements and minerals) are subject to registration. Furthermore, such health food would have to undergo on-site inspection and test reviews organised centrally by an appraisal authority. Health food with ingredients falling within the catalogue of health-food ingredients and health foods imported for the first time that are nutrient substances, such as vitamin supplements and minerals, on the other hand, should carry out record filing.

On 7 July 2017, the **State Council’s Food Safety Commission** and other central government departments jointly issued the **Plan to Address Food and Health Food Fraud and False Advertising (the Plan)** to strengthen regulatory compliance in the import of health food. The Plan addresses problems including the production, sales and import of food and health food without permission.

More details can be found on the **SAMR** website.

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