

An analysis of hong kong's traditional chinese medicine market and it's futures...



As a colony of UK, Hong Kong joined WTO on 1st January of 1995. Despite its small physical size and a population of only 7 million, Hong Kong currently ranks as the 10th largest trading entity in the world, with trade valued at some US\$400 billion per year. It is the strategic trade services platform connecting the USA, Western Europe and mainland of China. This highly energised platform is infused with ideas, talent and connectivity. It leverages a critical mass of business networks in the Chinese mainland and overseas.

As a gate to the “ mysterious” orient, Hong Kong had been a major port and trade centre for the exotic Far Eastern produces such as Traditional Chinese Medicine (TCM). The tiny TCM industry<sup>1</sup> was well established prior to Hong Kong's assertion to WTO in 1995. The trades took the form of retail, wholesale or transit. The trade volume had been relatively small, yet it has enjoyed quite steadily growth for decades.

In October 1997, Hong Kong reunited as a part of China, while keeping its democratic political system and capitalistic market economy. In December last year, China has finally become a member of the WTO. These changes would inevitably create challenges and opportunities to the small TCM market in Hong Kong.

This essay is going to explore Hong Kong's traditional Chinese medicine market through four aspects. First, it is necessary to understand the differences between the TCM and the “ Western medicine” to appreciate the full potential of the TCM market. Secondly, we need to understand the current TCM market both in Hong Kong and China, especially to understand the changes in the market conditions after China's assertion of WTO. Third

part, probably the most important part, I will seek the strength and opportunities when facing these new challenges for Hong Kong. On the final section, I will try to identify the role Hong Kong government played to sustain competitiveness in this small industry.

Western medicine is generally more efficient than Traditional Chinese Medicine in short run. Patient uses western medicine usually can be cured quicker than use of TCM. Meanwhile, owe to the weaknesses of TCM that they are difficult to carry, time consuming to prepare, slow in effect and the bad animal-rights publicity, many people have deserted Chinese medicine to go for Western medicine. TCM is generally accepted as curing rather than merely relieving the symptoms, and at the same time low in toxicity and other side effects. Chinese medicine is believed to have the ability to strengthen the function of our body systems and increase health.

The experts also believe that it is due the fact that as the whole world is gradually stepping into a senior-aged society, traditional Chinese medicine, mild but especially effective against the chronic diseases that usually afflicts older people. With the current trend of advocating natural medicine and returning to nature, more and more people worldwide have begun to accept China's ancient herbal treatments.

Statistics show that herbal medicines have been applied in over 130 countries and regions around the world<sup>2</sup>. More than 120 countries have established special organisations for research into and development of traditional Chinese medicine. In light of the direction of modern Chinese medicine development, and improved supervision and management in terms

of manufacturing and sale of Chinese medicine, consumer confidence in and demand of Chinese medicine will increase, hence, rising market share of Chinese medicine.

Strategically located at China's doorstep and a leading exporter of Chinese medicine (US\$25 million in 1998), Hong Kong is spearheading the drive for the research, manufacturing, quality certification and export marketing of both traditional and modernised Chinese medicine.

It is estimated that 60% of the Hong Kong population have consulted TCM practitioners, and an even higher percentage of the Chinese people consume over-the-counter TCM products regularly worldwide. No official figure of TCM sales in Hong Kong, but it has been estimated to be equal to that of western pharmaceuticals sales, that is HK\$1.7 billion in 1993.

According Lee and Anthony<sup>4</sup>, over 95% of the TCM medication are imported from China, only about 500<sup>5</sup> of the available proprietary Chinese medical products are manufactured locally. There are about 100 wholesalers of raw or processed Chinese medicinal materials, and 200-300 propriety Chinese medicine wholesalers in HK. And about 1600 retailing herbal shops established in HK. The retailing market is competitive, but is still potentially tremendous.

At present, there are over 6,000 pharmaceutical enterprises in China. Of these, some 1,000 are industrial enterprises engaging in traditional Chinese medicine (TCM) production while 1,700 are Sino-foreign equity joint ventures. China's WTO accession will have a number of implications for Hong Kong enterprises participating in its medicine market<sup>6</sup>.

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TCM industry will face an unprecedented challenge once China entering the WTO. In compliance with WTO's principle of tariff concession from 22% average to 10-12%<sup>7</sup> this will undoubtedly boost the export of TCM, at the same time the import of TCM is striving for competition with more western medicine. With this challenge, Chinese government has decided to protect TCM industry, such as finance research centre, encourage overseas investments in TCM industry, which give Hong Kong's enterprises more chances to engage their business in this industry. There will give rise to a massive outflow of domestic pharmaceutical products. By enjoying these advantages, TCM industry in China will start to boom. The production of the TCM will increase due to a wider global demand and the production techniques will evolve towards following aspects.

First of all, accelerate technical innovation with a large amount of capitals. Drug production technology is falling far behind that of the foreign countries, especially chemical analysis and extract technology. Backward chemical analysis leads to obscure effective ingredients and chemical reaction in decoction of TCM, backward extract technology leads to inconvenient administration or the gradual decrease of drug effect, which are also the main reason preventing TCM from entering the world market directly from Chinese domestic market. On the other hand, TCM will develop with great potentialities. TCM formula is a unique resource in China. Every innovation on TCM formula will bring the market a tremendous change. Foreign investors with well-developed technology would not give up this big market.

Secondly, double the export volume in Chinese patent medicine. Western medicine cannot compare with Chinese medicine on its systemic diagnosis  
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and treatment, healthcare effect and treatment advantages on chronic diseases. But the rough package, inconvenient administration, slower clinical verification and various limits on TCM make the sales promotion and marketing of TCM more difficult at the international market. With the rapid development of westernised TCM and improvement of China economic position in the world, the situation in TCM will be greatly improved. The foreign investment in Traditional Chinese Medicine will make the foreign investors actively promote the new Chinese medicine in the world market, and the export volume of TCM will be doubled at that time.

Thirdly, boost the Chinese herbal medicine production. Chinese herbal medicine production attaches importance to the origin. For the same herb, Content of crude medicine varies due to the different origins. Chinese herbal medicine is the unique and abundant resource for China. The production and collection of Chinese herbal medicine is a labour-intensive industry. The lower labour cost is also one of our advantages. In addition, the growth of patent medicine production will boost the production of Chinese herbal medicine and the relevant industries.

### Hong Kong's Challenge

For years, Chinese medicinal herbs have primarily been exported in their raw form. Though a few of the better-known pharmaceutical enterprises have broken into domestic and overseas markets with Chinese patent medicines, they are still at a very early stage of development. In recent years, an increasing number of Chinese medicine enterprises have alternatively tried to enter the \$13.7 billion<sup>8</sup> food supplements market since the regulatory

barriers for these are lower than proprietary drugs, and the acceptance level by consumers is generally higher. Product development also requires less investment, in terms of research and development costs, and the markets for these products are buoyant.

Hong Kong's well-established capital market provides ample financing opportunities for TCM enterprises. In particular, the Growth Enterprises Market (GEM) offers an effective channel for TCM enterprises engaged in hi-tech production to raise funds. Take Kangsaide Group, a renowned pharmaceutical enterprise in China, for example. Since the company launched its ginseng-based pain-killer in January 2000, the product is so popular that demand has far exceeded supply. In light of this, Kangsaide is in urgent need of capital for the construction of a high standard production base. The company is presently looking for new partners for co-operation. Since its products have a high technology content, Kangsaide intends to seek listing in Hong Kong's GEM. The company also hopes to explore the Hong Kong market and use it as a bridgehead for making a foray into the international marketplace. Meanwhile, numerous pharmaceutical enterprises in the Chinese mainland are also eager to break into the world market through co-operating with Hong Kong.

However, there are still issues to be overcome in labelling, product claims and quality assurance in marketing these products, especially in developed countries. Management and marketing know-how from Hong Kong would be valuable inputs in ensuring their success.

Apart from co-operation in marketing and commercialisation, Hong Kong can also collaborate with the mainland in modern Chinese medicine development. Some institutions in the region are strong in basic research. For instance, significant achievements have been made in the compilation of an herb monograph<sup>9</sup> that can be used as identification data analysis of characteristic components and effectiveness of traditional Chinese medicine formulations and research on new medicine with special curative effects. Hong Kong can exploit the advantages of the western region to help its plan of making Hong Kong a centre of Chinese medicine take shape.

According to industry analysis<sup>3</sup>, Hong Kong's strengths in developing Chinese medicine lie in its proximity to and relationship with the Chinese mainland, its capability in testing and packaging, as well as its availability of distribution channels and capital. These strengths are lacking in the western region, hence providing a basis for co-operation.

Several large Hong Kong companies like New World and Hutchison Whampoa are currently taken a keen interest in investing in Chinese medicine on the mainland and are looking at Sichuan, Yunnan and other provinces as prospective production bases. Considering Chinese medicine consumption is already strong in the mainland market and has become increasingly popular overseas, the market potential of Chinese medicine is substantial. While development of new medicine and proprietary drugs for the western market is expected to be a very long-term investment project.

Hong Kong companies may consider collaborating with mainland institutions to: (i) focus on Chinese medicine as a drug and health supplement for the



domestic mainland market and Southeast Asia; and (ii) focus on Chinese medicine as a health or dietary supplement for major Western markets.

### Government's Role

In order to maintain its comparative advantage in international TCM market, the Basic Law of the Hong Kong Special Administrative Region provides that the Government would formulate policies to develop western and traditional Chinese medicine.

Hong Kong has established a statutory regulatory framework – the Chinese Medicine Ordinance, was enacted on 14 July 1999. The Chinese Medicine Council of Hong Kong was also established under the Ordinance in September 1999. It is an independent statutory body responsible for implementing regulatory measures on Chinese medicine. TCM practitioners will be regulated through a system of registration, examination and discipline. TCM will be regulated through a licensing system. Chinese medicine was introduced by phases from 2000.

Among others the development of heal related and industry-related standards, with joined effort with China's central government, Hong Kong has facilitated the development of international standards relevant to Chinese medicine, concerted efforts from experts worldwide and the World Health Organisation (WHO). A WHO meeting on Methodologies for Research and Evaluation of Traditional Medicine was held in April 2000 in Hong Kong.

The issue ' intellectual property protection was addressed and an internationally accepted guideline was also published and disseminated to member states for reference at the end of 2000. Locally, the Chinese  
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Medicine Council of Hong Kong has set local standards for regulation and registration of Chinese medicine.

In 2001, Hong Kong government announced the creation of a 10-year program designed to give the country a more important role in the development of Chinese medicine worldwide. For example, as a part of the latest step in the program, the government has announced the allocation of nearly eight million Hong Kong dollars for research funding of two Chinese herbs. All these new channels are aimed to promote the use of TCM and the development of centres for evaluation of health benefits derived from Chinese medicine-based products through clinical trials and research. It is important to create a network of institutions of high standing for research and development work and innovation to support new drug development and enhance competitiveness of industry.

At present, two local universities provide full-time degree courses on Chinese Medicine in Hong Kong. In the long run, the government is aiming to train an adequate pool of high calibre professionals locally to support Hong Kong's development to become an international centre for Chinese medicine. Hong Kong government also trying to create a supportive business environment to upgrade existing Chinese Medicine manufacturing companies and to attract new entrants of good potential to build up local Chinese Medicine Industry.

## Conclusion

It is the general view that Hong Kong will gradually lose its unique market position over the years as China is becoming a major player in the global trade market. The accession into WTO only speeded up this process by <https://assignbuster.com/an-analysis-of-hong-kongs-traditional-chinese-medicine-market-and-its-future-essay-sample/>

intensifying the market competition with Hong Kong's mainland counterparts. As the Special Administrative Region, Hong Kong operates with its inherited market orientated regime. With a highly developed financial market, strong entrepreneurial spirit, efficient administrative systems, strong management skills and international experience and global outlook, it still has its comparative advantage over China mainland for the years to come.

Although Traditional Chinese Medicine trade represent a small industry in Hong Kong, this case study clearly identified potential that Hong Kong could easily utilise its advantages and making the region into a knowledge and technology-based economy and sustain its global and long-term competitiveness. Hong Kong government has also recognised the need to develop and secure an advanced technology infrastructure so that its economy can move up the technological ladder and continue to develop high value-added industries and services.

To answer the question in the title of this essay, I do not believe Hong Kong will remain the global leader of the Traditional Chinese Medicine. Instead, it is moving towards the Modern side of the Chinese Medicine. Technological advances and capital strength will enable Hong Kong to develop the newer generation on Chinese Medicine. As long as Hong Kong can sustain these advantages, it will remain the spearhead of Chinese Medicine for the years to come.