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China Foreign Brand Boycott To Spill To Health Sector?

Cotton Row, China Risk and Ways Forward

by **Brian Yang**

Amid a rising tide of sentiment against foreign consumer brands in China, observers say the impact could be far-reaching. But other factors may be more important than public opinion, and innovation will remain a key to success for health sector players.

Just days after the US, EU, UK and others imposed sanctions against officials in China in charge of alleged forced labor in Xinjiang province, China launched a campaign against some foreign businesses for boycotting products containing cotton from the northwest region, in which millions of minority Uighur Muslims live.

A backlash against foreign brands is not new in China, for personal or corporate reasons, and like previous instances may come and go. But it should nevertheless serve as a wakeup call for multinational drug and device medical makers to think about their long-term market strategy in the country, said Yi Wang, a former head of human resources at [GlaxoSmithKline plc](#)'s Chinese subsidiary.

On 22 March, the Chinese Communist Party Youth League targeted Swedish clothing brand H&M in its Weibo social media account, questioning why the company had refused to source cotton from Xinjiang since last year. In 2019, H&M put out a statement saying that since the Better Cotton Initiative, an international accreditation organization, had stopped certifying cotton from the area, it too would not use this.

The statement had been largely ignored in China until the Youth League launched the attack. "Want to make money in China while spreading false rumors and boycotting Xinjiang cotton? Wishful thinking!" noted its commentary.

Could the rising public sentiment against foreign brands spill over to health sector, in which many products from outside the country - especially generics and consumer health brands - dominate the market?

Wakeup Call To 'China Risk'

Now an independent consultant, Wang said that history is largely repeating itself, following mass anti-Japan protests in September 2010 over the disputed Diaoyu (Senkaku) islands and a boycott of South Korean brands after the country's decision to allow the basing of an anti-missile system.

Although the current action can be similarly traced to "group thinking" and the public being misled, the aftermath may be not that simple. Things have also become more complicated due to the coronavirus pandemic, for which many outside China blame Beijing for giving out misleading information in the early days.

Noting China's "increasingly isolated" stance, Wang said pharma multinationals must rethink their long-term strategy and market positioning in the country .

"Politics is only one factor," noted the consultant. "Corporates are making decisions mostly on market interests," thus the consideration of the importance of China to a company within its global strategy, as well as the country's follow-on response to the latest boycott should be in focus, she added.

Another observer sees a looming "China risk" factor embedded in foreign companies eyeing the China market but which are not adjusting their strategies accordingly.

"China risk is the corporate risk of failing to get China 'right' when massive commercial interests are derived from China," Dr. Shirley Yu, a political economist, told local media.

Not only foreign consumer brands but also other sectors, including pharma, are subject to such risks. There have been failures when companies "see the China opportunity but failed to foresee the sensitivities of the China market."

While consumer brands are the obvious target, several other fields including biotech, artificial intelligence and digital technology, which are being prioritized in the ambitious "Made in China 2025" plan could also see heightened risk, Yu cautioned.

GSK itself in 2017 fell foul of a nationwide crackdown on compliance, which ended with a hefty fine being imposed on the firm and many risks to multinational drug firms operating in the country.

Quick Escalation, Political Minefield

In the meantime, the so-called Xinjiang Cotton Row is escalating rapidly and many other foreign brands including Burberry, Nike and Adidas have been caught up in the storm, although Japanese brand Muji has continued to prominently feature Xinjiang cotton. Calls continue for a full boycott of H&M, which operates around 500 stores across China. Major e-commerce platforms such as Alibaba's Tmall have pulled H&M products and celebrities have cut endorsements.

In apparent damage control, H&M issued a new statement saying: "We take no political stance and respect Chinese consumers as always and remain committed to China market in the long-term."

A Xinjiang government spokesperson, Xu Guixiang, warned a 29 March news conference that Chinese consumers would not buy products from any foreign company that boycotts Xinjiang cotton. "I don't think a company should politicize its economic behavior," said Xu, quoted by Reuters.

In an annual position paper issued last September, a major foreign trade group had already warned companies about navigating "a political minefield" in China. The EU Chamber of Commerce in China said its members were facing an increasingly politicized environment in China and warned them to prepare for retaliatory measures if they were perceived as "anti-China".

How One China State-Owned Group Became A Behemoth, Powered By COVID-19

By **Brian Yang**

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Already producing a broader range of biologics than any biotech firm in the world, from antibodies via plasma products to testing assays to vaccines, the state-owned China National Biotec Group is becoming even bigger with policy support and one surprising helper: the coronavirus pandemic. But might it face challenges from innovators and foreign firms in a changing environment?

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The potential minefield areas mentioned in the report included Xinjiang, Hong Kong and US sanctions against specific Chinese companies such as Huawei.

Foreign Biopharma Firms Adjusting

While foreign consumer brands face potentially huge losses in China, some biopharma companies have already been quietly shutting selected local R&D operations.

[*Eli Lilly and Company*](#), GSK and [*Novartis AG*](#) are among those to have closed R&D centers and even domestic contract research organization [*WuXi AppTec Co., Ltd.*](#) created a separate entity for its [*WuXi NextCODE Genomics*](#) operation to better cater to local regulatory requirements.

However, given that it is science-driven and R&D-based, the biopharma sector should pay close attention to government policies which could impact it more than politics, former GSK executive Wang advised.

“As China grows to be assertive and aims to influence global opinions, its values have clashed with those outside China. The COVID-19 pandemic is such a global event that pits China against the world,” she said.

One such big-impact policy is volume-based procurement, which has slashed the prices of some drugs that have lost patent protection by 60-90%. Even for innovative new drugs still under protection, the government has implemented a national price negotiation mechanism in exchange for reimbursement coverage, which may also require price cuts.

“Foreign drug and device makers must adjust to such drastic changes,” Wang suggested, pointing to volume-based pricing as the one single change with the biggest impact on the health sector.

Compliance remains another key factor. Since the GSK scandal, there have been improvements such as a medical sales registration system and the scrapping of sales quotas for sales reps. But the underlying reasons for commercial corruption remain largely unaddressed.

Innovation The Way Forward?

Amid the rising anti-foreign brand sentiment, deep drug price cuts, fast-changing market and fierce domestic competition, foreign healthcare players may do well to focus on one thing - innovation.

Despite a large influx of investment to the sector in general, driven by surging demand for COVID-19 tests, vaccines and treatments, China has yet to see the full emergence of innovative biopharma players, although a handful of companies are pursuing this path.

Innovation capability and talent remain key for companies who want to succeed in China in long-term, despite the emerging and existing challenges, Wang said.

This will translate to changes in R&D models, away from the traditional approach of building large-scale labs and teams and pursuing multiple therapeutic areas. This will no longer work and

China Still Alluring? AZ, Pfizer Feel COVID Pinch, New Pricing Scheme Clouds Outlook

By **Brian Yang**

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Despite leading multinational pharma firms including AstraZeneca again delivering double-digit growth in China, the impact of coronavirus and an expanding volume-based purchasing scheme begin to surface.

[*Read the full article here*](#)

instead a new, collaborative environment will focus on one area, with the active pursuit of licensing-in and -out deals more important than ever.

“Amid many companies rejigging their research strategies and continuously falling R&D productivity and drug prices, MNCs may choose to re-focus their R&D. Instead of doing it in China, relocating it to headquarters makes more sense,” Wang concluded.