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Beijing needs to split up railways ministry

The mainland's railways have long been starved of investments, as the cold weather in the run-up to the Lunar New Year so harshly exposed. That is now changing, with Beijing increasing spending on the creaky system. Unfortunately, simply throwing more government money at the problem is unlikely to achieve the efficient modern network the country needs. That will require a complete rethink of the way the nation's railways are funded, regulated and run.

On paper, spending on the country's railway system looks impressive. From an average of about 70 billion yuan a year between 1993 and 2003, the government has sharply increased investment over the past few years (see chart). This year the Ministry of Railways plans to spend some 300 billion yuan, up by a third from last year, and lay 3,400km of new track.

That sounds like a lot, but the investment and construction required simply to keep pace with increasing demands on the system are enormous. Between 1990 and 2005, freight and passenger traffic on the mainland's railways doubled, leaving the network struggling to cope (see chart). Today, the country carries 25 per cent of the world's rail traffic over just 6 per cent of the track. It is small wonder that delays are so common.

In response, Beijing has embarked on what the World Bank described in a report in December last year as "the biggest programme of railway building in any country since the 19th century". The plans are certainly ambitious. At the moment freight trains crawl along the same lines as passenger trains across much of the system, causing inevitable snarl-ups and restricting speeds.

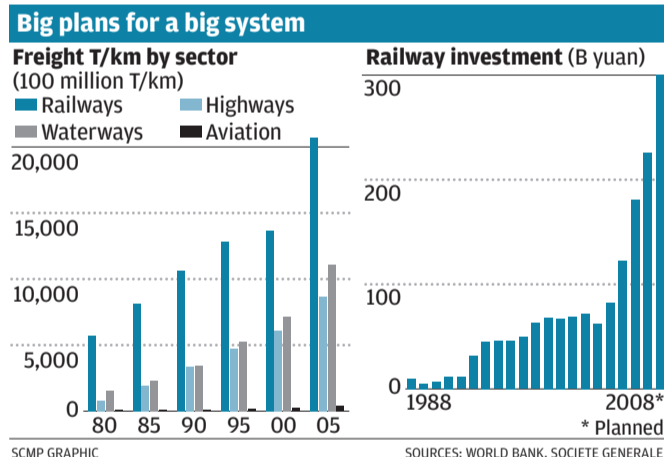
By 2020, Beijing hopes to have built a dedicated high-speed passenger network and placed double tracks over half the rest of the system, allowing passenger and freight trains to run on separate lines at their optimum speeds.

The challenges involved are huge. Not only will the present signalling system have to be rebuilt to cope with faster train speeds, but much of the existing track needs to be replaced with heavier-duty rails to allow the efficient carriage of bulk commodities such as coal. Naturally, all this will be expensive, costing trillions of yuan. So far investment has been tightly controlled by the Ministry of Railways which levies a surcharge on freight rates to fund construction spending.

But that funding source simply cannot provide enough money for the system's needs. "The projected investment funding needs for railways to meet forecast demands exceed the foreseeable resources," warned the World Bank report. The obvious answer would be to bring in private capital and although there has been talk about setting up joint ventures with outside investors, there are obstacles.

The biggest is the ministry itself, which combines setting rail transport policy with both regulation and commercial operation of the system. This conflict of interest, says the World Bank, means that "external investors in new rail entities might reasonably question whether their rights will be protected and obligations fairly administered". To overcome the problem, Beijing needs to press ahead with splitting up the monolithic Ministry of Railways, separating policy-making from operation and introducing a separate regulatory body.

The country has already done the same in a host of other industries, including banking and petroleum, vastly improving efficiency. Beijing now needs to do the same with the railway system, if it is to avoid future recurrences of the recent chaos.



THE INFORMER

Events
Tomorrow, February 12: British Chamber of Commerce breakfast: "New UK immigration regime". Hong Kong Club.

Hong Kong Institute of Arbitrators seminar: "Importance of supervisory jurisdiction of the courts". Two Exchange Square.

Wednesday, February 13: American Chamber of Commerce luncheon: "Strengthening the role of Hong Kong as an international financial centre - An IPO perspective". Bank of America Tower.

Monday, February 18: Employers' Federation of Hong Kong event: "Talk to a CEO" series: Ocean Park Corp chief executive Tom Mehrmann - Innovation and success in a competitive environment".

Tuesday, February 19: British Chamber of Commerce luncheon: "Navigating the China markets: Directions and priorities". Island Shangri-La.

Results
Today Interim: Aptus Holdings, China Vanguard Group, ePRO
3rd Quarter: Brilliant Arts Multi-Media Holding

Tomorrow Interim: Prosperity International Holdings (HK)

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Traditional medicine to take bigger role in mainland health-care reform

Jasmine Wang

Nobody knows exactly how the long-overdue health-care reform plan on the mainland will affect the pharmaceutical industry. But one thing is certain: traditional Chinese medicine will step out of the shadow of western medicine and take a much larger role in the country's health-care agenda.

Unprecedented government support, the rise of retail drugstores on the mainland and a global appetite for herbal medicine all provide a golden opportunity for traditional Chinese medicine, according to industry insiders and analysts.

And domestic TCM makers are moving quickly to grasp the opportunity despite long-standing arguments about how to use scientific methods to modernise traditional medical practices that have developed over thousands of years.

Traditional Chinese medicine, which includes a range of traditional homegrown remedies and practices, is often regarded as a complementary and alternative therapy but has not always enjoyed equal status with western medicine.

"It's quite obvious to see that now the government is supporting the TCM industry. Previously, the government's so-called backing of this traditional industry was very vague," said Du Jinsong, an analyst at Credit Suisse.

The Ministry of Health and the State Administration of Traditional Chinese Medicine jointly issued a recommended drug list for community health-care institutions in September last year. The list, with Chinese herbal components including pills, pellets, capsules or liquids, accounted for 74.3 per cent of the total 1,037 recommended drugs.

"[As an important part of the health reform], the government wants to provide basic health care to all citizens," said Mr Du, explaining Beijing's reasons to add more traditional Chinese remedies to the recommended drug list.

"Generally, selling prices of traditional Chinese drugs are much lower than western medicine, and they can also boost the development of the industry."

A senior doctor from a well-known public hospital in Shanghai said that in big hospitals, which are required to have at least one TCM department, more focus would be put on these departments. The question was how much money the government would spend on TCM research and development.

But this issue pales in comparison with the uncertainty the entire pharmaceutical industry is facing on another key aspect of health-care reform - the Separate Prescription Dispensing plan, which has yet to be confirmed. The plan, which will break the link between drug sales and hospital funding, aims to reduce soaring medical expenses.

In the past, hospitals gained a substantial portion of their income from sales of drugs. But this conflict of interest often led to sales of unnecessary and expensive treatments, as well as corruption.

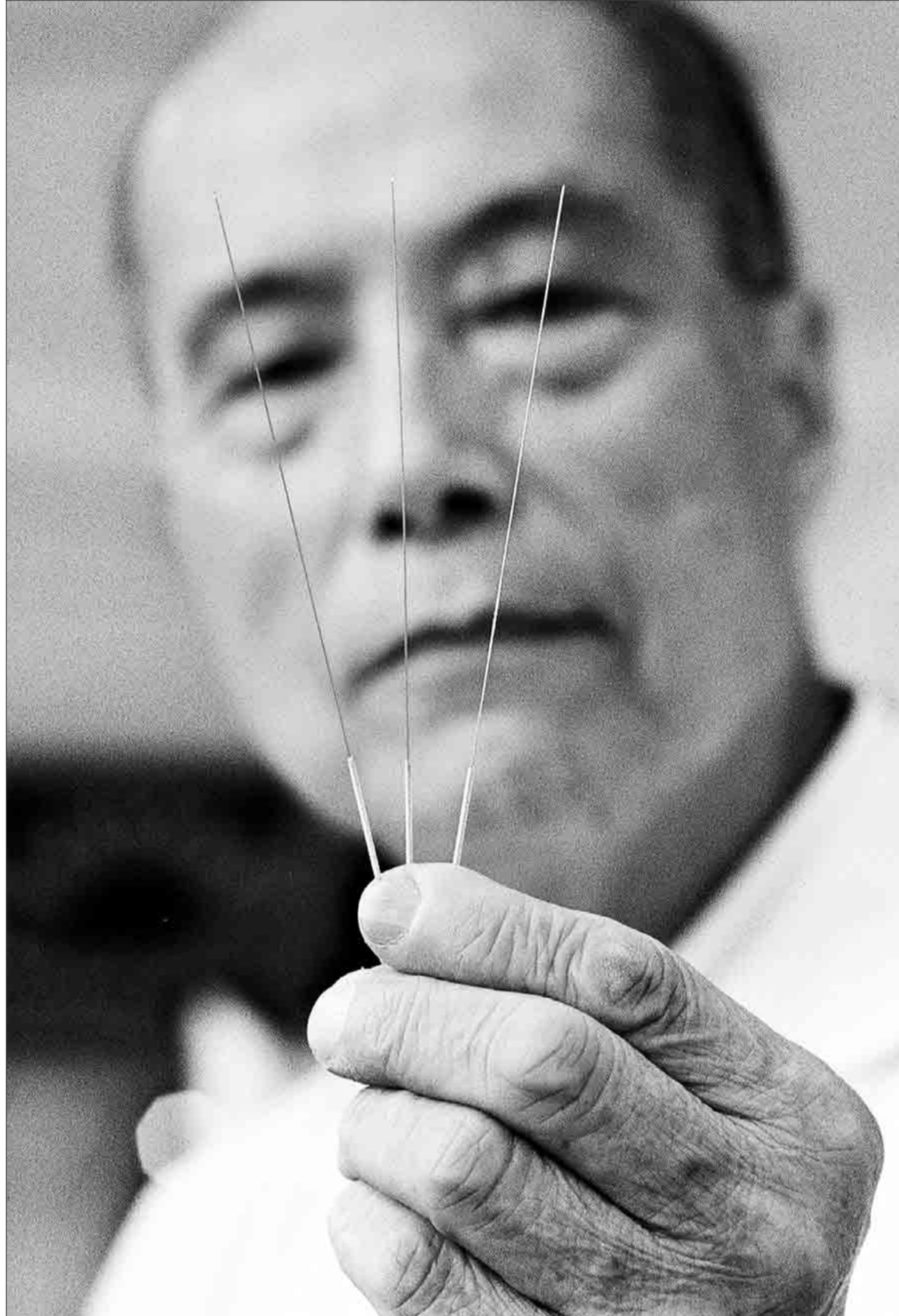
However, the plan is likely to slow mainland drug sales, which already have suffered a blow because of anti-corruption moves in recent years. Details of the plan are expected to be announced in March after the National People's Congress.

"China's pharmaceutical industry is gloomy because of the potential negative impact of the [Separate Prescription Dispensing] plan, but nobody doubts that TCM will be a beneficiary of the reform," Mr Du said.

Moreover, TCM will benefit from the rise of retail drug stores on the mainland because the public perceives traditional medicine as having fewer side effects while being cheaper than western drugs.

During the past two decades, the market share of retail drug sales has grown to roughly 20 per cent from about 5 per cent. And Chinese medicine sales account for 45 per cent of total drug sales in retail pharmacies. This is much higher than its roughly 35 per cent share of drug sales in hospital pharmacies in 2006, according to medicare website Menet.

Experts forecast market share gains for retail pharmacies with some estimates reaching 35 per cent by 2015. This is largely due to tightening regulations on hospital pharmacies, more retail drug stores to be intro-



Traditional medicines and practices, such as acupuncture, are often regarded as alternative therapies. Photo: SCMP

duced into medical reimbursement coverage and emerging giant chain stores, such as US-listed and Shenzhen-based Nepstar Chain Drugstore.

At the end of last year, Nepstar had 2,002 stores in 62 cities and 11 regional distribution centres on the mainland.

Traditional Chinese medicine is also expanding its world market share, benefiting from the growing appetite for herbal medications.

Hermult Kaiser, a science and business consultancy, said sales in the broader category of herbal medicine reached US\$85 billion world-

Unregulated or inappropriate use of [TCM] and practices can have negative or dangerous effects

Hermult Kaiser consultancy

wide last year, up more than 10 per cent, while traditional Chinese medicine rose faster at 15 per cent.

It expected that market would increase more than 15 per cent annually up to 2015.

"The markets for traditional drugs and nutritional foods are booming in the United States and Europe, especially in Germany," it said. "Meanwhile, advanced biotechnologies are being applied to improve traditional ingredients."

Mainland customs statistics show that traditional Chinese medicine exports reached US\$1.06 billion in the first 11 months of last year, up 7.25 per cent from a year earlier.

But Du Dongsong, an analyst at Ping An Securities, said domestic consumption still dominated pro-

duction of traditional medicines and, compared with active pharmaceutical ingredients, TCM made up only a small fraction of exports.

Official data shows that in the first eight months of last year, traditional medicine accounted for 4.76 per cent of the total exports of medicine and health products. By contrast, ingredients for western medicine stood at 56.35 per cent.

Experts say that TCM companies - and there are as many as 1,500 on the mainland - will adopt two key but different strategies for expansion. One will rely on famous brands to gain retail market share and the other will focus on unique products which can replace western pharmaceuticals for treating certain diseases, according to Credit Suisse's Mr Du.

Beijing Tongrentang, a well-known mainland traditional Chinese medicine brand, plans to open more than 100 shops nationwide this year, bringing its domestic outlets to 800. Overseas, it plans to have 32 shops this year after adding five new ones.

"Tongrentang will keep its TCM in traditional form and will allocate more resources to the research and development of TCM's functions to enhance people's immunity and prevent the outbreak of any possible diseases," said spokesman Jin Yongnian.

Hong Kong-listed Wuyi International Pharmaceutical, which derives 90 per cent of its sales from prescription drugs, is taking a different approach.

It recently obtained a licence from the State Food and Drug Administration to manufacture perilla oil capsules to prevent and treat heart disease. The Fujian-based maker of both western and finished TCM says it will bring the product to market to compete with Pfizer's blockbuster Lipitor.

"We are optimistic about the prospect for the perilla oil capsule,"

said executive director Dennis Nguyen.

Mr Nguyen expects sales of perilla oil capsules will contribute 30 per cent to 35 per cent of total turnover in the next three years. By then, chemical drugs would only comprise about 35 per cent of total sales, down from the current 60 per cent. The company's gross profit margin would also improve to about 55 per cent from the expected 50.5 per cent this year, since the gross profit margin of perilla oil capsules is about 70 per cent.

Despite the positive factors at play for traditional medicines, fundamental arguments remain - not only about which scientific measures to evaluate their effectiveness but also whether they are safe and effective. Celebrity scientist Fang Zhouzi is one opponent. He thinks TCM should be preserved as cultural heritage but opposes spending large amounts of public funds to prove their safety and effectiveness.

"Biomedical research has shown that many herbal medicines considered as innocuous by TCM are actually very toxic," he said. "Another problem is that TCM practitioners are used to making exaggerated and dubious claims about their efficiency and fool many people."

"National pride complicates the issue and criticising TCM is unthinkable to many Chinese, which is almost like committing a traitorous act."

Even the industry's defenders say there are challenges.

"Unregulated or inappropriate use of traditional medicines and practices can have negative or dangerous effects," Hermult Kaiser said.

To make matters worse, some worry about poor quality control from substandard manufacturers who are in the process of modernising TCM. They point to the 2006 Yuxingcao injection accident.

The injectable form of the drug,

Film star's death highlights divisions

The death of Chen Xiaoxu, who became a television icon in the 1980s for her performance in the classic series *Dream of the Red Mansion*, broke the hearts of many fans last year.

But the comments of celebrity physician He Zuoxiu, who claims that traditional Chinese medicine (TCM) killed her, have disheartened many TCM practitioners.

Media coverage of the 43-year-old actress' attitude towards breast cancer therapy and Professor He's comment last year placed the gulf between TCM and western medicine in the spotlight again.

The Buddhist actress, who shaved her head to become a nun three months before her death, rejected western therapeutic treatments. It was reported that she was unwilling to undergo painful chemotherapy and was concerned about the effects on her body.

"She refused surgery because she loved beauty, and wanted her body to be intact during the last stage of her life," Ms Chen's father told a Phoenix TV talk show.

She relied solely on TCM and died shortly after the public became aware of her decision to become a nun.

A few weeks later, Professor He said Ms Chen was killed by traditional Chinese medicine. He derided 90 per cent of TCM as "trash", describing only 10 per cent as the "quintessence" of the field in a newspaper interview.

He said Ms Chen wasted her best opportunity to combat the disease because of her reliance on TCM, as breast cancer can be successfully treated in its initial stage.

In an interview with mainland media, Professor He said western medicine could clearly diagnose a patient's medical condition and determine whether it was treatable. Traditional medicine could not be used to treat the disease but would waste the patient's time, he said.

Deputy Health Minister Wang Guoqiang rejected claims that Ms Chen was killed by traditional medicine and said it was "immoral" to attribute her death to TCM.

Mr Wang is one of many health officials who support the development of TCM. Health Minister Chen Zhu has also said that he supports traditional medicine, especially its effectiveness in treating Aids and cardiovascular diseases.

Celebrity scientist Fang Zhouzi said traditional medicine was not scientific but a cultural heritage. But while scientific arguments remain unresolved, many ordinary people see the case in a different light.

Ivy Cai, an office worker in Shanghai, said it was the passive attitude of the actress towards life that killed her. "But that was her decision," she said. "It wasn't a question of therapy theories, but her own choices for her life."

Jasmine Wang

which claimed to treat a wide variety of illnesses, and others in its class were banned in 2006 following reports it was one of seven injectable drugs causing side-effects ranging from rashes to comas and death.

"I think the problem of Yuxingcao reflects poor quality control during the process of modernising TCM. To change a drug's shape from pills to liquid extracts needs advanced technology and strict supervision because the effectiveness of Yuxingcao itself has been widely accepted by history," said an industry insider.

As a result, the insider said, TCM registration now requires many more regulatory steps and takes far longer than before, all of which has drawn numerous complaints from manufacturers.

The high risks that TCM injectable drugs bring to the industry could be profound, according to analysts. They say it is one of the top potential setbacks for the industry because a single accident would hit the sector hard.

"I was astonished to know that some TCMs, whose active ingredients have yet to be confirmed, were being injected into veins," said Ping An's Mr Du. "This is too dangerous."

Asians help shelter high-end art market from subprime fallout

Enoch Yiu

The recent stock market slump will have little impact on the high-end art and jewellery collection markets because mainland and Middle Eastern buyers favour these alternative investments, according to auction house Sotheby's Asia chief executive Kevin Ching Sau-hong.

"When the stock markets are not doing so well, art, antique or deluxe jewellery and watches may well be the alternative investments," he said.

"In addition, there is new buying

power emerging from investors or collectors from China, India and the Middle East that help support the market."

Sotheby's last week concluded a private sale of a rare Patek Philippe watch for HK\$10 million with both the buyer and seller being Asian collectors, he said.

As another sign of business as usual, Sotheby's spring auction sale in April has already collected 1,400 items worth more than HK\$1.3 billion.

"This is a sign of confidence.



Sotheby's Kevin Ching

"[From] my experience, collectors do not rush to sell during a bad market at low prices. They allow their items to go to auction because they believe there will be buyers willing to pay the prices they want."

He said the art and jewellery collection markets were not affected by a stock market crash.

Mr Ching cited the record sales of jewellery after the global stock market crash in 1987 and a Van Gogh fetching a record price after the Asian financial crisis in 1998.

The auction art market only fared poorly when the technology bubble burst in 2000 and caused a bigger impact on the economy worldwide, he said.

The current environment was better than the past two stock market slumps because of the increasing number of players in the high-end collectables market, he said.

"Back in the 1980s and 1990s, American, Europeans and Japanese were the major players in the collection and auction markets."

"But now, mainland Chinese, Indian and [Middle Eastern] investors are joining the auctions and the economies of their countries have not been hit hard by the subprime crisis or the US economic slowdown."

The mainland collectors were mainly businessmen who liked to buy art or antiques for collection or investment purposes, Mr Ching said.

TraHK
Tracker Fund of Hong Kong (Stock Code: 2800)

The Unaudited Net Asset Value per Unit of Tracker Fund of Hong Kong (TraHK) at the close of trading on the Stock Exchange of Hong Kong Limited on 6 February 2008 was:

HK\$23.62

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