Analysis of Trade Management in China's Pharmaceutical Industry in the Context of RCEP

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Abstract: At present, in the face of complex internal and external situations, the regional trade dynamics stimulated by the entry into force of the Regional Comprehensive Economic Partnership Agreement (RCEP) is adding steady growth momentum to China's pharmaceutical exports. This paper summarises the development opportunities for China's pharmaceutical exports from the current situation of China's pharmaceutical industry exports, in the context of RCEP, and then discusses the current problems of China's pharmaceutical industry exports from the aspects of product export structure, and puts forward relevant management advice for enterprises and the government.

Keywords: RCEP; Pharmaceutical Industry Export Trade Management; Grey System Gm(1, 1) Model

1. Background of the study

China is the second largest pharmaceutical market in the world. In recent years, China's pharmaceutical market demand is strong, the terminal scale continues to climb, and the pharmaceutical industry continues to grow at a high rate. In November 2020, the Regional Comprehensive Economic Partnership Agreement (RCEP) was officially signed, which is of great significance for China to benchmark itself against high-level global economic and trade rules, stimulate market potential, and promote a dual domestic and international cycle.

2. Analysis of the current situation

2.1 Large differences in export growth between key markets and country markets

In the first half of 2022, China's imports and exports of pharmaceutical products amounted to $127.963 billion, a slight increase of 1.28% year-on-year. Of this, exports were $81.380 billion, down 1.81% year-on-year.

In terms of key market performance, China's exports to RCEP member countries and trade with countries along the "Belt and Road" both showed double-digit growth rates of 13.08% and 29.8% respectively, which were much higher than the overall growth rate of the industry's imports and exports.

Among the country markets, in the first half of 2022, the top three country markets for China's pharmaceutical product exports were the United States, Germany and India, with a cumulative total export value of $24.753 billion. China's exports of pharmaceutical products declined to the US and Germany, except for exports to India, which maintained growth.

2.2 Large difference in the growth rate of export value of non-identical products

According to the data, in the first half of 2022, China's exports of both traditional Chinese medicine and western medicine categories maintained a good growth trend, while the growth rate of medical device exports showed a decline. In the first half of 2022, China's exports of Chinese herbal medicine products showed continued growth momentum. Exports of Chinese medicine products

amounted to $2.802 billion, up 21.35% year-on-year. In contrast, the development of foreign trade of western medicine was strong. China's exports of western pharmaceutical products amounted to $34.533 billion, up 17.71% year-on-year. Compared with the previous period, the export of western pharmaceutical products returned to rational growth. At the same time, China's trade in medical devices also reached $64.174 billion, of which $44.045 billion was exported, down 14.04% year-on-year. Exports of protective medical dressings such as masks and protective clothing in the breakdown of products continued to fall sharply.[1]

3. Opportunities faced

3.1 Huge market demand from RCEP

RCEP is a leading global FTA with a total population of 2.27 billion in its 15 member countries, and the huge demand for healthcare in RCEP member countries provides a vast market space for the development of pharmaceutical products in the region.[2]

3.2 RCEP will bring more policy benefits for pharmaceutical industry exports

Tariff reductions are an important impact of RCEP, with over 90% of intra-regional trade in goods eventually achieving zero tariffs when RCEP comes into effect, which will significantly boost overall regional economic, trade and investment growth. At the same time, the goods rules under the RCEP framework will also give a strong boost to intra-regional trade and investment cooperation.

3.3 RCEP will promote investment and technology exchange in the pharmaceutical industry in the region

The RCEP agreement provides for the protection of pharmaceutical patents, which will facilitate technology exchange and cooperation between China and its member states.

4. Problems

4.1 Export structure is skewed towards low and middle-end products

At present, most of the products exported by the Chinese pharmaceutical industry as a whole are low-value-added and low-technology products at the middle and low-end. At the same time, the problem of serious product homogenisation has also led to increasingly fierce competition in the export of Chinese low-end pharmaceutical products.

4.2 Technical barriers to trade are a big obstacle

Nowadays, developed countries, in order to increase restrictions on the export of pharmaceutical products from China, use their technological advantages, through patents, technical standards and pharmaceutical quality testing, thus setting up technical barriers to trade.[3] According to the report, China is the country with the highest number of TBT notifications among RCEP members in 2021, with a total of 126 cases. In addition, in 2021, China was rejected by the FDA to import a total of 1,562 batches of medical products, accounting for 23.2% of the total number of medical products rejected by the FDA.

4.3 Low degree of concentration in China's pharmaceutical industry

The number of individual Chinese pharmaceutical companies is large but they tend to be small and less concentrated. Moreover, the Chinese pharmaceutical industry is still in a rough-and-ready form, developing at a slow pace, making it difficult for small companies to gain market share. At the same time, the number of large pharmaceutical manufacturing companies in China that is able to achieve large-scale operations and production is relatively small. As a result, they are less competitive in the international market.

4.4 Inadequate customs control model

The current regulatory process and time frame for traditional approval in China is too long to meet the needs of modern domestic pharmaceutical enterprises for international operations and export competition. At the same time, the existing risk assessment and testing of special items in the biomedical category can no longer achieve the purpose of substantive verification, in addition, a large

number of biomedical technology research and development-oriented enterprises are not able to enjoy China's tax and customs regulatory policy preferences.

5. Management recommendations

5.1 Optimising the structure of product exports

In the face of the complex international situation and strong international competitors in the RCEP region, it is necessary to strengthen the innovation capacity of China's pharmaceutical enterprises, promote the optimization and upgrading of the pharmaceutical industry structure and product structure, and promote the transformation of the industry to high technology content and high added value. Chinese pharmaceutical enterprises should make full use of both domestic and international resources, increase investment in research and development of medium and high-end products, combine product innovation with process transformation, promote independent innovation of pharmaceutical products, build Chinese pharmaceutical brands, and transform the export structure to the direction of medium and high-end products.

5.2 Multiple means to reduce technical barriers to trade

The Chinese pharmaceutical industry should make more use of third-party certified product export standards, while actively participating in international standardisation activities for pharmaceutical products to create conditions for the country's trade development. In addition, China should actively establish a mutual recognition mechanism with international authorities for certification, achieve bilateral certification and continuously improve the level of certification management. At the same time, it should establish a TBT risk warning mechanism, increase its pharmaceutical technology supervision, and vigorously develop pharmaceutical trade associations to help its exporters break through the technical barriers to trade of developed countries.

5.3 Encourage mergers and acquisitions of pharmaceutical enterprises and vigorously promote the construction of the whole process industry chain

To address the current problem of the small scale and low concentration of Chinese pharmaceutical enterprises in general, Chinese pharmaceutical enterprises should be encouraged to undergo mergers and acquisitions to achieve economies of scale and avoid excessive competition within the industry. At the same time, it should vigorously promote the construction of a whole process industry chain for pharmaceuticals, establish a number of leading pharmaceutical service trade enterprises relying on key domestic medical institutions and pharmaceutical enterprises, and implement group, professional and systematic operations for overseas.

5.4 Optimising the customs export control model

In view of the current problems of China's customs supervision, the transformation and upgrading of the supervision mode from physical supervision to physical supervision should be promoted; at the same time, risk assessment precedes and process supervision is carried out, and a centralized supervision platform for biopharmaceuticals is established, combining industry self-regulation, government guidance and centralized supervision to further realize the whole process of customs supervision of the import and export of biological products.

6. Conclusion

With the advancement of the RCEP regional integration process, China's pharmaceutical industry has ushered in a good opportunity to accelerate its development. Therefore, China's pharmaceutical industry should seize the good opportunities brought by RCEP in a timely manner, and at the same time actively respond to the problems and challenges brought by the current complex international environment, further enhance trade and investment development with the joint efforts of the state, government, enterprises and relevant departments, actively explore the export markets of pharmaceutical products from RCEP member countries, improve quality standards, promote industrial upgrading and enhance participation in the international market The company is also working to enhance its competitiveness in the international market.

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