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# China's Medical-Goods Market Is 'Wild West' Amid Surging Coronavirus Demand

Supply chain is in chaos as foreign governments, hospitals and businesses compete for the same gear



Workers recently packaged surgical masks at a factory in southwest China's Sichuan province.

PHOTO: CHINATOPIX/ASSOCIATED PRESS

By [Liza Lin](#) and [Eva Xiao](#)

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Urgent late night inspections at Chinese mask factories. Hurried million-dollar wire transfers to secure ventilator deals. Middlemen lurking outside a Shanghai factory offering masks of unknown provenance.

China's supply chain for medical goods is devolving into a free-for-all as foreign governments, hospitals and businesses—and all their middlemen—descend on the country to secure ventilators and masks and other protective gear.

Inundated with prospective buyers, Chinese factories are taking advantage of their plum position, dictating buying conditions and demanding advance payments in full, while buyers must quickly vet newly-minted vendors—sometimes by video from the other side of the world.

The disarray in China, a major producer of personal protective equipment, or PPE, underscores how desperate U.S. and other buyers have become to secure medical gear as [the coronavirus pandemic](#) engulfs them.

“In this environment, the key is doing all you can to get your goods,” said Jeffrey Bennett, who heads the China operations of the University of Pittsburgh Medical



Left with few alternatives, buyers now pay for almost everything upfront, with Chinese manufacturers demanding as much as 50% upon signing the contract and the other 50% before the goods are handed over, according to buyers and sellers.

In the red-hot ventilator market, where some models can cost more than \$50,000, a Western medical institution was asked to wire transfer a 40% deposit before even seeing the product. Another prospective buyer, a U.S. state, recounts being asked to put down 100,000 yuan (\$14,120) before being provided with an address for a factory where the vendor said it was holding the ventilators for inspection, according to people familiar with these transactions.

Typically, institutional buyers conduct extensive vetting and pay suppliers about a month after receiving the goods. But in the current health crisis, many are having to balance their traditional standards with the need to act quickly.



Airport workers unloaded masks and other protective gear from China this month at an airport in Warsaw, Poland.

PHOTO: LESZEK SZYMANSKI/EPA/SHUTTERSTOCK

State governments, used to a bidding process that can take months, have been especially hamstrung by the race to navigate China’s opaque, complex and fast-changing supply chain network.

“You are often dealing with middlemen or a shell [company] within a shell within a shell,” said Illinois Deputy Gov. Christian Mitchell, who has approved the purchase of more than 10 million pieces of PPE from China while overseeing procurement for the Midwestern state. “You have to accept the level of risk that you normally would not do on the taxpayer dollar.”

To grab hold of critical face masks, the U.S. federal government has already committed itself to \$110 million in orders at high prices and with unproven vendors, The Wall Street Journal reported.

One adviser to U.S. state governments trying to procure PPE from China was sent an official-looking certification purporting to be from the U.S. Food and Drug Administration, with the words “Insert Number here” on the document, by a prospective supplier.

Turns out the certification was fabricated and the supplier had forgotten to replace the words with numbers, said John Evans, the Bangkok-based managing director of management consulting company Tractus Asia Ltd.

In another case, Mr. Evans recounts, Chinese suppliers turned over addresses of warehouses that the suppliers said were filled with masks available for sale. Upon further inspection, the facilities turned out to be empty.

A Chinese government spokesman said this week that the country provides urgently-needed medical supplies to more than 150 countries and international organizations. Earlier this month, China introduced tighter customs regulations after complaints about low-quality Chinese PPE exports to some European countries.

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Airport workers in Paris this week stored protective medical gear that arrived by plane from China.

PHOTO: FRANCOIS NASCIMBENI/AGENCE FRANCE-PRESSE/GETTY IMAGES

Private-sector buyers have also had to find creative workarounds. Over the past month, members of Mr. Bernstein's University of Pittsburgh China team have effectively become emergency procurement agents, helping source medical products for the medical group's operations in the southern Italian city of Palermo and the regional government of Sicily, where the needs have been dire.

Mr. Bernstein's team has connected via Zoom for video inspections of Chinese suppliers' plants. To secure one urgent order of masks late on a Sunday night, his employees reached out to a Chinese hospital group partner. The hospital group quickly sent a doctor out to the factory around 10 p.m.; the doctor sent back a video of himself donning the Chinese equivalent of a coveted N95 filtered mask—with two thumbs up.

Sales staff at a Shanghai area factory operated by Dasheng Health Products Manufacturing—described by one middleman as the “Louis Vuitton” of masks for the company’s high product-quality standards—told prospective customers earlier this month that it couldn’t supply masks until October.

Even so, a Journal visit to the facility one recent April afternoon found a nearby tree-lined side street bustling with dozens of men doing a brisk trade in masks that they said were from Dasheng’s production lines.

Two men claimed to have an allocation of five million masks secured through a contact inside the plant, which they offered to resell at 18.50 yuan (\$2.62) per mask. Their cut: two yuan per mask.

Dasheng couldn’t be reached for comment.

Landing the products doesn’t guarantee that they will make it across the Pacific. Regulatory hurdles in both countries have made the products’ export a minefield.

A reduction in airfreight volume has produced even more headaches. China began limiting foreign airlines to one inbound flight a week last month, significantly reducing the amount of cargo that can be flown out of China in the underbellies of passenger planes.

United Parcel Service Inc. has begun to limit customers’ shipment capacity from China to 50 kilograms a day from 1,000 kilograms a day last month, said Duncan Abdelnour, founder of CrowdHealth Source LLC, which buys the Chinese equivalent of the N95 masks for U.S. customers.



Assembly line workers at Dasheng Health Products Manufacturing in Shanghai producing face masks.

The tighter rules means he can only ship some 3,000 masks each day, he said, adding that anything more is charged at much higher rates. A UPS spokeswoman said the company doesn't disclose individual pricing for individual customers, and declined to discuss operations before an earnings call on April 28.

Bulk freight prices have also risen dramatically. According to global logistics firm ClearFreight, airfreight rate to the U.S. from China have increased to at least \$17 per kilogram this week from roughly \$3 in January.

Charter flights are possible, but pricey, sometimes costing more than \$1.5 million, or more than double the usual price, said Khim Lim, ClearFreight's vice president of sales and marketing. Still, it is something ClearFreight is considering, she said, pointing to skyrocketing spot market rates for both passenger and cargo flights.

The scramble has highlighted the West's reliance on China for critical medical supplies.

"Americans are learning from the crisis of our overdependence on China," says William Buckley, chairman of the local government board in Milford, Mass., which ordered 30,000 isolation gowns last month from a Chinese supplier who he said canceled the shipment just days later.

"Hopefully, there will be a day of reckoning...and [we] realign the supply chain," Mr. Buckley said. "That's what every country should do."

—*Trefor Moss and Yin Yijun contributed to this article.*

Write to Liza Lin at [Liza.Lin@wsj.com](mailto:Liza.Lin@wsj.com)

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