

NEWS AND ANALYSIS

iHealth's Omicron Boon

After securing contracts with the U.S. government, the Tianjin-based company's shares have surged 900 percent on the Shenzhen Stock Exchange.

BY KATRINA NORTHROP — FEBRUARY 13, 2022

Credit: [iHealth](#)

When many Americans received rapid Covid-19 tests in the mail this month — sent as part of the Biden administration's [program](#) to expand access to free testing — the package contained a bright orange box with a small label saying “Made in China.”

Those tests were manufactured by [iHealth Labs](#), the U.S. unit of Chinese medical device company [Andon Health](#). In January, the U.S. Department of Defense (DOD) awarded the company more than [\\$1.7 billion](#) in contracts to provide about 350 million rapid tests — a hefty chunk of the 1 billion free test kits that President Biden has pledged to distribute to American households, with the rest coming from other companies such as Illinois-based Abbott Laboratories and the Swiss pharmaceutical giant Roche.

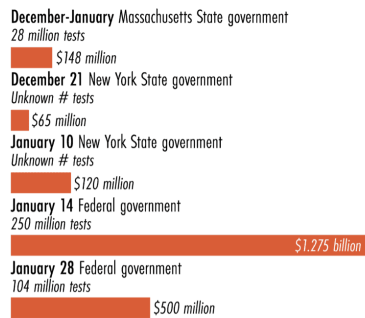
Experts say that using test kits manufactured by iHealth and other overseas firms makes sense for the U.S. as the country tries to combat the infectious Omicron variant of Covid — even in the midst of a push for greater economic self-sufficiency.

“You have to weigh the priorities: is it more important to manufacture at a higher cost and at a three-month delay or get it to the people who need it now?” says [Rosemary Coates](#), executive director of the Reshoring Institute, a non-profit organization dedicated to helping companies bring manufacturing back to the United States. “They made the right decision.”

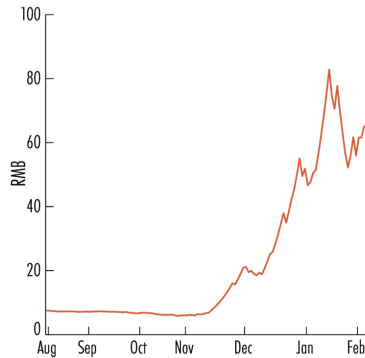
Hot Commodity

The federal and state governments have cumulatively bought more than \$2 billion in rapid Covid-19 tests from iHealth.

The lucrative contracts signed with iHealth nonetheless provide a clear demonstration of how dependent the



Andon Health's stock price (002432.SZ)



Data: Department of Defense, media reports, Yahoo! Finance

U.S. medical supply chain has become on Chinese manufacturers. Even at a time of heightened U.S.-China tension that has increased scrutiny on securing critical supply chains, Chinese companies have proven far better equipped than most of their U.S. counterparts to ramp up Covid test production.

“The U.S. government had a requirement for a large quantity of over-the-counter, non-prescription tests, in a specific configuration, that had to have an emergency use authorization from the U.S. Food and Drug Administration (FDA), and can detect Omicron and other variants of concern,” Jessica R. Maxwell, a DOD spokesperson, told *The Wire*. “Because of limited domestic manufacturing, there was a gap in availability of these tests that iHealth was able to meet.”

The rush for Covid tests has proved a boon for iHealth, which was established 12 years ago in Sunnyvale, California, by Tianjin-based Andon Health. In addition to its federal contracts, iHealth has inked more than \$330 million worth of contracts with state governments since December, according to [company filings](#).

Those deals have sent Andon's shares surging on the Shenzhen Stock Exchange by more than 900 percent

since November, giving the company a \$4.4 billion market value, and allowing it to hire 16,000 additional workers in China, according to a [report](#) in *The New York Times*. Another beneficiary: prominent Chinese smartphone maker Xiaomi, whose venture capital arm acquired a 20 percent stake in iHealth in 2014 at a cost of just [\\$25 million](#).

The Chinese media has taken note too. After iHealth Labs signed its federal contracts, the *Global Times*, a nationalist state-run tabloid, [wrote](#): “Chinese test kit manufacturers....are being relied on to fill the supply gap to meet U.S. demand for COVID-19-critical medical supplies.”

iHealth has in fact supplied medical devices like blood pressure monitors to the American market for years. “They are not a new player. We are learning about them now because of this contract, but many Americans have Andon devices in their home,” says [Prashant Yadav](#), a professor of technology and operations management at France's INSEAD. Jack Feng, iHealth Labs' chief operating officer, declined to comment for this story, telling *The Wire*, “I don't think it's the right time to do anything destructive.”

The company's Covid-related success comes after a period of widespread [testing shortages](#) in the U.S. since the beginning of the pandemic in 2020. Both the Trump and Biden administrations prioritized developing a national vaccine strategy rather than focusing on improving the [accessibility of tests](#), even though that has proven critical in mitigating the spread of Covid-19 in other countries.

“We have never had a strategy and we have never had a concerted effort at the federal level,” says [Mary Denigan-Macauley](#), director of the health care team at the Government Accountability Office, a federal oversight agency. “So individual companies had to supply the demand. The supply went down before Omicron, therefore we had to turn to other countries.”

The lack of government focus has made life harder for domestic American suppliers. Before the Biden administration's testing program this winter, companies in the U.S. were reluctant to invest in hiring workers given the lack of clarity over how long demand would last.

“The testing manufacturers are facing demand uncertainty. You don’t want to hire a lot of workers and then have to fire them,” says [Tinglong Dai](#), a professor at Johns Hopkins University’s Carey Business School who studies health care supply chains. Chinese manufacturers have a more established global market, Dai adds, meaning they are better able to pivot to different markets than their U.S. peers.

The need to rely on iHealth also illustrates the way pharmaceutical manufacturing has been reoriented in recent years, hampering the U.S.’s ability to respond to sudden demand for new pharma-related products. A [combination](#) of cheap manufacturing and labor costs, allied — at least initially — to lower environmental and safety standards, has driven a shift in production of precursor chemicals and other ingredients required for many drugs to China over the past two decades.



iHealth’s Covid-19 rapid test. Credit: iHealth

In 2020, China was the number one exporter of medical goods critical to combatting Covid, like testing kits, hand sanitizer and personal protective equipment, and those exports grew 176 percent from the year before, according to a World Trade Organization [report](#). China is also the largest exporter of those goods to the U.S.; 40 percent of medical products critical for Covid were sourced from China in 2020, up from 22 percent in 2019.

Even before Covid, certain drug supply chains had become highly concentrated in China: 70 percent of the acetaminophen, also known as Tylenol, used in the U.S. is made there, according to a [report](#) in *The Wall Street Journal*. By some estimates, [90 percent](#) of the world’s antibiotics begin in a factory in China.

Lawmakers have expressed alarm about this level of dependency. In 2019, a group including Senator Elizabeth Warren, the Massachusetts Democrat, and Mitt Romney, a Utah Republican, wrote a [letter](#) about their concern to Mark Esper, then Secretary of Defense: “Millions of Americans, including service members, rely on drugs to stay healthy,” they wrote. “Yet the United States imports a significant portion of these drugs’ components from China.” Since then, the U.S. government has stepped up its support. This summer, the Biden administration [announced](#) a \$60 million investment in domestic drug production in order to lessen U.S. reliance on foreign suppliers.

[Asked](#) about the decision to source Covid tests from a Chinese firm last week, White House press secretary Jen Psaki said that the administration needed to fix the urgent testing shortage. “But that doesn’t change our commitment,” she continued, “to increasing our U.S. manufacturing to ensure that we will be able to meet that demand with products made here in the United States over the course of time.”

Even if a drug or medical device is made in the U.S., many base components often come from China, making the prospect of entirely reshoring the healthcare supply chains to the U.S. nearly impossible — akin to “putting toothpaste back into the tube,” says [Benjamin Shoberg](#), senior associate for international health at National Bureau of Asian Research.

The government should at least make an effort to map out the U.S.’s medical supply chain vulnerabilities, says [Julie Swann](#), an expert on health systems at North Carolina State University. “We need to make sure that our system is thinking about resilience for emergencies and geopolitical crises,” says Swann. “It is ok for America to contract from overseas, but the U.S. has to make sure that we are not dependent on one country or manufacturer.”



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COVER STORY



Pole Position

BY EYCK FREYMAN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

THE BIG PICTURE



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BY GARRETT O'BRIEN

A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

Q & A



Jörg Wuttke on China's Self-Destruction

BY ANDREW PEAPLE

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