



GROUPINGS OF REGIONAL CITIES IN THE HEALTHCARE SECTOR

Category 1 – A large market with clear aims and objectives

Category 2 – A large market with growing aims and objectives

Category 3 – An emerging market with growing aims and objectives

Category 1		
Chengdu	Shenyang	Xi'an
Harbin	Tianjin	
Nanjing	Wuhan	

Category 2		
Changchun	Foshan	Suzhou
Changsha	Hefei	Wuxi
Changzhou	Jinan	Zhengzhou
Dalian	Qingdao	
Dongguan	Shijiazhuang	

Category 3		
Baotou	Quanzhou	Xiamen
Dongying	Shaoxing	Yantai
Hangzhou	Tangshan	Zibo
Nantong	Weifang	
Ningbo	Weihai	
Ordos	Wenzhou	

In the context of urbanisation, a rapidly ageing population and an ominous rise in cases of non-communicable diseases (such as obesity and cardiac and pulmonary conditions), there is growing awareness in China of the need to improve and modernise the existing healthcare system. The Chinese government has identified improving the quality of healthcare services and the harnessing of new technology as key priorities going forwards. The aim is to dramatically improve healthcare service quality and, importantly, to adopt new technologies that will enable virtual healthcare services to overcome service disparities.

Accordingly, US\$124 billion has been earmarked for investment in 2011 and hundreds of billions of dollars budgeted up to 2020. The

aim is to achieve universal healthcare coverage by 2020, as well as to establish an extensive network of major hospitals and village clinics and to prioritise the development of primary care and preventative healthcare systems.

The Chinese healthcare market is currently estimated to be worth RMB1.5 trillion, a figure that McKinsey & Co predicts could exceed RMB4 trillion per annum within 10 years. China is moving forward with its universal healthcare coverage plan, intending to reduce the portion of medical fees shouldered by individuals to below 30 per cent of total national health expenditure by 2015.

CHINA'S REQUIREMENTS

The main objectives of healthcare reform are:

- To increase the number and quality of healthcare facilities
- To establish universal healthcare insurance
- To reform pharmaceutical and drugs distribution
- To improve public healthcare
- To implement widespread hospital reform (including the design and construction of new facilities, improving training for professionals, and increasing investment in healthcare IT)

OPPORTUNITIES FOR UK COMPANIES

Although the market is complex in many areas, China's requirements create a range of opportunities for UK companies. These include:

- Designing, building and managing healthcare facilities
- Innovative medical devices and equipment
- Pharmaceutical R&D
- Clinical trials
- Healthcare services consultancy & training
- Healthcare IT
- Health insurance
- Over-the-counter medicines
- Biotech manufacturing training and consultancy services
- Healthcare and pharmaceutical logistics services
- Collaborative research on Traditional Chinese Medicines (TCM)
- Collaborative research on stem cell and gene-therapy research

DESIGN, CONSTRUCTION AND MANAGEMENT OF HEALTHCARE FACILITIES

Increasing the number and quality of facilities will underpin many of the other developments that China hopes to make in the provision of healthcare.

Thousands of new hospitals have already been built under a huge investment programme, and this construction activity, as well as the rebuilding and refurbishment of large numbers of existing facilities, will continue.

As well as architecture, design and construction, these projects will also include supply-chain opportunities in pharmaceuticals, medical equipment, e-health, ICT, diagnostics, training and facilities management.

In addition to public facilities, the involvement of private healthcare providers is also being encouraged by the government. There are already a large number of these, though they are generally smaller in size.

Whereas joint ventures were previously mandatory for entry into this sector, from 2011 wholly owned foreign-owned medical facilities are beginning to enter the market. Foreign investment in this area is being specifically encouraged in the central and western areas of China.

E-HEALTH

Investment in healthcare IT has boomed in China over recent years. Spending is expected to continue to rise as it is still a comparatively low percentage of operating revenues when compared to developed markets.

Seventy three per cent of spending has been within hospitals themselves. Much future spending will be directed at establishing Regional Healthcare Information Networks (RHIN). These will be data centres and telecommunications networks designed to share data and clinical services among geographically dispersed communities.

As well as driving efficiency, e-health is seen as a way to bridge the geographic divide in the quality of healthcare provision across China. However, e-health spending has been predominantly made in the wealthier eastern

provinces. Rural spending on healthcare IT has been minimal.

Most systems purchased are administrative. Only the most sophisticated hospitals have systems which include clinical diagnosis, decision support and electronic patient records. Purchasing decisions are decentralised, and many systems lack standardisation and interoperability, thus increasing costs. The exception is the facilities of the People's Liberation Army, which have a unified technological approach for many IT platforms and services.

Competition is fragmented particularly as spending decisions are localised and at the discretion of individual hospitals. The vast majority of Chinese firms working in e-health are small.

While big budgets for healthcare IT systems are in the pipeline, there is reason to exercise caution. Poor investments have been made in the past and inexperience in procurement continues to pose risks. There is also concern as to whether the available products are suitable for the needs of the healthcare industry.

Despite this, IT in clinical services and hospital management is bound to increase. Digital medical records will become more widespread; standardisation and integration are likely in the medium term; and regional healthcare information networks will become increasingly important. Moreover, procurement and implementation procedures will improve, and consultants in IT planning and implementation will have a greater role.

MEDICAL EQUIPMENT

China is now the world's third-largest market for medical equipment. Sales reached US\$14.7 billion in 2009 and are estimated to grow a further 12 per cent in 2010–2014. For 2011 alone, Espicom estimates market growth to be in the region of 13.6 per cent, one of the highest rates in the world. However, for an overseas manufactured device to be sold in China, foreign companies must go through a rigorous registration process which can be time consuming and costly.

In addition, local Chinese medical equipment manufacturers are growing fast and investing significant amounts to develop their business

and increase their market share nationally (and internationally).

Despite increased local competition, there are still opportunities for overseas manufacturers of medical equipment because of their advanced technology and a preference for foreign products among hospitals and patients. There is evidence that Chinese consumers trust Western brands over domestic ones and are willing to pay more for them – this perceived 'brand value' can be exploited.

TRAINING

The refurbishment of existing healthcare facilities and the on-going construction of new ones have led to increased demand for the training and recruitment of hospital staff. These include upgrading skills, new medical practices and techniques, training in the use of new equipment, hospital management processes and good healthcare practice. This presents opportunities for the delivery of training programmes locally, in the UK and on-line.

Unlike in the West, many hospital administrative staff in China also have medical qualifications, but the Ministry of Health has recognized it is important to have

professionals that have specific, formal skills in health management. As a result, short-term training centres have been set up in many cities.

In addition, the Chinese Ministry of Health wishes to establish educational partnerships between UK and Chinese nursing schools. The aim of such partnerships will be to develop the Chinese nursing curriculum through the training of nurse trainers who will deliver it; to develop short courses for head nurses in China; and, potentially, to send a cohort of middle-ranking nurses to the UK to complete nursing qualifications.

HEALTH INSURANCE

The need to expand healthcare coverage and quality is creating increasing opportunities for private health insurance providers. Premium healthcare has become a big business and has become part of the general boom in the consumption of luxury goods and services once unavailable in China.

Although private insurance still accounts for only a very small amount of total healthcare spending, this is not an insignificant figure considering the size of the Chinese market. Spending on private insurance continues to grow steadily in absolute terms.

At the other end of the market, the government has announced a rural co-operative medical insurance programme. Under this, new participants are set to receive a premium of no less than RMB300, an increase of RMB144.70 from 2010. Poorer patients with severe medical conditions will be reimbursed at least 90 per cent of their medical expenses.

Opportunities are growing for companies operating as policy providers and as third-party administrators. Health insurance firms are also working increasingly closely with hospitals on payment systems.



PHARMACEUTICAL AND R&D

China is one of the world's fastest-growing markets for the sale of pharmaceutical drugs and for investment in medical research and development. There exists considerable potential in the market to develop cost-effective drug treatments and to sell pharmaceutical products.

UK pharmaceutical firms are already active in China and ambitious programmes have been launched into researching some of the world's most widespread and serious diseases, including those, such as gastric and liver cancer, that are increasingly common in Asia. Investment in R&D has been strongly encouraged by the Chinese

government and this, along with the rapidly increasing size of the domestic market, makes China an attractive site for overseas investment. Having an in-market presence gives firms the opportunity to develop close links with hospitals and other institutions conducting clinical research and, of course, to better sell their products and services. As competition from both international and domestic companies intensifies, having established relationships with local firms and hospitals, and a presence on the ground to maintain these relationships and offer after-sales support, will become increasingly important.

MARKET ACCESS

Although considerable opportunities exist, there remain significant regulatory barriers for companies looking to enter the Chinese healthcare sector. Intellectual property protection is improving, but remains a concern.

In its recent report on public procurement in China, the EU Chamber of Commerce in China (EUCCC) cited the following main challenges for overseas suppliers in the medical equipment sector:

- Increasingly sub-central level bidding
- Evaluation criteria: few advance details given to bidders and over-emphasis on lowest price
- Pricing controls

- No access to evaluation reports
- Unsatisfactory appeals processes

Although there is no doubt that the life sciences market in China is a complex one, it is important to not forget the central importance given by the government to the reform and modernisation of the sector. This high-level support means there will be significant opportunities for UK companies that possess experience and expertise. As with all aspects of doing business in China, careful strategic planning, sensible allocation of time and resources and a commitment to the long term is crucial to future success.