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2015 health care outlook
China

Estimated health care expenditure: $511.3 billion in 2013
Health care as a share of GDP: 5.4 percent in 2013[1]

Health care spending in China is increasing rapidly. The country's annual expenditure is projected to grow at an average rate of 11.8 percent a year in 2014-2018, reaching $892 billion by 2018. Spending will be driven primarily by consumers' rapidly increasing incomes and the government's public health care reforms.[2]

Medical tourism is expected to become a growth industry in China, driven by favorable government policies, current health care reform efforts, relatively low medical service costs, and highly qualified medical personnel.

Despite these positive numbers, China's health care spending, at an estimated 5.4 percent of gross domestic product (GDP) in 2013, is still much lower as compared to Organisation for Economic Co-operation and Development (OECD) countries.[3] The country also has a large health care demand gap due to an aging population, growing urbanization, proliferating lifestyle diseases, rapidly increasing consumer wealth, and the advancement of universal health care insurance. While all of these elements are driving overall health care market expansion, continued development cannot proceed without heavy investment by and strong support from the Chinese government.

While specific policies have not been implemented from provincial- to city-level, the central government has identified health care reform as a strategically important field and introduced policies to encourage private and foreign investment in the sector. Projects that meet strict operational guidelines are expected to receive full government support, especially around land transfer, preferential financial and tax policies, and related subsidies.

Public hospitals are the dominant care purveyor in China. Currently, they rely heavily on medicine charges for funding — according to critics, this weakens the public social security system; leads to medical resources allocation inefficiency; and prompts patients to switch to private hospitals. In May 2014, the State Council released guidelines and a timetable to reform public hospitals. Also, to address China's huge disparities in health care provision and quality, the government is anticipated to increase spending in rural areas (e.g., for clinics, insurance, equipment and drugs) more quickly than in urban areas during 2014-2018. Nevertheless, total urban health care expenditures are likely to remain far higher than rural spending.[4] In addition, the government is expected to increase the depth and breadth of social security coverage, further safeguarding consumers' ability to pay for health care services. Ninety-six percent of China's population is covered by some form of medical insurance (through national health insurance or a rural co-operative medical insurance system), up from 45 percent in 2006. However, coverage is generally shallow, with low premium contributions and patients continuing to pay large outpatient fees.[5]

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[1] *Industry Report, Healthcare: China*, The Economist Intelligence Unit, August 2014
[2] Ibid
[3] Ibid
[4] Ibid
[5] Ibid

Although private and wholly-foreign-owned hospitals account for almost half of China's total number of facilities, they comprise only about 10 percent of total in-patients and out-patients served, far below the projected goal of sharing 20 percent of the total market.[6] A number of anticipated government policies may ease several impediments to establishing and operating foreign hospitals in China:

- **Talent issues** – One of the key components of wholly-foreign-owned hospital in China is foreign physicians. Under current rules, these clinicians must pass the Chinese medical test to get a practicing certificate, which prevents entry for many. Some foreign hospitals have hired Chinese physicians to fill care gaps, but most of these are part-time employees due to the nation's current personnel system. It is expected that the Chinese government may streamline the registration process for foreign physicians practicing in China to help alleviate the shortage.
- **Importing medical devices** – Making it easier and faster to obtain government approval for importing high-end medical devices will be an important component of success for foreign hospitals.
- **Social insurance participation** – Foreign hospitals currently are not part of China's social insurance scheme, challenging their affordability for consumers. Allowing the establishment of foreign hospitals is expected to stimulate the private insurance sector but, in the long run, it should still be partially covered by social insurance.

Private and foreign hospitals can bring leading medical technologies and advanced management, clinical practices, and service models to China; they may also partner with public hospitals to share information and expertise. Additionally, more such hospitals competing against each other for market share might help to bring down prices and improve patient satisfaction. Finally, the opening of more private/foreign hospitals may help to stimulate the development of China's private payer system, as commercial insurers develop plans to help consumers manage the hospitals' higher costs. Chinese officials have encouraged the development of private health insurance as a supplement to the public scheme. In fact, some local governments have formed partnerships with private companies to manage their public insurance plans.[7]

The expansion of private hospitals and private insurance should generate growth opportunities to related industries along the health care value chain, such as senior care, medical tourism, health management, medical devices, mobile health (mHealth) and other health information technology (HIT). The state council in November 2013 put forward the "health services" concept for the first time, covering many of the abovementioned services. In addition, the council also mentioned including post-operative rehabilitation, confined center, disease management, and rehabilitation nursing, and other services. This policy support is expected to spur rapid, industry-wide growth. The downside is that most of these new health services are not currently within the scope of social insurance coverage; the advancement of commercial insurance in China could help to mitigate these difficulties.

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6 MOH Statistics, Deloitte Analysis
7 *Industry Report, Healthcare: China*, The Economist Intelligence Unit, August 2014

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