



China Medical Services Market Seen Hitting \$500 Billion

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BLOOMBERG

China, where 260 million people suffer from cancer, diabetes and other diseases, is in a hurry to bolster its medical services. Investors are ready to help.

The latest is Carlyle Group LP-backed [Concord Medical Services Holdings Ltd. \(CCM\)](#), which last week completed a deal for a 52 percent stake in [Chang'an Hospital](#), a 1,000-bed facility at the eastern end of the Silk Road. The acquisition comes three months after China announced it wants 20 percent of its hospital beds privately owned by 2015. Other investors in China include Kuala Lumpur-based [IHH Healthcare Bhd. \(IHH\)](#), [Asia's](#) biggest hospital operator, which plans to build a hospital in [Shanghai](#), to add to [seven clinics](#) it owns in Shanghai and one in Chengdu.

The push for private hospitals in China is part of a broader drive to improve care in a country where [95 percent](#) of people had health insurance as of 2011. [China's](#) medical services market is growing 18 percent annually and projected to reach 3.16 trillion (\$500 billion) in 2015, accountancy firm Deloitte China said.

"China's gross domestic product has grown by leaps and bounds, but the quality of medical care has lagged far behind," said David Chow, chairman of Harvest Medical Investment and Operation Group, a Taiwanese private equity firm that's planning to buy stakes in mainland hospitals this year. "The potential for China's hospitals to improve is massive, both in the overall number of beds and the fees charged for each bed."

As of last year, China had 3.7 million hospital beds, up 54 percent from 2005. Besides an increase in the proportion of beds run by private operators -- it was 12 percent last year -- the government wants at least one or two hospitals in each of its 2,853 counties by the end of 2015, according to an [outline](#) of the country's health-care policies.

Annual revenue from private hospitals in China may reach 2.4 trillion yuan (\$377 billion) by 2015, said Yvonne Wu, national life science and health care industry leader at Deloitte China in Shanghai.

400,000 Beds

The targets could translate to 400,000 new private hospital beds over the next few years, said Roberta Lipson, chief executive officer of hospital operator [Chindex International Inc. \(CHDX\)](#)

U.S- and European-owned companies previously had a hard time entering the Chinese hospital market and tended to invest instead in clinics and diagnostic centers. They have only been able to independently invest in hospitals since [Jan. 30](#), when the government took the industry off a so-called restricted list that required non-Chinese investors to have a local partner and capped foreign ownership at 70 percent.

Chindex, based in Bethesda, [Maryland](#), started China's first foreign-owned hospital in Beijing in 1997, six years after commencing negotiations with the government, Lipson said. It took only a year to obtain a license to operate Chindex's latest hospital, in the port city of Tianjin, she said.

Friendlier Now

China has become a "friendlier environment" for foreign companies investing in hospitals, Lipson said in an interview in Beijing. "There's a large unmet need for health care in China and the potential is huge," she said.

Chindex, whose shares trade on [Nasdaq](#), is nearing completion of a fourth hospital in the southern city of Guangzhou and is studying opportunities elsewhere in China.

Other private hospital operators in China besides Concord Medical and IHH Healthcare include Shanghai-listed [Topchoice Medical Investment Corporation \(600763\)](#), which is based in Zhejiang province, and Shenzhen-listed [Aier Eye Hospital Group \(300015\)](#), based in [Hunan province](#).

GE Boon

The increase in hospitals is also boosting demand for medical equipment. [General Electric Co. \(GE\)](#), which makes ultrasound, CT and MRI machines, opened an innovation center in May in the western city of Chengdu to be closer to its rural-hospital customers. The Fairfield, Connecticut-based company intends to open a second China innovation center this summer in the Shaanxi provincial capital, Xi'an, where Concord Medical's Chang'an Hospital is located.

Concord Medical signed a preliminary agreement with GE last August that includes using GE medical products in its treatment centers and helping promote GE equipment in rural China.

Concord Medical, based in Beijing, operates 131 radiotherapy and diagnostic imaging centers in 24 provinces in China. It spent two years trying to buy its stake in Chang'an Hospital for 248 million [yuan](#), delayed by "unclear rules" and bureaucracy, said Yang Jianyu, Concord Medical's chief executive officer. New policies encouraging private hospital ownership will spur more investment, he said.

First Profit

Concord Medical intends to set up as many as eight private hospitals in the next decade, starting in Beijing, Shanghai and Guangzhou, Yang said in an interview. Chang'an Hospital last year posted its first annual profit in 10 years of business, helped by the changes introduced by Wang Jingming, a

former senior colonel and head of the [People's Liberation Army](#)'s 251 Hospital in northern China's Hebei province.

Wang, who advises the Chinese government on medical information technology systems, was hired to run Chang'an Hospital by the original owner three years ago under Concord Medical's recommendation.

He installed a system of electronic swipe-cards at the hospital to reduce patient waiting times and identify under-performing doctors by gauging treatment times. He's also introducing a program for doctors from Philadelphia's [Fox Chase Cancer Center](#) to work there, with diagnostic and management support from their colleagues in the U.S.

Morgue Money

A graduate of China's top army medical school, Wang brims with ideas on how to generate more income from the hospital's facilities, including extracting more profit from its convenience store, canteen, and even the six-bed mortuary, where he sees the potential for earning money from funeral and religious services.

"There should be a dignified way of handling the deceased, like how it's done overseas -- not just dressing up the corpse but also taking care of the psychological and religious needs of the families," he said, adding that China's hospitality industry improved when foreign investment and management knowhow was encouraged in the 1980s. "We have some of the world's best hotels, and it's now our hospitals that need to be better managed."

SOURCE: <http://www.bloomberg.com/news/2012-06-24/china-medical-services-market-seen-hitting-500-billion.html?cmpid=yahoo>