

China's Rx: Foreign-Owned Hospitals

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Dr. Wang Jingming, who runs Chang'an Hospital in Xi'an in Northwest China, is brimming with ideas on how to boost income from the 1,000-bed facility, including wringing more profit from its convenience store, the canteen, and even the mortuary. He's already installed electronic swipe cards to track patients—and to identify underperforming doctors by gauging their treatment times. If the former People's Liberation Army senior colonel sounds a lot like a sharp-penciled private equity investor, he should: Chang'an in June sold majority control to Concord Medical Services Holdings ([CCM](#)), which is backed by the U.S. private equity firm Carlyle Group. Wang points to how China's hospitality industry benefited when foreign investment and business know-how was encouraged in the 1980s. "It's now our hospitals that need to be better managed," he says.

China's hospitals may get more of Wang's brand of management medicine following the government's announcement in March that it wants 20 percent of the nation's hospital beds to be privately owned by 2015. With 260 million Chinese suffering from cancer, diabetes, and other chronic diseases, Beijing wants private investors to help upgrade medical services in a hurry. One draw for private operators: 95 percent of Chinese had government-provided health insurance in 2011. Better yet, China's medical services market is growing 18 percent annually and is projected to reach 3.16 trillion yuan (\$500 billion) in 2015, says Deloitte China.

"China's gross domestic product has grown by leaps and bounds, but the quality of medical care has lagged far behind," says David Chow, chairman of Harvest Medical Investment and Operation Group, a Taiwanese private equity firm that plans 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 the big 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 late 2015. The targets could generate 400,000 new private hospital beds a year, says Roberta Lipson, chief executive officer of hospital operator Chindex International ([CHDX](#)), based in Bethesda, Md. Annual revenue from private hospitals in China may reach 2.4 trillion yuan by 2015, says Yvonne Wu, Deloitte China's national life sciences and health-care industry leader.

U.S.- and European-owned companies have only been able to independently invest in hospitals since Jan. 30, when the government took the industry off a restricted list that required non-Chinese investors to have a local partner and capped foreign ownership at 70 percent. Chindex started China's first foreign-controlled hospital in Beijing in 1997, six years after commencing negotiations with the government, Lipson says. It took only a year to obtain a license for Chindex's latest hospital, in Tianjin, she says. Construction of a fourth is nearing completion in Guangzhou.

Beijing-based Concord Medical intends to set up as many as eight private hospitals in the next decade, starting in Beijing, Shanghai, and Guangzhou. Kuala Lumpur-based IHH Healthcare, Asia's biggest hospital operator, also plans to build a hospital in Shanghai, adding to seven clinics it owns in Shanghai and one in Chengdu.

The increase in hospitals is increasing demand for medical gear. General Electric ([GE](#)), which makes ultrasound, CT, and MRI imaging machines, opened an innovation center in May in Chengdu to be closer to its rural hospital customers. GE intends to open a second center this summer in Xi'an, near Concord Medical's Chang'an Hospital. Concord Medical, which operates 131 radiotherapy and diagnostic imaging centers in 24 provinces, signed an agreement with GE last August that includes using the company's medical products in its treatment centers and promoting GE equipment in rural China.

The bottom line: China could add as many as 400,000 private hospital beds per year. Foreign investors and private equity funds are eying properties.

SOURCE: <http://www.businessweek.com/articles/2012-06-28/chinas-rx-foreign-owned-hospitals>