

Healthcare Industry in China is Poised for Massive Growth due to Heightened Demand and ongoing Reforms

Executive Summary:

- **We believe the overall healthcare industry in China will continue to be driven by several significant demographic, social and technological trends.** Many factors contribute to the recent developments in the Chinese healthcare industry, and all of these are virtually guaranteed to continue for the foreseeable future. These trends are as follows:
 - **An aging population to heighten demand for medical services.** Life expectancy in China is steadily increasing, leading to people aged above 65 estimated to account for nearly 13% of the entire population in 2020, up from about 10% in 2014, according to data from the National Bureau of Statistics (NBS) of China. A growing aging population brings about a number of social and economic changes to China that will certainly have far-reaching impacts on the country's healthcare systems.
 - **Migration to a national system and expedited urbanization in China.** Nationally, China is undergoing a transition from loosely-coordinated regional economies with regionalized healthcare infrastructure to a national system with better and more uniform standards as well as stronger capabilities for developing, adopting and delivering advanced healthcare. Speeding movement of populations from rural to urban also puts a stress on the centralized healthcare delivery systems due to increased incidents of lifestyle diseases like stroke and obesity.
 - **Increased access to medical services.** Improved standard of living and larger national budget for providing medical services are contributing to increased incidents of diagnostics and subsequent treatments, which were either unaware of or ignored in the past. China spent US\$90.8 billion on healthcare in 2004, accounting for 4.7% of its GDP in that year. In 2014, spending soared to US\$590.2 billion, representing 5.7% of that year's GDP.
 - **Quality healthcare is becoming more affordable and readily available.** Combinations of improving government programs and reduced costs for advanced procedures are providing the Chinese with greater access to quality healthcare. The number of visits to national medical and health institutions soared from 3.991 billion in 2004 to 7.314 billion in 2013, with an annual growth rate of 6.96%. However, cost reductions are more than offset by the rapidly-growing number of patients entitled to healthcare system benefits.
 - **Innovation in healthcare for the well-being of more patients with diverse health issues.** Throughout China and across the world, achievements made from tremendous research and development (R&D) investments in enhancing medical treatments and technologies for health problems are benefitting a larger patient population with more diverse diseases.
- **Various sectors of the healthcare industry are being impacted by the above-mentioned factors differently.** There are distinct trends in sectors like healthcare providers, biopharmaceutical, medical equipment, as well as pediatric and elderly care. We believe all of them have growth prospects but in varied magnitudes, providing choices for investors with conservative or aggressive investment goals.
- **Notable opportunities in certain sectors due to new reforms in China's healthcare industry.** Reforms for the 13th Five-Year Plan (2016-2020) published in 2015 focus on areas such as price control, private hospital, traditional Chinese medicine (TCM), as well as medical insurance and support, creating new growth drivers for players in these sectors.