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A Different Kind Of Hospitality Opportunity In China

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The words, "When I get older, losing my hair, many years from now," from the old Beatles song about life as a 64-year-old are familiar to many. Sir Paul McCartney is, however, now in his 70s and the song has a rather different relevance to a generation that is now much more focused on health care than would have been the case in the swinging '60s. However, it is not only the "baby boomer" generation that is considering health care and "senior living" options; it is entire populations. This is affecting government policy and opening up new opportunities for industry investors in branded residences of a different kind and health care and medical tourism.

Aging Population — Senior Living

The aging population problem in Japan is well-known but much less has been said about the same issue that will shortly start to have a major impact on China. The issue is now receiving more attention as the country faces up to the fact that while the percentage of people who were of retirement age in 2010 was under 10 percent, by 2030 this will have climbed significantly — and by 2050, almost 25 percent of the population in China will be over 60 years of age. Put another way, in 2010 China had eight workers to support every person of retirement age; by 2050 there will be only two. In fact by 2050, there will be more people over the age of 60 in China than there are people in the U.S.!

Reform — Foreign Investment Welcome

The aging population in China has become a concern at a time when health care generally is the focus of government reform and the subject of public discussion. There are a number of reasons why the problems in China are of special importance:

- The PRC's one-child policy has made China's aging population problems more severe — a smaller number of children will be expected to care for growing numbers of the elderly in the traditional Chinese way (i.e., at home) and for many, this will be impossible.

- China’s urbanization policy encourages younger people of working age to move to the cities — often leaving older members of society in smaller towns and villages with little or no family support.

- Rapid economic development and changes in lifestyles have resulted in numerous health issues that have put additional strains on the PRC health care system.

At the same time, China is embarking on an ambitious Healthy China 2020 program, which seeks to establish a modern universal health care system. The costs of this, however, are very significant and, given competing priorities, it is unlikely that sufficient money will be available to provide adequate care for the elderly. As a result of many factors including these issues, the government has already taken steps to open the door to private investors (including foreign investors) to fill this need. A number of operators have entered the market, including Cascade Healthcare, Belmont Village and Right-at Home.

Barriers

Notwithstanding the opportunities that China offers, there are still a number of significant barriers to a foreign investor wishing to enter either the China health care system or to provide housing for "seniors." These problems are cultural and financial:

- Cultural issues — it is difficult for many Chinese to accept housing for the elderly and the traditional expectation is that family support should provide all care required for older members of society. The problem is made worse by the fact that many existing state-run homes for the elderly are overcrowded, badly run and essentially an option of last resort for most people.

- Objectives — most development projects in China are driven by real estate developers. This is a problem as developers look for a short-term return and are not primarily driven by a need to provide health care.

- Cost — The cost of providing international standard health care is beyond what most people are willing to pay and therefore, although there is an opportunity, there is at the moment an issue with the level of demand. Many existing facilities charge RMB 10,000 to RMB 15,000 per month for basic residential nursing home care. The challenge is that most industry experts believe that they need to charge between RMB 15,000 and RMB 20,000 per month just to cover operation costs and RMB 25,000 to RMB 30,000 to make money. Many feel that the market is not yet ready for long-term private health care senior living support at this sort of price level.

Many investors that have entered the China market recognize that the opportunities are not going to bring short-term rewards. However, changes in society, an ever increasing middle class and the projected number of elderly people add up to a strong medium-term business case for investment in this sector.

Hospitals

Private hospitals

The opportunities for foreign investment in private hospitals are perhaps less long-term than those relating to nursing homes/senior living. For example, Chindex International is a major player that has attracted investment from Shanghai Foshan Pharmaceuticals and TPG of the U.S. Raffles Medical Group (Singapore) and Malaysian IHH Healthcare have also invested. Foshan Pharma has indicated that it has ambitions to invest in hundreds (perhaps as many as 500) hospitals throughout China.

Reform

Private hospitals offer attractive profit margins, and the whole sector is benefiting from changes in the law that allow higher levels of private investment — cities such as Beijing now allow 100 percent foreign ownership of hospitals.

Reform was introduced in July 2014 by the Circular of the National Health and Family Planning Commission and the Ministry of Commerce on Carrying out the Pilot Program of the Establishment of Wholly Foreign-Owned Hospitals, although earlier relaxations applicable elsewhere date back to 2012. These relaxations result, in part, from the government's need to expand health care generally as well as the need for funding.

China's health care spend is very low by global standards at 5.2 percent of gross domestic product (by comparison, health care spend is 17.9 percent in the U.S.). A strategic objective of the Healthy China 2020 program is to increase health care spending to 7 percent of Chinese GDP by 2020, and private participation will help make these objectives easier to achieve.

Expansion

Public hospitals account for over 90 percent of hospital revenue, which exceeds RMB 1.25 trillion. Private hospitals are, however, growing rapidly and the Chinese government has set a goal to increase the private hospital services contribution to 20 percent by 2015.

Sensitivity

Nevertheless the China market has been a frustrating one for many investors. Rules and regulations vary from city to city and while some local governments are eager to attract investment, others are less enthusiastic.

Foreign ownership is relatively new. There is also increased sensitivity following the GSK scandal, which illustrated the high level of corruption that exists throughout the hospital system. However, overall government objectives and the pressure of public opinion (which has become much more of a factor in recent years due to social media and other means of communication) has made it desirable to accelerate the expansion of private health care.

Medical Tourism

Medical tourism in the PRC is in its infancy. Within Asia, 90 percent of the medical tourism market is accounted for by India, Thailand and Singapore. China by comparison has made only limited progress, but the potential for it to become a major regional medical tourism destination is enormous.

There are, however, medical tourism offerings already in Sanya, Hainan Island, where the Sanya Traditional Chinese Medicine Hospital is marketing services to Russians, Europeans and the Middle East with the average patient spending around $20,000 per head. China even has established a China International Medical Tourism Association, which promotes China as a medical tourism destination based on high levels of technology, low prices and Chinese traditional medicines.

There are also some facilities in Beijing, including the Cining Oasis Health Management Hospital, with 60 percent of its patients coming from outside the capital (although interestingly, Cining has partnerships in Japan, Switzerland, Singapore, the United States and South Korea to cater to its Chinese clients' desire to seek medical assistance overseas). The biggest demand from Chinese travelers seeking medical assistance is for health care overseas. It is thought that in 2012, some 32,000 Chinese traveled to South Korea for cosmetic surgery. Thus, the potential for China to provide a broader range of medical services at home is obvious.

The issue is that at present, medical tourists from China are looking for quality medical services and perhaps treatment that cannot be found in the PRC. In contrast, patients from Europe and the United States generally choose overseas medical services on grounds of cost (Thailand, for example, may well offer medical services that are very much cheaper than those available in the United States). If China gets it right, it can realistically hope to capitalize on both domestic and foreign demand.

Opportunities Worth Considering

Anyone undertaking business in China needs to be willing to adapt to an ever-changing business environment. As some sectors mature or become more highly regulated, the scope for foreign investment may in some cases be reduced. There is little doubt that in the decades to come there will be opportunities for foreign investment in a number of areas, including those discussed above.

Companies with specialized expertise in the management of homes for the elderly in Europe and the U.S. may find China a rewarding market. Hotel operators that have had experience of medical tourism in Thailand may find considerable scope for expansion in the PRC. Likewise, the importance of brand and quality management are likely to apply to private-sector health care facilities as they do in more traditional leisure-based properties.

To return to Sir Paul McCartney in the context of foreign investors being able to offer the experience and expertise that China needs, the answer to the question, "Will you still need me, will you still feed me, when I'm 64?" is certainly still yes.

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