

U.S. Commercial Service Market Brief
Featuring
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China Healthcare Reform

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Doug Barry: Welcome to another edition of Market Brief.

Today we are speaking with Sherman Li, a Senior Commercial Specialist with the U.S. Commercial Service at the [U.S. Consulate in Guangzhou, China](#).

Hello Mr. Li.

Shuquan Li: Hello Doug. Good evening.

Doug Barry: Is it springtime in Guangzhou?

Shuquan Li: Sure. Well actually it looks like summer. It's too hot these days.

Doug Barry: Well it sounds good to me, and of course it's early morning there. And we appreciate you getting up early to be with us today.

We're discussing very recent China healthcare reform measures and its implications for U.S. exporters. And this is exporters of medical equipment or other healthcare products and services.

I wonder if you could share with our listening audience the current status of China Healthcare Systems and why China needs to introduce such a reform plan now.

Shuquan Li: Thank you Doug. Doug, I really appreciate the opportunity to talk about a little bit of China Healthcare Reform Plan and what opportunities are available for American exporters.

So let me give you pictures of what healthcare system looked like in 1990s and 1980s then you know why they need to reform.

At that time during those years Chinese government did not have any financial resources to input into the healthcare systems. They allowed hospitals to be responsible for their profits and the losses, you know so all hospitals are trying to make a profit through various means.

For example they allowed the employees, hospital employees to generally raise funds to buy equipment and they had then made a profit from them.

And they also allowed the hospital to make a profit from direct sales. That means doctors can prescribe drugs to patients and they made a profit from it.

So by 2000 no one saw this as a policy. A lot of side effects and profits, you know, for example 50% of the hospital incomes are generated from drug sales.

And as you know, 80% of the medical resources are actually concentrated in urban areas. But in the rural areas, where there are over 800 million farmers, only have

access to 20% of the medical resources. Over 60% of the population does not have any medical insurance at all.

So as you can see why they need to reform because of high medical costs, limited access to healthcare services, and deteriorated relationships between doctors and the patients. These are the reasons that China decided to introduce the Healthcare reform.

Doug Barry: And then what are the major features of the program now in order to repair that broken system?

Shuquan Li: Yes. The reform, I'll tell you the reform is new and large in scale -- the most comprehensive in the Chinese healthcare industry's history.

I will explain a little bit about the reform. What is reform about and the major goals in terms of the features.

China will invest 120 billion U.S. dollars in the next three years to implement the five major reforms. And that these reforms are focused on the systems of healthcare securities, drug supply, rural healthcare infrastructures, public health services, and public owned hospitals.

Doug Barry: Now Mr. Li was that 120 million with an M or billion with a B?

Shuquan Li: A hundred and twenty billion; that's \$120 billion.

So they invested this amount in order to attain the following the major goals. The first goal is to provide the basic medical insurance to every Chinese citizen by 2020.

Second is to build 200 general hospitals as a rural county area and ensure medical insurance is available and accessible to 800 million rural residents.

Third is to emphasize the disease prevention as a primary goal for healthcare services.

And finally the last goal is to do away with a profit making practice from the hospital and go with a new hospital management system to public owned hospitals.

Doug Barry: So that sounds like a very thorough top to bottom reform and a big change from the days of the barefoot doctors during the Cultural Revolution.

Shuquan Li: Yes, the - you know that about the barefoot doctors. At that time farmers enjoyed much better healthcare services during those times and people miss that time very much.

Doug Barry: Well with all those hospitals and the profit motive taken out of the hospitals themselves they're not going to be running businesses anymore and all - and the national health insurance scheme for over a billion people, what specifically are the opportunities for U.S. companies who might wish to supply medical equipment and services and healthcare products to the Chinese market?

Shuquan Li: Well that is a good question Doug. People especially those medical device exporters are always asking what opportunities are available for them.

But with this new reform it means that the more Chinese people can afford healthcare services. It means Chinese market size, healthcare market size. It means it will be further extended.

According to our research this reform is expected to extend the Chinese healthcare market size by 12 to 15% annually in the coming years.

Of course this also means more opportunities for American exporters.

Let me give you a few examples. Just now we mentioned China invests 120 billion U.S. dollars in the healthcare system.

And within this \$120 billion they will use a part of them to build 2,000 county general hospitals, building 2008, 2009 and 2011.

They also have 200 newly added hospitals in open area each year that they already planned. So would add about 2,600 hospitals under construction within the next three years.

We do think that these new hospitals will provide opportunity for the U.S. supplier of medical devices, particularly those at advanced diagnostic and therapeutic medical equipment and instruments.

Doug Barry: Have you an idea Mr. Li of what percent of this market will be supplied by non-Chinese firms in other words that could be supplied by a U.S. firm?

Shuquan Li: The common statistics show that - of a total medical device import, over 30% are from the U.S. U.S. Company already accounts for I think 35, around 35% of the total imports.

And Germany and Japan also account for less than 30%.

So hospital construction provides opportunities and the - as you know China has such a big population, 1.3 billion. One-fifth of them, you know, suffering from the chronic disease.

Shuquan Li: And with this new reform allowing a higher reimbursement rate and the healthcare systems becoming more affordable to patients, we believe that the American exporters

particularly those have rehab and the therapeutic device to the China market, we do think they should have opportunities too.

Shuquan Li: Last we think there are other opportunities. For example China's reemphasized prevention as the primary goal for healthcare services. Preventative testing such as, for example, health checkup for women and infant health, and for infectious disease because those preventative tests are things that should also present many opportunities to U.S. suppliers too.

Doug Barry: So all kinds of screening and diagnostic devices will also be in demand.

Shuquan Li: Right.

Doug Barry: And Mr. Li what about the hospitals themselves? That is will there be a need for hospital designers and architects, people with expertise actually creating the structures themselves, laying out the rooms and the operating theaters and so forth.

Shuquan Li: Yeah, you are right. I think you really know the Chinese system. I think that for those high level hospitals, what we call the larger scale one, they do need and know that cooperation to help them to design hospitals. Of course sometimes because of the local designers have more knowledge about China market, U.S. companies, design firms, may partner with those local designers in order to achieve the builder's goals.

Doug Barry: Well Mr. Li the reason I know so much about this is because when you told me that these 2,300 hospitals will be built over the next several years, I thought maybe I should go over there for a little cosmetic surgery.

Shuquan Li: I'll tell you that the Chinese people admire the higher technology, healthcare technology in the U.S., you know, I think that's why the people are importing the

medical device are from the U.S. Many Chinese believe the U.S. is among the top supplier of healthcare technology products.

Doug Barry: And the Chinese consumer is very wise for believing that.

And of course the country's huge and if I'm listening to your very insightful description of the situation and the opportunities today, I'm wondering okay, how do I take the first step in order to first of all understand where the opportunities are, who can I partner with, how might I find my way into the China healthcare market.

What would be your advice to us?

Shuquan Li: Yes, Doug that's exactly why we host this podcast this morning.

And we all know that China is a huge market and then the opportunities here are real. And we all know the United States is competitive in the healthcare technologies. I think that you know that the most important thing for U.S. companies, is to come to China. You know why?

I've seen so many U.S. companies. They want to do business without coming to China. They thought that they are doing business in China is the same as those European countries. They can do the business without face-to-face meetings. That's not true in China. If those U.S. Company are really serious about a market, they have to come to China.

Without this, they won't be able to learn about a market. They won't be able to find the appropriate partners. They won't be able to learn about Chinese people's culture.

So it wouldn't be possible for them to achieve success.

Doug Barry: Well and I think that makes perfect sense to go there and create those personal relationships Mr. Li. And after listening to you for the last 10 or 15 minutes I think more than a few of our listeners would enjoy meeting you personally and having a “pjiu” or two with you.

Shuquan Li: You know our job is to help them to conduct business in China. We have a very good group of staff who are ready to provide their knowledge and the insight in the China medical market.

I do encourage you to come. Actually we have a very good event, you know, to be taking place in Shenzhen in April. That event is called the [China International Medical Equipment Fair](#).

I think that this is the latest medical device show in China. Also it's the largest one in Asia so thousands of distributors will come to the show.

I really recommend that the U.S. companies come to this show and meet with potential distributors. We will be there to provide support to U.S. companies if they come.

We do major medical meetings. We do counseling, one-on-one counseling with the U.S. companies. So we do our best to help them. I do think that they should make good use of these opportunities.

Doug Barry: Well that would be great. And we want to thank you so very much for being with us today on this beautiful day in Guangzhou and getting beautiful here in Washington, D.C.

Shuquan Li: Well thank you Doug. Please tell U. S. companies if they'd like to come they can check our Web site (www.buyusa.gov/china/en) or they can check at the show Web site (www.cmef.com.cn) in Chinese or (<http://en.cmef.com.cn>) in English.

Doug Barry: All right great. And they can also of course dial toll-free during the week to the China Business Information Center and the Trade Information Center here in Washington. That telephone number is 1-800-USA-TRADE. And also go to <http://www.export.gov/china>.

So Mr. Li we're going to say good-bye to you now in beautiful Guangzhou.

And ladies and gentlemen thanks for watching and listening and we hope to see you soon on another Commercial Service Market Brief.

This is Doug Barry in Washington. Thanks for listening.

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