THE HEALTH AND AGED CARE INDUSTRY IN CHINA
A guide for Australian business
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EXECUTIVE SUMMARY

China's demand for health and aged care services is expected to grow significantly over the next decade, driven by the needs of a rapidly growing population, an ageing demographic, new health challenges and government policy reforms.

In 2020, China's population is expected to reach 1.4 billion, of which 248 million will be aged 60 years and above. These elderly citizens will require accommodation in facilities that support their medical needs and lifestyle, and a qualified workforce to care for them – both of which are in short supply. The growing middle class population is also demanding high-quality services, putting more pressure on a medical system that is grappling with new health issues such as cancers, heart disease and obesity.

The Chinese Government has embarked on an ambitious program to transform the country’s health and aged care industry. It is accelerating reform across the industry, including integrating healthcare and aged care services; introducing policies to attract private capital from domestic and overseas investors; and encouraging the adoption of smart healthcare. There is a strong focus on developing the aged care sector, with the Government aiming to provide 35 to 40 care beds per thousand elderly citizens, and a workforce of 10 million aged care workers, by 2020.

Healthy prospects for Australian businesses

The changing landscape of the Chinese health and aged care industry has created significant opportunities for Australian companies. In the aged care sector particularly, there is a high level of interest in consulting services across investment, operations, management, human resources and security. Architectural and design services are required to modernise existing facilities and construct new institutions.

There is also an urgent need for education, training and skills development, with the majority of the current aged care workforce lacking formal qualifications. There are opportunities for Australian organisations to partner with Chinese institutions to deliver vocational training and train-the-trainer programs in classrooms or at aged care facilities. There is also potential to offer short-term executive courses for Chinese health professionals and managers travelling to Australia on learning trips.

With an estimated 152 million people using internet health services in 2015, e-health is another area offering strong prospects. The Chinese Government is encouraging the adoption and development of online health services, opening up opportunities for Australian firms to provide smart hardware and health applications, and to partner with Chinese e-health service providers, health institutions and governments to develop digital solutions and services.

A growing number of Chinese citizens are recognising that prevention is better than cure, and are increasing their consumption of health foods and complementary medicine. In 2015, the market for vitamins and dietary supplements reached RMB 109 billion (US$16.3 billion). Over-the-counter medicine is also a growing market, worth RMB 174 billion (US$26.0 billion) in 2015.

Seizing the opportunity

China is committed to developing its health and aged care industry to ensure citizens of all ages can access modern facilities, high-quality care and effective products, services and medicines. As a world-leading provider of health products, skills and expertise, Australia can play an active and important role in helping shape the future of China’s health and aged care industry.
By 2020, China’s current population of 1.37 billion is projected to reach 1.4 billion, of which 248 million will be aged 60 years and above. The country needs to expand its network and number of aged care facilities, as well as increase the number of qualified workers to care for these elderly citizens. The middle class, who will continue to make up a significant proportion of China’s population over the next decade, is also demanding and is prepared to pay for higher-quality health services.

In addition, China must address emerging health challenges, as the country’s disease profile changes from a developing to a developed country where cancers, heart disease and obesity are more prevalent. There is a pressing need for infrastructure, resources and personnel to diagnose, treat and manage these new medical conditions.

Government-funded medical and aged care institutions have traditionally been the major suppliers of health and aged care services, but this is no longer enough to meet the demands of a rapidly growing and increasingly affluent population with diverse medical requirements. Since 2010, the Chinese Government has sought contributions from the private sector, including from overseas providers, in an effort to substantially increase health and aged care resourcing.

There has been large-scale investment in the development of aged care facilities by the public and private sectors in recent years. By 2015, China had 6.7 million aged care beds, an increase of 176 per cent over the three years from 2012. The fastest growth occurred in well-developed provinces and municipalities where ageing population pressures are most keenly felt, including Beijing, Chongqing, Guangdong, Hainan, Hubei, Hunan, Jiangsu, Shandong, Shanghai, Sichuan, Tianjin and Zhejiang.

Even with the rapid development of recent years, the aged care industry in China is in its infancy. There is still a significant shortage of aged care facilities and the support services industry is just emerging. Industry standards, workforce skills, aged care training, operations management, quality assessment and insurance services are not sufficiently established to meet the future care needs of elderly patients.

Reforming the industry
Aware of industry shortfalls, the Chinese Government is accelerating reform, introducing favourable policies to attract private capital and encourage competition, and implementing pilot programs in selected cities to trial new standards and policies to support the industry’s development.

In China, the policies introduced by governments of various levels reflect the central government’s strategies. Below are four central government policies that will guide the development of the Chinese health and aged care industry over the next five to 10 years.

Healthy China 2020 strategy
China adopted its 13th Five-year Plan in March 2016. The Plan outlines China’s goals, principles and targets for its development through to 2020. In the health and aged care sector, the Healthy China 2020 strategy encourages the private sector to help establish an integrated health and aged care system.

The strategy sets out to:

- transform the healthcare system by accelerating public hospital reform, promoting equal treatment of non-profit private and public hospitals, encouraging research and development into new drugs and attracting private investment
- adhere to the principle of ‘prevention first’ to better address China’s current disease burden and the growing prevalence of chronic diseases
- improve medical care by advancing the tiered system (sorting medical organisations into three categories based on their ability to provide healthcare, ranging from primary care at village clinics to specialised treatments at tertiary hospitals in urban areas); increasing the number of qualified doctors and medical assistants to 2.5 per 1,000 people; supporting the development of medical services in rural areas; and introducing smart healthcare such as online health information platforms and electronic health records
- strengthen maternal and child healthcare, placing greater emphasis on preventing and controlling common gynaecological diseases and children’s illnesses
> ensure food and drug safety across the country by bolstering safety management efforts in rural areas, and reforming the review and approval system for drugs and medical devices

> promote the development of traditional Chinese medicine (TCM) by building research institutions and accelerating the standardisation of TCM products and services

> improve health levels and the medical security system, including implementing critical illness insurance and developing commercial health insurance.

**Integration of healthcare and aged care**

In most cases, aged care services are provided by aged care facilities and medical services are provided by hospitals. Only a limited number of aged care facilities provide qualified medical services, while geriatric departments and rehabilitation centres are not usually available in hospitals. The elderly have to shuttle between aged care facilities, hospitals and their home to access the services they need, placing a burden on their families. Some elderly patients also refuse to be discharged from hospitals so they can get continuous medical services, which puts pressure on healthcare resources.

Generally speaking, two main factors contribute to the current status:

1. The government oversight structure of the healthcare industry is complex and sometimes ambiguous. At the central government level, the Ministry of Civil Affairs and the Ministry of Human Resources and Social Security regulate the aged care industry, while the National Health and Family Planning Commission supervises the medical industry. A facility must obtain multiple permissions from all parties to provide both aged care and medical services. Duties and application processes are also not clearly defined among government organisations.

2. It is difficult to have medical-related costs incurred at aged care facilities covered by universal healthcare insurance.

To facilitate the development of an integrated healthcare and aged care system, the Ministry of Civil Affairs and the National Health and Family Planning Commission jointly released a national policy aiming to simplify approval processes and provide assistance in April 2016. The policy sets out the following determinations:

> Medical institutions are to provide aged care agencies with greater access when making appointments, enabling cooperation between community hospitals, communities and home-based elderly care services.

> Aged care institutions are to provide medical services, TCM, and geriatric and rehabilitation services in accordance with the law.

> The central government will encourage the private sector to operate services that integrate healthcare and aged care, and allow areas with sufficient medical resources to convert some public hospitals into rehabilitation and aged care centres.

> The central government will provide more land and financial support for healthcare services for the elderly and expand its provision of basic healthcare and elderly care services.

Pilot projects integrating healthcare and aged care services will be carried out nationwide in late 2016.
CHINA 2015 A SNAPSHOT

**Population**
- Rural: 604m
- Urban: 771m
- Total: 1.38bn

**Average Life Expectancy**
- 76.3 years

**Aged 60+**
- 222m
- 16.1%

**Spending on Health-Related Products and Services**
- 1,165¥
- 7.4% increase on 2014

**Average Disposable Income**
- 21,966¥
Speeding up aged care industry development

Developing aged care services is one of China’s key national development strategies. In 2013, the State Council of the Chinese Central Government issued Instructions on Speeding Up Aged Care Industry Development, in which it detailed a series of policies to attract domestic private sector resources and international business engagement in the aged care industry.

The paper set two key national targets to be achieved by 2020: a national care bed capacity of 35 to 40 care beds per thousand elderly citizens; and a workforce of 10 million people in the aged care service sector. The sector is projected to need a total of 8 million aged care beds by 2020 if it is to cater for the projected population of 248 million elderly citizens.

The China-Australia Free Trade Agreement

The China-Australia Free Trade Agreement (ChAFTA) opens up opportunities for Australian firms to contribute to China’s transformation of its health and aged care industry.

Under ChAFTA, Australian medical service suppliers can establish wholly Australian-owned hospitals in Beijing, Tianjin and Shanghai, as well as the provinces of Jiangsu, Fujian, Guangdong and Hainan. China also made its first-ever commitment in an FTA on aged care services, allowing Australian medical service suppliers to establish wholly Australian-owned profit-making aged care institutions in China with no geographical restrictions.

Australian services suppliers are now permitted to establish joint-venture hospitals or clinics with Chinese partners in line with China’s needs, with no geographic restrictions and foreign firms permitted to own the majority of the joint-venture facility.

Table 1: Number of health and medical institutions in China

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical institutions</td>
<td>990,248</td>
</tr>
<tr>
<td>Hospitals</td>
<td>27,215</td>
</tr>
<tr>
<td>Hospital beds</td>
<td>5.3 million</td>
</tr>
<tr>
<td>Community health service centres</td>
<td>34,588</td>
</tr>
<tr>
<td>Clinics</td>
<td>195,866</td>
</tr>
<tr>
<td>Aged care institutions</td>
<td>28,000</td>
</tr>
<tr>
<td>Aged care beds</td>
<td>6.7 million</td>
</tr>
</tbody>
</table>


Table 2: Number of public and private hospitals

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public hospital</td>
<td>13,341</td>
<td>13,304</td>
</tr>
<tr>
<td>Private hospital</td>
<td>11,963</td>
<td>13,600</td>
</tr>
</tbody>
</table>

Source: National Health and Family Planning Commission as at September 2015.
China is focusing on building its capabilities and resources in four major health and aged care sectors: aged care facility design and operation; workforce skills development, education and training; smart health; and broad health (the Chinese term for products and services related to general health and wellness).

Aged care facility design and operation

With the number of people aged 60 and above predicted to reach 248 million by 2020, China is undertaking extensive infrastructure works to ensure these citizens can live in safe facilities that provide high-quality care and support their lifestyles.

Chinese governments at all levels are upgrading old state-owned aged care centres and building new institutional facilities. For example, the Guangzhou municipal government invested US$300 million in 2013 to build 13 new institutional aged care centres, with a total capacity of 10,000 beds.

Chinese businesses are renovating old buildings, such as hotels, offices, social clubs, kindergartens, factories and warehouses, into aged care facilities. For instance, Guangzhou Yifuju and Beijing Poly Anping have converted an abandoned warehouse complex and a five-star hotel respectively into aged care facilities.

Large-scale ageing-in-place or continuing care retirement communities (CCRC) that offer both retirement living and nursing home (including clinical) services are increasingly in demand. For example, both Taikang Life and Union Life have announced they will each invest about RMB 100 billion (US$15.4 billion) to build 25 CCRC in Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Sanya, Hangzhou and Fuzhou by 2020.

Property management companies are building aged care facilities within their commercial-residential buildings to provide homecare, day care, and nursing and medical services to residents. Leading companies in this space include Vanke, Shenzhen Changcheng, Guangzhou Yihe, Evergrande and Poly.

At the end of 2015, there were 6.7 million aged care beds in China, an average of 30.3 beds per 1,000 elderly citizens. However, the vacancy rate was 48 per cent. According to the Ministry of Civil Affairs, this can be attributed to the following factors:

- A lack of master planning in certain areas. Investment in large-scale building projects has been concentrated in areas that do not have matching demand.
- Large-scale aged care projects are usually located far away from town centres. Facilities that are difficult to get to are not popular with families that want to frequently visit elderly relatives.
- Some aged care facilities do not provide medical services and many seniors prefer staying at home to paying to reside in a facility that cannot provide healthcare on demand.

Opportunities

Aged care is an emerging industry in China. A large proportion of local investors, designers and operators do not have adequate knowledge or experience in investing, building and operating modern aged care facilities. The industry lacks experienced suppliers and specialist service providers, such as architects, operations managers and consultants, and there is demand to tap into internationally recognised expertise.

In China, Australia has a reputation as a world-class provider of aged care products, services and expertise. Australian companies have successfully provided master planning, interior design, consulting, operational and management services to clients in Guangdong, Beijing, Shanghai, Jiangsu, Chongqing and Jiangsu. Australian firms and Chinese customers and prospective industry partners share common values – for example, both attach great importance to homecare. These shared beliefs will facilitate business discussions.

Potential customers and partners for Australian businesses looking to enter the China market include:

- state-owned enterprises and life insurance companies
- real estate developers and property management companies
- healthcare and aged care investors and operators
- local design institutes (as partners)
- vocational educational and training institutions.

There is a high level of interest in the following services:

- Consulting services for investing in aged care facilities, for example, investment models, operation management models, operational service standards, security and safety standards, and human resource planning, training and development.
- Architectural design services including master planning and interior design.
- Operations and management services provided under management contracts or through the establishment of joint ventures with Chinese organisations, for example, service planning, project management, facilities and asset management.
- Human resource development for aged care managers and carers.
Challenges

China’s aged care industry is still at an early stage of development. Business risks could be high for new market entrants, especially those with insufficient local knowledge or experience. Domestic investors are usually more willing to spend money on tangible ‘hardware’ rather than intangible ‘software’, but the situation is changing gradually. While there are sophisticated aged care facilities in China, there are also residential real estate projects that falsely claim to be ‘aged care’ to sell premises without a qualified commitment to providing aged care services.
Workforce skills development, education and training services

Human resource capacity development in aged care is in urgent demand in China, fuelled by a growing population of senior citizens. In 2013, there were approximately 97 million elderly citizens with chronic diseases; 39.5 million disabled elderly citizens; and 50 million elderly people with limited access to proper care services.

With the Chinese Government introducing a nationwide policy to integrate healthcare and aged care, the demand for qualified and skilled care workers is expected to grow. China requires a workforce of 10 million to care for its projected elderly population of 248 million in 2020.

The health and aged care service industry requires a skilled workforce that is trained to professional standards. The current workforce comprises nurses and casual care workers, often managed by healthcare professionals or managers with hospital backgrounds. The National Health and Family Planning Commission reports that only 50,000 aged care workers and 38,000 medical care workers in China have vocational qualifications.

Industry commentators suggest the typical aged care worker has a limited education. Without professional training and career development, they are only able to provide basic care. For example, they may provide daily living support to seniors who are unable to care for themselves. The long hours and intense pressure mean there is a very high turnover of staff in the aged care sector.

While there is a need for carers, nurses, facility operators and senior managers to be formally trained and accredited, China has not yet established a standards-based nationwide training system for these workers. There are various ways to access training and education in aged care, including through academic institutions, tailored training courses, on-the-job training, and overseas short-term study tours and programs. Students are less likely to enrol in full-time college courses due to the aged care industry’s demanding work conditions and low salaries. In addition, many middle-aged and casual staff do not have the financial means to attend private training organisations to develop their skills.

The overall quality of nursing is improving in China. Nursing management skills have been enhanced, and the types of nursing services provided is much broader than in the past. Governments and peak industry bodies have started to recognise the importance of building vocational training capabilities to meet workforce demands. Over time, it is expected that planned systemic changes will improve the salary and social standing of jobs in the aged care industry.

Opportunities

There are opportunities to provide training for nursing staff, healthcare professionals, hospital staff and management and operational personnel, particularly building a career path for young professionals through different levels of training from basic care to management roles.

Vocational training providers can be divided into two categories: state-owned and privately owned. State-owned training providers are funded by the Ministry of Civil Affairs, local civil affairs bureaus and labour bureaus, which provide all training materials and licences. The courses provided by state-owned institutions such as vocational training colleges are comparably basic and not tailored, and would be deemed equivalent to a level lower than a Certificate III course in Australia. The courses are designed to equip entry-level carers with basic skills in caring for the elderly.

There are opportunities for Australian healthcare training providers to work with these colleges to provide joint programs delivered in-classroom or on-placement. Australian institutions have now started to develop joint programs with Chinese vocational colleges in Beijing, Shanghai, Nanjing and Chengdu to deliver aged care training content. The courses are normally localised and delivered by trainers from Australian TAFEs and other institutions. Several Australian TAFEs and registered training organisations have already established relationships with Chinese vocational colleges, especially in allied health and professional nursing training for the aged care industry.

China’s private aged care training sector is evolving as industry demand grows. Partnership opportunities to deliver full-time vocational training and train-the-trainer programs are emerging. Private Australian training institutions have partnered with Chinese vocational training providers to attract students. Government-to-government cooperation will continue to support the growth of this sector.

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### SIZE OF HEALTH AND AGED CARE SERVICES WORKFORCE

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
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<tbody>
<tr>
<td>Health Workers</td>
<td>8.0m</td>
</tr>
<tr>
<td>Registered Nurses</td>
<td>3.3m</td>
</tr>
<tr>
<td>Registered Doctors &amp; Professional Assistant Medical Practitioners</td>
<td>3.0m</td>
</tr>
</tbody>
</table>

Health professionals who are interested in career development and management roles are a potential target cohort for Australian institutions and training providers. There may be opportunities to provide short-term executive education programs for Chinese managers who travel to Australia on special learning trips. Given the emergence of high-end senior living facilities across China, effective management and knowing how to create a market-recognized brand will be key competitive advantages. There may be a preference to hire overseas-trained managers when forming a management team for high-end communities.

Demand is also likely to be strong for train-the-trainer models of delivery within senior living facilities. Australian aged care facility operators and owners in China are providing training for their Chinese employees, sharing their expertise and experiences. Higher-end facilities also require tailored systems to support the career development of their workers.

Challenges

As the aged care training market in China develops, and standards and regulations are put in place, the opportunities for collaboration will continue to grow. To succeed in the Chinese training and workforce skills development market, Australian institutions must understand the local culture, know the regulatory environment well and tailor their curriculum and delivery model for local needs. This includes being aware that many students will have limited English language capability. A critical success factor is finding a business partner who shares similar values, views and goals.

TAILORED TRAINING PROGRAMS THE KEY TO SUCCESS FOR HGT AUSTRALIA

HGT Australia found success in China by developing tailored training programs that respect the local culture and meet the specific needs of students and aged care providers.

The not-for-profit training organisation has been operating in Australia for more than 30 years, and entered China in 2014 in response to demand for high-quality aged care training. China needs to train between 10 and 15 million aged care staff over the next two decades.

In 2015, HGT signed a deal with the Shanghai Pharmaceutical School to provide a training program for assistant nurses, who reduce the workloads on doctors and fully trained nursing staff. As many as 2,000 students could be trained each year using HGT’s curriculum.

HGT has also established strategic partnerships with hospitals, schools and public and private aged care providers in numerous locations, including Beijing, Chengdu, Guangzhou, Nanjing and Shanghai. The company believes its China operations will be the same size as its Australian business in five years.

HGT believes its success is due to its willingness to tailor training programs to Chinese needs. The process of building trust and strong relationships with its Chinese partners has deepened the company’s understanding of the diversity of China’s regions and how important it is to take into account these differences when doing business in China. It is the reason why HGT customises its programs for clients.
Smart health

Smart health is a literal translation of the Chinese term 智慧健康 (zhì huì jiàn kāng) that broadly encompasses digital health, mobile health, remote health and enabling technologies, systems and solutions in healthcare.

China has more than 200 million senior residents (aged 60 and above) and this number is growing at a rate of 3 per cent annually. Almost 40 million elderly people are categorised as disabled or semi-disabled. Rates of chronic disease are also growing.

The current healthcare system is struggling to meet the needs of the population. Resource allocation is poorly balanced, with higher-quality healthcare resources typically allocated to first- and second-tier cities. To address these issues, the Chinese Government is encouraging the development of e-health systems and resources.

According to the China Internet Network Information Centre, the number of internet health users in China reached 152 million as at the end of 2015, accounting for 22.1 per cent of total internet users. The three most popular internet health services are online health information checks, online registration for hospitals and online health consultations. The Chinese Government predicts the market value of the health service industry will be RMB 10 trillion by the end of 2020.

In March 2016, the Chinese State Council issued guidelines to facilitate the development of the national medical and healthcare industry. The guidelines state that the Government will promote the development of smart health services; encourage the participation of private capital; integrate online and offline resources; and introduce further regulations for digital health apps. The Government will also promote internet-based health services such as online consultations, medical appointments, payments and health reports.

Governments at all levels are encouraging hospitals and healthcare institutions to set up e-health information platforms and provide health information online. The Chinese Government will stipulate more detailed laws and regulations on smart health in the future.

An increasing number of traditional health organisations, as well as emerging information technology companies, are providing health information, self-diagnosis, doctors’ recommendations, basic health consultations and medical appointments online. There are also new companies that provide online diagnoses, prescriptions, treatments and health management advice.

In recent years, wearable technologies such as smart bracelets have become popular with Chinese consumers who want to monitor their health.

ALI HEALTH: CHINA’S SMART HEALTH LEADER

Ali Health is a subsidiary of Alibaba Group and one of China’s leading e-health companies. It is developing a proof-of-concept cloud hospital, which involves integrating the health resources of medical care institutions in a region and making them available online through cloud computing and other systems. Cloud hospitals provide a coordinated way to share resources between hospitals and doctors, as well as provide convenient, efficient and personalised healthcare services to patients. Traditional processes such as doctors’ appointments, payments, access to reports and doctor-patient interactions can be done online, so medical resources are used more effectively.

To help treat chronic diseases, Ali Health is planning to build a cloud-based platform that connects local community hospitals with patients. Patients use intelligent hardware to monitor their health at home or at community hospitals. Data will be transmitted in real time through the cloud-based platform, allowing doctors to provide diagnoses more efficiently. Patients with acute and severe diseases will be sent to hospitals for further treatment. After they complete their treatment, patients will be referred to local community hospitals for rehabilitation.

Patients who require prescription medicine for chronic diseases can use the platform to request a prescription from their doctor. After an electronic prescription is issued, drugs can be purchased from Ali Health’s online drug store and delivered to the patient. All physiological data, diagnosis and treatment information will be recorded in a personal health file and kept in the cloud platform.

In addition to Ali Health, other leading e-health service providers include Chunyu Doctor, Guahao.com, DXY and Haodf.com.
Opportunities

In the first half of 2015, the Chinese internet health sector attracted about US$800 million in venture capital, almost exceeding the total amount invested in 2014. These funds have helped develop and grow the industry. In 2014 and 2015, more than 3,000 health apps were released and new apps come out every day. However, most of these offer similar functions and are struggling in the market.

Chinese e-health service providers are seeking international technology companies with whom to co-develop apps and services. For example, in April 2016 AstraZeneca and Chunyu Doctor formed a partnership to provide online training for doctors at clinics and community hospitals, and online health education and chronic disease management to provide patients with comprehensive services covering disease prevention, diagnosis, treatment and rehabilitation.

In this market environment, there is an opportunity for Australian product and service providers to develop their own client management system and database with the help of Chinese companies (for example, cloud platform service providers) to collect information from their clients, which will assist future product and service development.

It is usually more feasible for Australian firms to partner with Chinese companies to provide health services than to work independently. Potential partners or customers in China include e-health service providers and technology developers, hospitals, health institutes and government departments.

Challenges

The Chinese e-health market is still new to most Australian businesses. The Australian companies that are currently in China are mainly providing health hardware and smart health solutions. For instance, ResMed is providing apnoea treatment devices and connected solutions to patients whose health data is uploaded to a cloud platform and managed by experts. CSIRO is signing a memorandum of understanding with China Telecom to co-develop a health app for China Telecom’s community health program.

There are two main challenges for Australian companies looking to enter the Chinese e-health market. The first is being aware technology and ideas are at risk of being copied by local competitors. The second is understanding the significant differences between Australian and Chinese health systems, and keeping up with changes to Chinese health policies.

**GEORGE INSTITUTE’S SMARTPHONE APP HELPS CHINESE CONSUMERS MAKE HEALTHIER FOOD CHOICES**

A smartphone app developed using data from The George Institute for Global Health’s Global Food Monitoring Initiative is helping Chinese consumers make healthier food choices.

The free app, called FoodSwitch, allows users to scan the barcode of a food product to find out its key nutrients. They can then compare the product with similar items to help them choose healthier options. The app draws on nutritional data collected on over 30,000 pre-packaged foods in China.

FoodSwitch is the first project undertaken by the China Center for mHealth Innovation (CCmHI), which is hosted by The George Institute for Global Health, China. The Institute was established in 2007 by Australia’s The George Institute for Global Health and is now one of China’s leading independent health research organisations.

“This is the first attempt to investigate and standardise the collection of pre-packaged food information in China and empower people via mobile technology to make their own decisions about what to buy and what to eat,” said Associate Professor Puhong Zhang, Director of CCmHI and Program Head at The George Institute, China.

“We are excited to carry out this study and hope that the results can inform government policies and bring real impact.”
14,946 Chinese health food products registered by the China Food and Drug Administration on the market.

RMB174bn 2015 market for OTC medicines.

50% of products in the Chinese health food market are for the middle aged and elderly.
Broad health

‘Broad health’ 大健康 (dà jiāng kāng) is a Chinese term describing products and services related to general health and wellness. It takes a holistic approach to physical and mental health from birth to old age, and encompasses diet, exercise and lifestyle choices. The concept is widely accepted by local government agencies, associations, manufacturers, marketing agents, distributors and service providers. Medical products and healthcare services also emphasise the broad health concept.

Broad health can be applied to a range of industries including complementary medicine, health ICT, organic foods, big data, training and education. The complementary medicine industry often attracts the most interest from the public.

As at 16 June 2016, there were 14,946 Chinese health food products registered by the China Food and Drug Administration (CFDA) on the market. There were 664 international health foods with Blue Hat registration available in China, making up 4.25 per cent of total health foods registered by the CFDA. International health foods, both with and without Blue Hat registration, had a 50 per cent share of the market.

In January 2016, the China Health Care Association and Shuzheng Health (Beijing) Commercial Consultation Co., Ltd jointly released a list of the top 10 e-commerce health brands in 2015. Three Chinese brands were among the top 10. They are By-health (No. 2), CPT (No. 5) and Xiuzheng (No. 7).

The major Australian exporters of vitamins, minerals and supplements – Swisse and Blackmores – have seen rapid growth in sales over the last year, with online channels driving this growth.

Complementary medicine and health foods

In Australia, complementary medicines and natural healthcare products include vitamins, mineral and nutritional supplements, special purpose foods, herbal and homeopathic medicines and certain aromatherapy products. A complementary medicine is defined as a therapeutic good consisting principally of one or more designated active ingredient, each of which has a clearly established identity and traditional use.

In China, health food (保健食品, bǎojiàn shìpǐn) is food that claims to have health functions or can supplement vitamins and minerals in the human body. It is food that targets certain groups of people and helps adjust their bodily functions, but does not aim to cure any diseases. Health foods will not cause acute, sub-acute or chronic harm to the human body. Health foods include a range of edible products such as vitamins, dietary supplements and minerals, animal and herbal extractives, and special purpose foods, particularly TCM, which constitutes an important source of China’s health foods.

In 2015, the market for vitamins and dietary supplements grew by 10 per cent in current value terms to reach sales of RMB 109 billion (US$16.3 billion). With rising disposable incomes and increasing health awareness, vitamins and dietary supplements are a convenient choice for consumers looking to improve their health and wellbeing. The category is seeing further segmentation, with products catering for specific conditions and needs, such as boosting memory, post-operation recovery and enhancing immunity.

It is estimated that products for the middle-aged and elderly account for about 50 per cent of the Chinese health food market, and products for women and children each account for 25 per cent of the market.

Table 3: Top 10 e-commerce health brands, 2015

<table>
<thead>
<tr>
<th>RANK</th>
<th>OVERALL TOP 10</th>
<th>CHINA TOP 10</th>
<th>NON-CHINESE INTERNATIONAL TOP 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Swisse</td>
<td>By-health</td>
<td>Swisse</td>
</tr>
<tr>
<td>2</td>
<td>By-health</td>
<td>CPT</td>
<td>Herbalife</td>
</tr>
<tr>
<td>3</td>
<td>Herbalife</td>
<td>Xiuzheng</td>
<td>Amway</td>
</tr>
<tr>
<td>4</td>
<td>Amway</td>
<td>Simeitol</td>
<td>GNC</td>
</tr>
<tr>
<td>5</td>
<td>CPT</td>
<td>Guozhen</td>
<td>Puritan’s Pride</td>
</tr>
<tr>
<td>6</td>
<td>GNC</td>
<td>Conba</td>
<td>MuscleTech</td>
</tr>
<tr>
<td>7</td>
<td>Xiuzheng</td>
<td>Wanmei</td>
<td>Blackmores</td>
</tr>
<tr>
<td>8</td>
<td>Puritan’s Pride</td>
<td>Difiney</td>
<td>MET-Rx</td>
</tr>
<tr>
<td>9</td>
<td>MuscleTech</td>
<td>Infinitus</td>
<td>Nature’s Bounty</td>
</tr>
<tr>
<td>10</td>
<td>Blackmores</td>
<td>Yangshengtang</td>
<td>Usana</td>
</tr>
</tbody>
</table>
Over-the-counter medicines

In 2015, over-the-counter (OTC) medicine sales accounted for 15 per cent of total pharmaceutical sales in China. The Chinese OTC medicine market is valued at RMB 174 billion (US$26.0 billion) in 2015, an increase of 6.0 per cent from the previous year.\(^{12}\)

China’s booming economy is a key reason for the growth of the OTC medicine market. While real GDP growth has slowed to 7.4 per cent and is projected to slow further, the pace of growth will continue to have a positive effect on household incomes and drive demand for products that alleviate minor health complaints, such as headaches, indigestion and fever. A sizeable proportion of increased purchases will be made by first-time buyers of OTC medicines.

OTC products and vitamins and dietary supplements have the greatest presence in chemists and pharmacies, and this channel commanded a retail value share of 49 per cent in 2015. Chemists and pharmacies are the dominant distribution channel for OTC medicines, accounting for more than 60 per cent of sales in 2015. Pharmacies, both retail and online, are winning sales from other channels such as hypermarkets and supermarkets because they are perceived to offer a more professional service to consumers.

Potential areas of interest

China’s 12th Five-year Development Plan set specific goals for the food industry to reach by 2015, such as the nutritional and health food sectors achieving an industrial output value of RMB 1,000 billion and a year-on-year growth of 20 per cent. The Plan also aimed to have 10 Chinese health and nutrition companies achieving annual sales turnover of more than RMB 10 billion. These goals appear to have been met, with industry experts predicting that in five to seven years, China will be the second largest health food market after the United States.

Health foods with functional claims make up about 65 per cent of the Chinese health food market, with nutritional supplements accounting for the remaining 35 per cent. Dietary supplements accounted for 71 per cent of overall vitamin and dietary supplement sales in 2015, posting strong current value growth of 11 per cent. Similar to vitamins, some dietary supplements target certain disorders, such as joint damage, high cholesterol and memory loss. Consumers pay more attention to products marketed for specific problems.

The CFDA reviews new health foods that claim to help address a health condition. The CFDA has currently approved 27 health food function claims (see Table 4).

Challenges

Australian health foods have a strong reputation among Chinese consumers, thanks to Australia’s reputation for premium quality and its clean and green manufacturing environment. However, there are only a few Australian health food brands selling offline in China due to the complex CFDA registration processes and high costs associated with registration.

While cross-border e-commerce channels have provided opportunities for Australian health food brands, on 8 April 2016 the Chinese Government tightened cross-border regulations and many imported health food brands that enter China via cross-border channels experienced a negative effect on sales. The Chinese Government has since announced a one-year transition period. Import permits, registration or filing will not be required for first-time imported cosmetics, infant formula, medical equipment and special food products (including health food products and food for special medical purposes). Products approved for sale on cross-border platforms will be restricted to those on the Positive List and will be subject to the new tax policy.

The Australian Government will continue to monitor developments and inform Australian exporters of the latest updates.
Table 4: CFDA-approved health food function claims

<table>
<thead>
<tr>
<th>NO.</th>
<th>FUNCTION CLAIMS</th>
<th>CHINESE NAME – 功 能 名 称</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enhances immune function</td>
<td>增强免疫力功能</td>
</tr>
<tr>
<td>2</td>
<td>Helps lower hyperlipidemia</td>
<td>辅助降血脂功能</td>
</tr>
<tr>
<td>3</td>
<td>Helps lower blood sugar</td>
<td>辅助降血糖功能</td>
</tr>
<tr>
<td>4</td>
<td>Contains antioxidant benefits</td>
<td>抗氧化功能</td>
</tr>
<tr>
<td>5</td>
<td>Helps improve memory function</td>
<td>辅助改善记忆功能</td>
</tr>
<tr>
<td>6</td>
<td>Relieves eye fatigue</td>
<td>缓解视疲劳功能</td>
</tr>
<tr>
<td>7</td>
<td>Helps treat lead poisoning</td>
<td>促进排铅功能</td>
</tr>
<tr>
<td>8</td>
<td>Helps ease throat disorders</td>
<td>清咽功能</td>
</tr>
<tr>
<td>9</td>
<td>Helps lower blood pressure</td>
<td>辅助降血压功能</td>
</tr>
<tr>
<td>10</td>
<td>Helps improve sleep</td>
<td>改善睡眠功能</td>
</tr>
<tr>
<td>11</td>
<td>Helps facilitate lactation</td>
<td>促进泌乳功能</td>
</tr>
<tr>
<td>12</td>
<td>Helps relieve physical fatigue</td>
<td>缓解体力疲劳</td>
</tr>
<tr>
<td>13</td>
<td>Helps alleviate hypoxia</td>
<td>提高缺氧耐受力功能</td>
</tr>
<tr>
<td>14</td>
<td>Assists radiation protection</td>
<td>对辐射危害有辅助保护功能</td>
</tr>
<tr>
<td>15</td>
<td>Helps weight loss</td>
<td>减肥功能</td>
</tr>
<tr>
<td>16</td>
<td>Helps improve growth and development</td>
<td>改善生长发育功能</td>
</tr>
<tr>
<td>17</td>
<td>Helps increase bone density</td>
<td>增加骨密度功能</td>
</tr>
<tr>
<td>18</td>
<td>Helps improve nutritional anaemia</td>
<td>改善营养性贫血</td>
</tr>
<tr>
<td>19</td>
<td>Protects liver</td>
<td>对化学肝损伤有辅助保护功能</td>
</tr>
<tr>
<td>20</td>
<td>Helps minimise acne</td>
<td>祛痤疮功能</td>
</tr>
<tr>
<td>21</td>
<td>Helps remove chloasma</td>
<td>祛黄褐斑功能</td>
</tr>
<tr>
<td>22</td>
<td>Helps improve skin moisture</td>
<td>改善皮肤水份功能</td>
</tr>
<tr>
<td>23</td>
<td>Controls oily skin</td>
<td>改善皮肤油份功能</td>
</tr>
<tr>
<td>24</td>
<td>Helps improve intestinal flora</td>
<td>调节肠道菌群功能</td>
</tr>
<tr>
<td>25</td>
<td>Helps promote digestion</td>
<td>促进消化功能</td>
</tr>
<tr>
<td>26</td>
<td>Relieves constipation</td>
<td>通便功能</td>
</tr>
<tr>
<td>27</td>
<td>Protects against stomach ulcers</td>
<td>对胃粘膜损伤有辅助保护功能</td>
</tr>
</tbody>
</table>
RULES AND REGULATIONS

The China Food and Drug Administration (CFDA) is the national authority for all health food, OTC and food safety matters.

CFDA consults the public to provide feedback on any changes to rules and regulations prior to official announcements. All legislative changes are issued on its website (www.sfda.gov.cn or http://eng.sfda.gov.cn/WS03/CL0755/). Exporters should refer to CFDA's Chinese website as most of the latest information will be issued in Chinese.
Food, health food and OTC logos

There are different category logos for food, health food and OTC products in China.

All processed foods made in China must obtain the QS (Quality Standard) permit and logo, which is granted by local food and drug administrations.

The QS permit does not apply for processed foods manufactured outside China.

Similar to measures in Australia where the Therapeutic Goods Administration inspects and assigns a unique ‘AUST L’ number to complementary medicines with at least one functional claim, a health food in China with functional claims must be inspected and granted a health food number and logo, known as a ‘Blue Hat’, by the CFDA. CFDA’s Department No. 3 of Food Safety Supervision reviews complementary medicines, while CFDA’s Department of Drug and Cosmetics Registration reviews OTC drug applications.

If a product has only vitamins or minerals as ingredients, it will be defined as a nutritional supplement (a type of health food) and does not need the Blue Hat registration.

OTC logos come in two colours. The red OTC logo means medicines can only be sold in pharmacies, while the green OTC logo means medicines can be sold in pharmacies, supermarkets and convenience stores.

Requirements for OTC products

The National Development and Reform Commission issued a statement on 1 June 2015 allowing the removal of price controls on most drugs in China. This price reform will benefit OTC products as they now have a fairer platform on which to compete.

Advertisements for OTC products must state that consumers should read the instructions or seek guidance from a pharmacist before using. Advertising content is strictly supervised to prevent manufacturers from making misleading claims. Under the regulations, non-prescription drug advertisements must carry the OTC label.

Non-prescription medicines must have ‘OTC’ printed clearly on their packaging. In addition to its brand name, a product’s generic name must be printed on the packaging to inform consumers of its active ingredients. Chinese regulations also state that OTC and Rx versions of the same product must use distinctive packaging, with different labelling and usage instructions as per the relevant regulations.

Table 5: QS, Blue Hat and OTC sales channels

<table>
<thead>
<tr>
<th></th>
<th>ONLINE</th>
<th>RETAIL</th>
<th>SUPERMARKET</th>
<th>PHARMACY</th>
<th>DIRECT SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>QS</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Blue Hat</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Certified direct sales companies only</td>
</tr>
<tr>
<td>OTC</td>
<td>Yes; CFDA certified online channel</td>
<td>OTC green logo only; business licence includes OTC green</td>
<td>OTC green logo only; business licence includes OTC green</td>
<td>Yes, GSP certified</td>
<td>NA</td>
</tr>
</tbody>
</table>
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AUSTRALIAN BUSINESS IN CHINA

The Australian Trade and Investment Commission – Austrade – contributes to Australia’s economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:
> develop international markets
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> promote international education
> strengthen Australia’s tourism industry
> seek consular and passport services.

Austrade provides information and advice that can help you reduce the time, cost and risk of exporting. Austrade offers a range of services to Australian exporters in growth and emerging markets.

Austrade in China

Austrade maintains a network of 10 offices in China. Austrade’s Chinese-speaking staff can provide exporters with market guidance and access to information, promotions and referrals. Austrade works with industry to promote Australian healthcare and aged care capabilities in China, showcasing Australian expertise at ministerial business missions and Australia–China aged care forums and seminars. Austrade also runs inbound health and aged care missions and supports Australian business to attend local healthcare and aged care exhibitions across China. Contact Austrade for more information.

austrade.gov.au | info@austrade.gov.au | 13 28 78 (within Australia)

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