

Health Care: A Trillion Dollar Industry In The Making

By: Jack Perkowski | November 11, 2014

How many times is a trillion dollar industry created? Not very often. After all, a trillion of anything is a very large number. To put it in perspective, only the largest 15 countries in the world had a Gross Domestic Product greater than \$1 trillion in 2013.

However, no less an authority than McKinsey & Company [predicts](#) that health care spending in China will reach \$1 trillion by 2020, up from \$350 billion today. The Chinese government is even more aggressive, predicting that spending in the country's health care sector will top \$1.3 trillion by the end of this decade. Even at that level, though, health care spending will be one-third that of the United States, and only \$1,000 per person, [compared](#) to \$8,915 per person in America. While China's health care industry will show tremendous growth in the coming years, it will still only be a fraction of what it will ultimately become when it reaches \$1 trillion in 2020.

Two factors are at work driving health care spending in China. With rising per capita incomes, China's increasingly affluent consumers are demanding the latest in medical treatment and services. At the same time, changing diets and air and water pollution are causing a rise in the incidence of cancer, heart, diabetes and other chronic diseases among China's population. Both are creating new opportunities for pharmaceutical, medical device, hospital management and companies that provide a wide range of health care products and services.

A number of years ago, I took a group of my Chinese managers to the United States for a week of meetings. Although we had a busy schedule, we did manage to free up an afternoon in the middle of our stay for them to kick back and do some sightseeing. Instead of asking to visit some well-known sights in the area as I expected, however, they told me they wanted to use their time off to go to a shopping mall. As we pulled into the parking lot and they got off the bus, every one of them made a beeline for the drug store to buy vitamins! That told me two things. First, it told me that when people make more money, they want to live longer. Second, the actions of my Chinese managers told me they didn't trust what they could find in China.

Health care is one of the last big industries in China to open up to foreign investment and technology — and the timing could not be better. In addition to rising demand for the best available treatment from newly affluent consumers, China is facing new challenges as cancer, heart disease, diabetes and other chronic diseases afflict more of its population.

According to a [report](#) by the World Health Organization

(“WHO”), China accounted for over three million newly diagnosed cases of cancer, almost 22 percent of the global total, and 2.2 million cancer deaths, 27 percent of the world's total, in 2012. In addition to being hard hit by cancer, the WHO also estimates that approximately 230 million Chinese suffer from cardiovascular disease currently, and that annual cardiovascular events will increase by 50 percent between 2010 and 2030 based on population aging and growth alone. The incidence of diabetes tells a similar story. Almost one in three global diabetes sufferers today is in China, with approximately 114 million adults [afflicted](#) by the disease.

In order to combat these growing health issues, many of China's 22,000 hospitals will need to be substantially upgraded or replaced in the coming years. In addition, the Chinese government is counting on foreign-owned hospitals, the ownership of which was previously highly restricted or forbidden, to fill some of the void. The government's goal is to increase private hospital service contribution to 20 percent of the total hospital service value by 2015, from less than 10 percent currently.

In August of this year, China announced a pilot project whereby overseas investors can establish wholly foreign-funded hospitals, either by acquisition or greenfield, in seven of its cities and provinces. As a result, private equity and other substantial investors are actively searching for new investment opportunities in hospitals — and companies with the latest in health care technology.

Whether it is hospital management, the establishment of specialty clinics, pharmaceuticals, the providing of higher technology medical devices, or a wide range of other health care products or services, China's health care industry — a trillion dollar industry in the making — will constitute one of the largest markets in the world.

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