



CHINA'S NEW ERA OF HEALTHCARE REFORM

MARKET INSIGHT CHINA

Opportunities for Swedish companies beyond the Covid-19 horizon

UNDERSTANDING POST-PANDEMIC REFORM AND WHY IT MATTERS

INTRODUCTION. China is today the number one export destination for Swedish pharmaceutical products. The country represents around 16% of total Swedish pharmaceutical exports. It is also the ninth leading destination for Swedish medical devices.

With medical production facilities as well as research and development centres already established by large companies such as AstraZeneca, Getinge and Elekta, Sweden's industry leaders are well-placed to continue along their path of growth to pave the way for a new generation of companies looking to establish a stronger foothold in the country.

At the same time, China is not a market where you can be complacent – rapid change is now underway in the healthcare sector.

The Chinese healthcare system has been on an aggressive path of reform since the outbreak of the SARS epidemic of 2003. The Covid-19 pandemic has accelerated reforms and spurred new action on the healthcare agenda.

This report highlights the current state of healthcare reforms in China on a general level and discusses five areas of reform that will arguably have a major impact on the operations and sales of foreign life science companies. The analysis provides companies both currently in the country and those looking to enter the market with insights into short and medium-term considerations.

The five focus areas are: new infrastructure, digitalisation, innovation, reforms to the tiered healthcare system as well as changes to the procurement system for pharmaceuticals and medical devices.

We outline the opportunities and challenges that lie ahead for Swedish companies in China as a result of these reforms and make recommendations for further action.

Given this time of rapid change, it is essential that Swedish life science companies follow the developments in China closely in order to adapt to the post-Covid-19 context and to brace for further growth in the Chinese market.

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THE STATE OF HEALTHCARE REFORM

REFORM CONTEXT. Like many other countries in the world, China has been grappling with the emerging social problems stemming from an ageing population, rising inequality, accelerating urbanisation, pollution and the increasing prevalence of chronic diseases. To address these issues the Chinese government has driven aggressive reforms in the country’s healthcare system with what can be seen as a dual overarching aim: (1) to expand healthcare access among the population and, (2) to improve the overall performance of the healthcare system through both system overhaul and cost management.

Numerous improvements to the healthcare system have indeed been achieved. Following the previous plan *Healthy China 2020*, the comprehensive national programme **Healthy China 2030** has outlined a blueprint for healthcare development moving forward.

To provide legal ground for ongoing healthcare reform and in order to support Healthy China 2030, the “**Law of the People’s Republic of China on Basic Healthcare and Health Promotion**” was passed by the People’s Congress. The law was implemented on June 1st 2020.

Despite continuous and ongoing reforms, China’s President Xi Jinping acknowledged recently in a public address that the pandemic has exposed weak links and inadequacies in the healthcare system and committed to “prompt efforts” to fix them.

Indeed, during the two sessions in May 2020, China’s most important annual political meetings which lay out the government’s agenda and policy priorities for the coming year, a higher commitment to healthcare reform was presented.

Some of the areas for reform that were highlighted during the two sessions and published in a Government work report by Premier Li Keqiang on May 22nd 2020, included reforming the disease prevention and control system, increasing investment in research and development of vaccines, drugs, rapid detection technologies and improvement of basic medical services. In addition, there has been a commitment to build infrastructure including national medical centres and regional medical treatment centres and to boost the system of public health laws and regulations.

KEY MESSAGES

The current Covid-19 crisis has accelerated already ongoing and aggressive healthcare reforms in China while spurring new action on the healthcare agenda.

New infrastructure, digitalisation, innovation, reforms to the tiered healthcare system as well as changes to the procurement system for pharmaceuticals and medical devices are areas of reform that will have an impact on Swedish life science companies in China.

Swedish companies are advised to evaluate their strategic initiatives and operations in China and adapt to the changing healthcare landscape.

FOCUS AREAS OF CURRENT PLAN “HEALTHY CHINA 2030”



Health Knowledge
Popularisation
Initiative



Elderly Health
Promotion Action



Rational Meal
Action



National Fitness
Action



Health Environment
Promotion Action



Maternal and Child Health
Promotion Action



Tobacco Control
Action



Primary and High
School Health
Promotion Action



Infectious and Endemic Disease
Prevention and Control Action



Occupational
Health Protection
Action



Mental Health
Promotion Action



Diabetes Prevention
Action



Cardiovascular &
Cerebrovascular
Disease Prevention
Action



Prevention and
Treatment of Chronic
Respiratory Diseases



Cancer Prevention
and Control Action

FIVE AREAS OF REFORM. China is unmistakably on a path to accelerate its reform of the healthcare sector. While many areas can be brought up in this context, this report covers five aspects that have been chosen based on their relevance to the operations and sales of foreign companies in China. These areas include new infrastructure, digitalisation, innovation, reforms to the tiered healthcare system and reforms to procurement processes. The report should give an overarching understanding of ongoing and pending healthcare reforms in China.

I. NEW INFRASTRUCTURE

The construction of a 1,000-bed hospital outside Wuhan in just 10 days was a widely reported example of China's direct response to Covid-19 in the early days of the pandemic. However, multiple other projects have been launched since the outbreak. The need to meet demand for new infrastructure in China has grown with the pandemic and initiatives have ramped up.

This can be seen both in terms of the construction of traditional infrastructure facilities but also in terms of the rapid development of services and equipment provided by these facilities. Reference to "new infrastructure" has thus achieved a more advanced definition in China and now refers to information, integration and innovation infrastructure projects covering areas such as 5G, Internet of Things, satellite internet, AI, cloud computing, blockchain and data centres. Examples from cities include:

- Suzhou in Jiangsu province plans to build more than 10 new hospitals of the most advanced 3A class (between 2020 to 2025) and 100 new internet hospitals by the end of 2020.
- Shenzhen in Guangdong province has made a pledge to build more than 20 new hospitals and nursing homes during 2020 and the list includes two 3A class hospitals.
- Shanghai has similarly committed to establish 20 new internet hospitals (during the period 2020 to 2022) and the first medical big data training facility in China to support AI deep learning.

Implications and recommendations:

The establishment of new medical facilities across the country will present major opportunities for Swedish companies in the fields of pharmaceuticals, medical devices/ technology equipment as well as consulting or knowledge transfer services. Swedish companies should keep close contact with local authorities and examine local plans for the construction of medical facilities in order to identify the best prospects for collaboration surrounding the construction of healthcare related infrastructure.

II. DIGITALISATION

Only a little more than a month after the first cases of Covid-19 were reported in Wuhan, it was confirmed that the country's leading pulmonologist Zhong Nanshan would enter a cooperation with China's leading technology company Tencent. The cooperation would focus on setting up a high-tech lab with the long-term goal of screening and providing early warning of epidemics, respiratory diseases and chest diseases using big data and artificial intelligence. This is just one example showing the speed and scale of digitalisation in healthcare.

Three aspects of digital development can be deciphered in China: those driven by consumers, by corporations and by government:

- **CONSUMERS:** Scheduling and attending online consultations was already gaining traction in China, the outbreak has significantly increased the adoption of new technologies. According to official statistics, visits to hospitals directly overseen by the National Health Commission via online channels increased 17 times during the peak of the crisis.
- **CORPORATES:** Corporates have adapted to the rise in consumer demand for digital services. Internet-based options for diagnosis and treatment are proliferating and development and marketisation is driven by large corporate actors such as those behind the following well-established platforms: Ping An Good Doctor, Ding Xiang Yuan and Chunyu Doctor. Another developing area is online retail pharmacies for prescription drugs, over-the-counter medicines and face masks.
- **GOVERNMENT:** The local governments are pushing for digital adoption and eight provinces have implemented online Basic Medical Insurance (BMI) settlement for internet-based medical expenses. Other major reforms have included the launch of electronic records, digital prescriptions and other IT infrastructure to systematically track and analyse extensive patient data.

Implications and recommendations:

Leveraging the opportunities of digitalisation requires an understanding of the trend's specific context in China. Consumers are increasingly open to the idea of using digital channels to find healthcare providers, companies are offering more online options and the government is facilitating the growth of digital tools through the implementation of online Basic Medical Insurance. To adapt to this increasingly digital landscape, Swedish companies should look for possibilities for collaboration with digital healthcare providers in China in order to find ways to adapt their sales channels, business models and supply chains to an increasingly digital landscape.

III. INNOVATION

There are three key drivers of healthcare innovation in China that are particularly relevant for foreign companies.

Firstly, China has passed taken steps to facilitate the approval of new innovative medications and to fast-track the approval of innovative medical devices. These measures include streamlining the clinical trial approval process as well as, importantly, allowing data from clinical trials conducted outside the country to be recognised as part of the regulatory filings by the China National Medical Products Administration (NMPA), thereby removing the need to conduct supplementary trials in the country.

Since the passing of these new regulations in 2017, the speed at which new drugs are approved has accelerated which has brought more foreign pharmaceuticals to market in China. Covid-19 has had an impact in slowing the pace of growth in new drug approvals; however, new drugs are still approved at a faster rate than for the same period in the first half of 2019.

Secondly, significant government support has been given to innovation and R&D development and several provincial initiatives have been announced in recent months. Examples include the Guangdong government's support for biomedical innovation development (April 2020) and the promotion efforts of Zhejiang government for the development of a high-quality medical industry including innovative drugs and devices (May 2020).

Thirdly, leading pharma and medtech companies, encouraged by measures taken by the Chinese government, will continue to grow their R&D operations in China. Shanghai has become a research hub, with numerous international pharmaceutical companies – including Novartis, Roche and Eli Lilly – setting up research and production bases around the city in recent years. Others are actively conducting trials in China, including Gilead Sciences, AstraZeneca and Bayer. These companies are all attracted by China's relatively low-cost base, number of quality universities/ hospitals, the large domestic market and strong government support for the healthcare sector.

Implications and recommendations:

Pharmaceutical companies already established or looking to establish in the Chinese market should evaluate their R&D operations and consider aspects such as (1) how the company can bring more innovative drugs to China in light of recent changes to the process for accepting foreign clinical trials, and (2) are there any opportunities for collaboration with Chinese stakeholders on R&D in China?

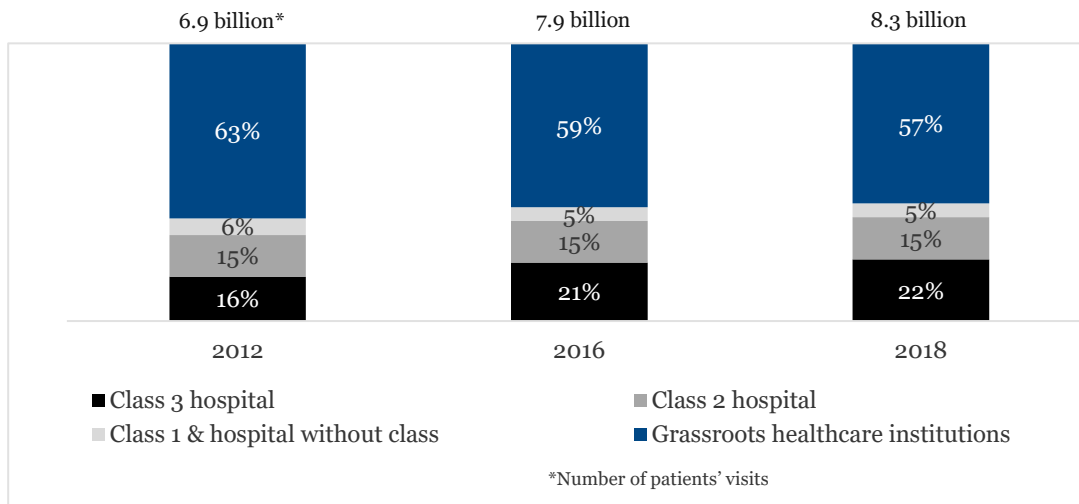
IV. TIERED HEALTHCARE AND LOCALISATION

Implementing a tiered healthcare system has been a significant priority of the Chinese government. However, progress has been limited and a large number of patients still prefer to visit major class 3 hospitals (see table below). There are several reasons for this, among them a patient bias towards the higher-class hospitals as these are seen to offer superior quality care and are often equipped with better technology and resources.

While it will take time to change patients' behaviour, there are many reasons to believe that a transition is getting underway with regard to the tiered healthcare system. Indeed, after the peak of the Covid-19 pandemic in China, lower class hospitals returned to normal operations faster than top class hospitals. This is to a certain degree because large numbers of medical personnel transferred to treat Covid-19 patients in the worst affected regions came from class 3 hospitals and it will take time for them to return to work as normal.

The government is now encouraging patients to seek treatment in Community Health Centres. For instance, Shanghai is planning to establish more than 180 fever clinics, and Beijing has introduced a requirement to make prior appointments for visits to class 2 and class 3 hospitals if it is not an emergency situation.

DISTRIBUTION OF PATIENT VISITS IN CHINA



Recently, on May 9th 2020 to be specific, the National Development and Reform Commission, the National Health Commission and the National Administration of Traditional Chinese Medicine, issued the “**Public health prevention and treatment capacity development plan**”.

The plan sets out both concrete targets as well as general objectives on multiple levels of administrative governance. For instance, provinces will be required to have at least one P3 level laboratory as well as to set up 1-3 relief bases for major epidemics. There will also be important opportunities for companies to provide solutions for new relief basis for major epidemics in the province as outlined in the plan. Suggested equipment includes ventilators, CRRT, ECMI, CT etc. Further, each prefecture level city will be required to set up at least one laboratory that reaches P2 level. Other actions include enforcing the construction of more intensive care units (ICUs) as well as improving the overall competence of county level hospitals.

Implications and recommendations:

The government is likely to continue pushing for a more tiered healthcare system. International companies should be aware of these developments and identify opportunities in providing products to lower class healthcare establishments to build awareness and increase sales. For an overview of the requirements set out as well as the equipment that will be required going forward, Swedish companies can explore the newly published “Public health prevention and treatment capacity development plan” (published online).

Furthermore, Swedish companies can keep close contact with local authorities and examine local plans and equipment requirements to identify new opportunities for collaboration surrounding the construction of healthcare related infrastructure.

TENETS OF PUBLIC HEALTH PREVENTION AND TREATMENT CAPACITY DEVELOPMENT PLAN (SUMMARY)



Modernize the disease prevention and control system



Comprehensively improve the treatment capacity of county hospitals



Improve and perfect urban infectious disease treatment network



Renovate and upgrade the major epidemic rescue base



Promote the dual-purpose transformation of public facilities

V. PROCUREMENT AND COST MANAGEMENT

Leading up to 2020, prices of many pharmaceuticals had been driven down in China, predominantly as a result of two general trends. Firstly, the government has promoted bulk-buying bids or volume-based procurement with pilot programmes set to change the way the country procures drugs in its major cities. Most recently bulk procurement was also initiated for consumables (May 2020).

In essence, these volume-based procurements have meant that drug-makers have reduced prices to be eligible for the programme. The average price cuts have been significant with categories for cholesterol and cancer treatments showing average price cuts of 52 per cent. Other categories have shown cuts by up to 80 per cent.

It has been suggested that the Covid-19 pandemic would ease the implementation of the volume-based procurement initiatives. However, the latest announcement by the government seems to show the opposite trend with volume-based procurement being implemented across more categories and regions.

Another factor that is expected to affect prices is government promotion of generic drugs. This category is therefore expected to increase its share of the Chinese prescription drug market. The approach is twofold. Firstly, domestic generic drugs production will be promoted. Secondly, generic drugs will replace original drugs with expired patents.

Finally, there has been a tendency to look to domestic products in China. For example, in a recent document from Zhejiang provincial government, medical institutions including private ones were encouraged to purchase domestic medical equipment (May 2020).

Implications and recommendations:

Volume-based procurements, an increased focus on generic drugs and a push to buy domestic will present significant challenges both for Swedish healthcare companies looking to enter China as well as those already established on the market. As prices are continuously pushed down, international companies should consider launching new products to tackle the challenge and offset price cuts, allocate sales resources to look beyond first-tier cities and bring generic formula to market for Chinese companies.

CONCLUSIONS AND KEY TAKEAWAYS: Covid-19 has triggered major changes to the Chinese healthcare system, bringing important opportunities and challenges that global pharmaceutical and medtech providers should consider carefully.

Swedish companies are recommended to evaluate and address the areas impacted by healthcare reforms, particularly as change has accelerated post-Covid-19.

Three key actions to taken:

- Keep a close contact with local authorities and examine local plans in order to identify new opportunities for collaboration surrounding the construction of healthcare related infrastructure, or the procurement of new healthcare related equipment beyond first-tier cities.
- Evaluate the impact of digitalisation on your business model in China and seek out potential opportunities for collaboration with Chinese stakeholders in providing digital services.
- Consider launching new products to offset price cuts, allocate sales resources to look beyond the first-tier cities and explore opportunities for bringing generic formula to market for Chinese companies.

Are you looking for new sales channels and partners in China? We can help you assess the opportunities for growth in this transformational era of healthcare. Contact us with any questions.

ABOUT BUSINESS SWEDEN:

Business Sweden helps Swedish companies grow global sales and international companies to invest and expand in Sweden. We provide strategic advice and operational support to business leaders in more than 40 markets. Our services include:

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- Sales Channel Set-up
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- Registrations & Incorporations
- Recruiting
- Local Employment
- Office Space
- Finance and HR Back Office

ABOUT TEAM SWEDEN'S HEALTHCARE PLATFORM IN CHINA:

The Swedish healthcare platform in China is a joint initiative by Business Sweden, the Embassy of Sweden and the Consulate which aims to help Swedish life science companies connect with relevant Chinese stakeholders and engage with government institutions on multiple levels. As part of the platform, several Swedish companies joined by Team Sweden representatives have visited 17 cities in China to promote greater collaboration with local stakeholders.

Want to take part in our next initiative? Contact Business Sweden for more details.



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