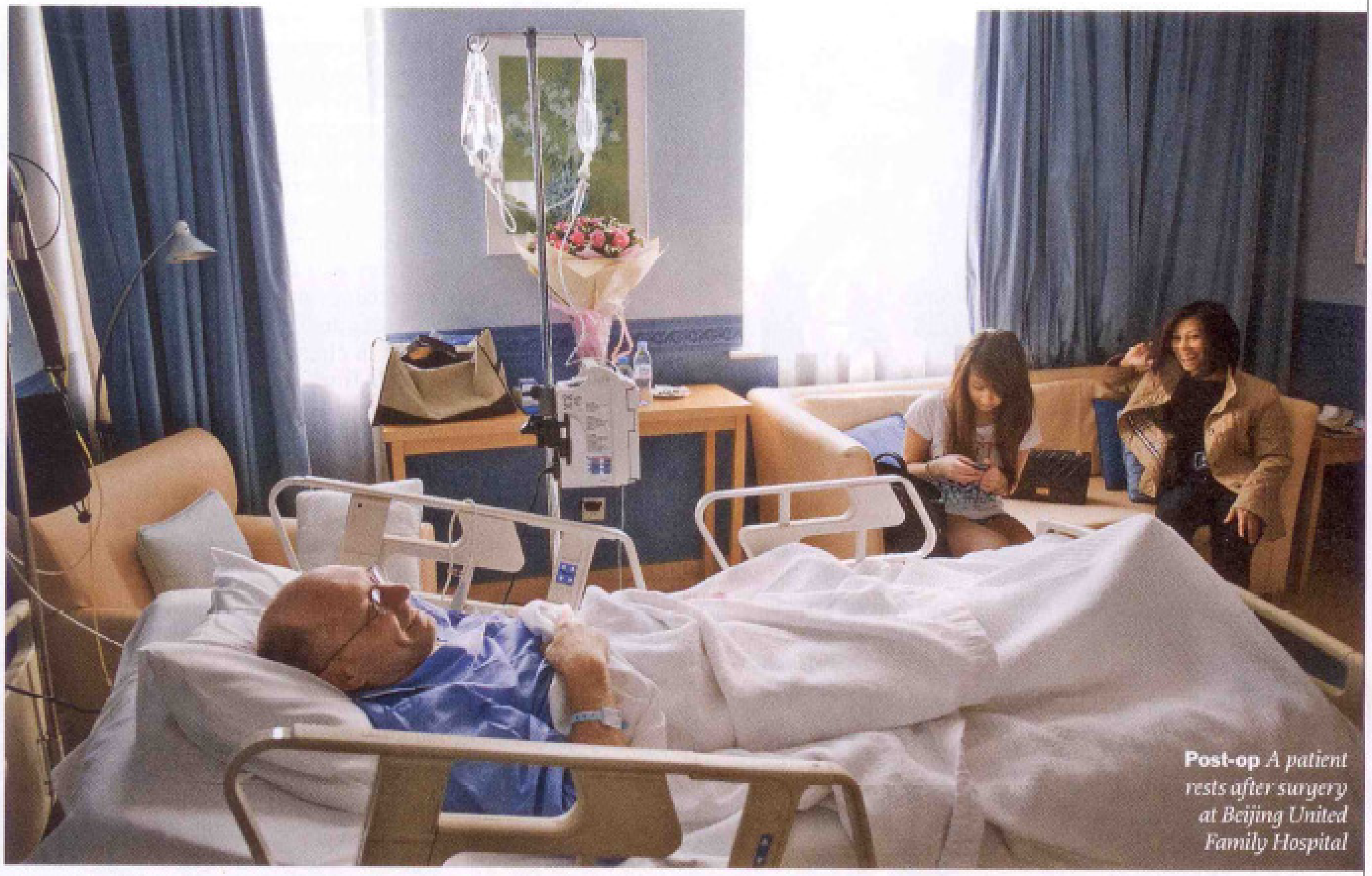

Post-op *A patient rests after surgery at Beijing United Family Hospital*

HEALTH CARE

China's Medical Boom. Western-style private hospitals are competing with state facilities—and with one another

BY SUZANNE BARLYN

TOURIST JACK GOLDEN REMEMBERS A recent trip to China for all the wrong reasons. Golden, of Lenox, Mass., had a prostate condition that required medical treatment during a Yangtze River cruise. He had to endure an invasive procedure without anesthesia at a small, gritty hospital in Fengdu, an ancient city on the river's north bank. And that was the easy part. "The Chinese accept it because this is what they have," he says.

Acquiescence to substandard health care is changing in China, especially where rapid economic progress has improved the financial well-being of the country's growing *zhong chan jie ji*, or middle class. More and more Chinese are willing to pay for superior health-care services. Their presence, combined with an increased number of expatriates and business travelers, has created a niche opportunity for foreign businesses. Several U.S.-based companies are setting up and managing hospitals and Western-style outpatient clinics through joint ventures with Chinese companies. About half the physicians of such companies are expats—typically from the U.S., Canada and Australia.

"At first there was some disbelief that someone could say *private* and *health care* in the same sentence in a socialist country," says Roberta Lipson, CEO of Chindex International Inc., a company based in Bethesda, Md., that operates the United Family Healthcare network of private hospitals and clinics in China.

Lipson, who started the publicly traded company 27 years ago to sell equipment like ultrasound machines to China's then generally ill-equipped public hospitals, says she first approached officials about a private-model health-care experiment in the early 1990s. The result was Beijing United Family Hospital and Clinics, a joint venture between Chindex and the Chinese Academy of Medical Sciences. Today Chindex runs two hospitals and five outpatient centers. Additional hospitals in Beijing and Guangzhou are set to open in 2010, and two more outpatient clinics will open this year.

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As an early entrant, Chindex was able to negotiate a 90% ownership interest in its Beijing hospital. In 2000, China officially permitted foreign companies to pursue hospital and clinic joint ventures but limited ownership to 70%. Sino-U.S. joint ventures share the marketplace with players such as Singapore-based Parkway Group Healthcare and Hong Kong–based Global HealthCare.

Patients with foreign passports accounted for the vast majority of those treated at United Family Hospital in Beijing. But today wealthy and upper-middle-class Chinese make up 40% of patients across United Family Hospital locations. In a one-child-per-family country, private maternity care is one of the most sought-after services, says Lipson. "Once they have

Wrist work *A child gets a cast; another patient—note the designer wallet and dog—checks in*

their baby in our hospital, they're not going anywhere else with that precious child for pediatric health care," she says.

Premium health care is an outgrowth of the increased consumption of luxury goods and services that were once largely unaffordable in China—from cars to Louis Vuitton pocketbooks. According to Euromonitor International, from 2005 to January of last year, China's middle class grew 24%, from 64.4 million to 80 million. The London-based business-intelligence-research firm projects that strong economic growth could push the figure as high as 700 million by 2020.

The Chinese spent $92.9 billion on medical services and health goods last year, an 86% increase from the nearly $50 billion spent in 2003, according to Euromonitor. "It's an extension of consumer confidence. The Chinese will definitely pay more for health care when they have money," explains Sheldon I. Dorenfest, CEO of the Dorenfest China Healthcare Group, a Chicago-based Chinese-hospital management consultancy.

A day in a ward at Richland International Hospital, a private facility in Kunming, Yunnan province, costs anywhere from $60 to $320 depending on whether patients choose standard or VIP care, according to Tommy Chu, director of China Health Management Corp., a Las Vegas–based company that entered a joint venture with Yunnan-based Richard Technology Co. in 2006 to build and run the hospital. That's three to 10 times the cost of a day in a public-hospital ward.

Richland International's website describes luxury rooms that are "conducive to healing," featuring amenities such as bathrooms, Internet access, refrigerators and personal safes. Hospitals such as Richland and United Family typically sell levels of membership. A year of basic care runs about $730, but memberships with more elaborate care cost as much as $14,600, according to Chu.

Richland is courting investors to bankroll its goal of claiming a 40% market share of the private-medical-services industry in Yunnan. Chu says 60% to 70% of the country's hospitals may ultimately be privatized—a scenario that could advance the company's goal. But investors don't seem convinced. The stock was recently trading at 88% below its 52-week high in January, which Chu blames on volatile U.S. market conditions.

Shanghai East International Medical Center, a joint venture between the privately owned U.S. Health Management Enterprises of Los Angeles and China-based Shanghai East Hospital, caters to the city's Westerners, according to CEO Paul Workman. A study conducted by Hewitt Associates, a global human-resources-services company, revealed that 55% of companies plan to boost the number of expats they employ this year, a 2% increase over 2007. About 21% of China's expats are Westerners, whose private insurers and employers often pick up the tab.

The government announced Healthy China 2020 earlier this year, a major health care reform plan that seeks to provide basic health care to all Chinese residents within the next 12 years. The initiative requires improving the country's vast network of public hospitals, a prospect on which Sunnylife Global Inc., a publicly traded company in West Covina, Calif., is staking its future. Sunnylife entered its first joint venture in 2003 to upgrade some of the country's public hospitals by providing everything from updated equipment to structural improvements. Dr. Bridget Cheng, who co-founded the company in 2000, envisioned bringing a Kaiser Permanente–style managed-care system to China. Sunnylife plans to upgrade hospitals in exchange for 70% ownership. But the challenges of raising capital (upgrading just one hospital costs $11.8 million) have battered the company's stock.

A new management team was appointed in August. "We have focused on implementation and execution to make sure the first hospital can work very well," says Mark Chen, the company's 45-year-old Ivy League–educated CEO. Chen says Sunnylife recently completed its first hospital project.

Sino-U.S. joint ventures are just a modest beginning to repair China's ailing health-care system, according to Pasqualine Wolfermann, emergency-response director for MEDEX Global Group Inc., a travel-assistance and medical-insurance company based in Baltimore. "For the extent of the population and the number of business travelers now in the area, there's really not enough," she says. MEDEX still transports its most seriously ill clients to Hong Kong. "In terms of medical care, China is one of the most challenging countries," she says. But it's also ripe with opportunity for businesses with a cure. ■