Demystifying Chinese Investment in Australian Healthcare

Capitalising on China's healthcare reform

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About our reports

Despite strong public interest, little detailed factual information has been previously available about the nature and distribution of China's outbound direct investment (ODI) in Australia. Without the facts, there is misinformation and speculation. Our reports seek to set the record straight and debunk the myths associated with Chinese investment in this country.

This is the 13th report since the launch of our Demystifying Chinese Investment series in September 2011. This report examines Chinese investment in Australian healthcare for the calendar years 2015, when we first recorded investment into the sector, through to December 2017.

Methodology

The dataset is compiled jointly by KPMG Australia and The University of Sydney Business School and covers investments into Australia made by entities from the People's Republic of China through mergers and acquisitions (M&A) and joint venture.

The dataset tracks Chinese investment by subsidiaries or special purpose vehicles in Hong Kong, Singapore and other locations. The data, however, does not include portfolio investments such as the purchase of stocks and bonds which do not result in foreign management, ownership or legal control.

Our database includes direct investments recognised in the year in which parties enter into legally binding contracts and if necessary, receive mandatory Foreign Investment Review Board (FIRB) and Chinese Government investment approvals. In certain instances, final completion and financial settlement may occur in a later year.

For consistency, the geographic distribution is based on the location of the Australian invested company and not on the physical location of the actual investment project. Completed deals which are valued below USD 5 million are not included in our analysis, as such deals consistently lack detailed, reliable information.

Unless otherwise stated, the data referred to throughout this report is sourced from the KPMG Australia/University of Sydney database, and our previously published reports.[1] KPMG Australia and The University of Sydney team obtains raw data on China's overseas direct investment (ODI) from a wide variety of public information sources which are verified, analysed and presented in a consistent and summarised fashion. Our sources include commercial databases, corporate information, and official data from Australian and Chinese sources including Australian Bureau of Statistics, Foreign Investment Review Board and Ministry of Commerce People's Republic of China.

Our data is regularly updated and continually revised when new information becomes available. In line with international practice, we traditionally record deals using USD as the base currency and use AUD for more detailed analysis. We believe that the KPMG Australia/University of Sydney dataset contains the most detailed and up-to-date information on Chinese ODI in Australia.

1 Includes *Australia & China Future Partnership*, September 2011; *The Growing Tide: China ODI in Australia*, November 2011; *Demystifying Chinese Investment*, August 2012; *The Energy Imperative: Australia-China Opportunities*, 25 September 2012; *Demystifying Chinese Investment in Australia*, March 2013; *Demystifying Chinese Investment in Australian Agribusiness*, October 2014; *Demystifying Chinese Investment in Australia*, March 2014; *Demystifying SOE Investment*, August 2014; *Chinese Investors in Australia Survey*, November 2014; *Demystifying Chinese Investment in Australia*, May 2015 Update; *Demystifying Chinese Investment in Australia*, April 2016, *Demystifying Chinese Investment in Australia*, May 2017.

Key findings

AUD 5.5 billion

Chinese investment in **Australia's** healthcare sector soars from 2015 to 2017

USD 4.5 billion

By comparison, Chinese investment in **US's** healthcare sector from 2015 to 2017[2]

Chinese healthcare investment in Australia 2015 – 2017

49% NSW
45% VIC
6% QLD

Australia's **health supplement** and **healthcare service delivery** sectors accounted for majority of Chinese investment

(no major investment in pharmaceuticals, biotechnology or aged care)

Chinese investors are predominantly private companies

- hospitals
- specialised healthcare providers
- pharmaceutical companies
- construction companies
- private equity

8.1%

Annual growth of China's healthcare spending expected over the next 5 years

Australia's attractions for China

- **digitisation** of healthcare services and **technical** capabilities
- **management** expertise
- stable **political** and **economic** environment
- **cultural** diversity

2 RHG, Two way street: 2017 update, 2017.

Selected major Chinese investments in Australia 2015-2017

Year	Target name	Acquirer name	Ownership	Sector	Final value (AUD m)
2015	Swisse Wellness Pty Ltd	Biostime	Private	Health supplements	**1,380**
2015	Healthe Care	Luye Medical Group	Private	Healthcare services	**938**
2016	Genesis Care	China Resources (Holdings) Co Ltd & Macquarie Capital Group Pty Ltd	SOE	Healthcare services	**383***
2016	Vitaco Holdings Limited	Shanghai Pharmaceuticals Holding Co Ltd & Primavera Capital Fund II L.P	SOE	Health supplements	**314**
2016	Swisse Wellness Pty Ltd	Biostime International Holdings Limited	Private	Health supplements	**311**
2017	Ansell Ltd Sexual Health Business	Humanwell Healthcare and CITIC Capital	Private/SOE	Healthcare products	**800**
2017	PRP Diagnostic Imaging Pty Ltd	Hengkang Medical Group	Private	Healthcare services	**337**
2017	Icon Cancer Care	QIC,Goldman Sachs Private Equity Group & Pagoda Investment	Private	Healthcare services	**333***

Note: *Chinese equity share.

Source: KPMG/University of Sydney database.

Introduction

Chinese investment in healthcare has soared over the past 3 years. Australia is becoming a highly sought after destination for healthcare investment due to the expertise of health professionals, availability of cutting-edge technology and high regulatory standards. As China's aged care industry develops and its healthcare service delivery sector matures, there will be a greater need for these high quality products and services and more demand for the businesses providing them.

We have witnessed a surge in healthcare investment by Chinese companies in Australia in recent years. AUD 2.55 billion was invested in 2015, AUD 1.35 billion in 2016 and AUD 1.58 billion in 2017 through several very large deals. These include the AUD 938 million acquisition of hospital operator Healthe Care in 2015 and the acquisition of Swisse Wellness for AUD 1.69 billion across 2015 and 2016.

Investment has been concentrated on the health supplement and healthcare service delivery sectors in Australia with no large investments in pharmaceuticals, biotechnology or aged care to date.

The rise in Chinese healthcare investment reflects Australia's reputation for developing, testing and producing high-end products and services which can be deployed locally and exported. International free trade agreements, combined with progressive domestic Australian initiatives such as the Government's *Medical Research and Innovation Strategy* and the *National Innovation and Science Agenda*, are improving Australia's comparative advantage in advanced health sector industries.

Chinese healthcare investment is export oriented. Despite the high levels of expertise across the healthcare industry, Australia's export capacity is currently underdeveloped. Foreign investment is important to build global partnerships with knowledge of foreign markets and access to international distribution networks. The tendency to use joint ventures when engaging in large acquisitions has also increased.

Chinese companies have invested in previously non-exporting companies such as Healthe Care and Genesis Care, with the intention to expand into Chinese domestic markets.

With Australia's continued commitment to a range of medical research areas we expect investment to broaden across all sectors in the coming 3 to 5 years.

"The patterns that are emerging in China's domestic healthcare sector are likely to strengthen investment demand in the coming years as healthcare assets become a key component of many Chinese investors' portfolios."

Jenny Yao, Partner, Head of Healthcare, KPMG China

Chinese investment in Australian healthcare

Chinese investment in Australia's healthcare sector is a relatively new trend and was first recorded in our statistics of Chinese ODI in 2015 with two very large deals: the sale of Swisse Wellness to Biostime and the acquisition of Archer Capital's Healthe Care by Luye Medical Group. These two deals accounted for 54 percent and 37 percent of the 2015 total of AUD 2.55 billion, respectively.

With no mega deals of this size concluded in 2016, total healthcare investment dropped to AUD 1.35 billion, equivalent to 9 percent of total annual Chinese ODI and ranking just ahead of agribusiness with 8 percent. Investment levels recovered slightly in 2017 with AUD 1.58 billion recorded.

Throughout this period, healthcare investment reflected an even split between investment in health products and healthcare services. Investment in both sectors is predominantly export oriented.

Sixteen transactions were recorded between 2015 and 2017.

By international comparison, Australia has performed well in the health sector market. Chinese investment into the United States in health, pharmaceuticals and biotechnology industries reached a similar level in the same period of around AUD 5.67 billion (USD 4.47 billion).[2]

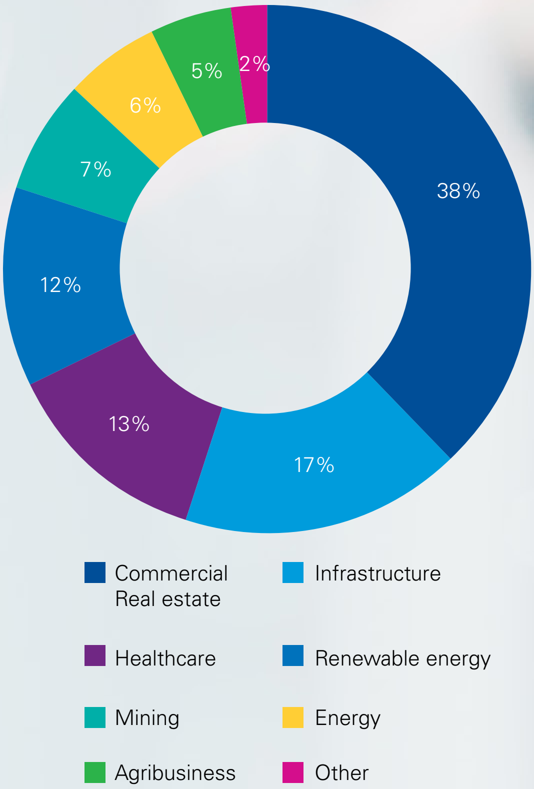
Chinese investment in Australian healthcare

Year	Number of projects	Transaction value (AUD million)
2015	4	2,550
2016	7	1,354
2017	5	1,580
Total	**16**	**5,484**

Source: KPMG/University of Sydney database.

2 RHG, Two way street: 2017 update, 2017.

Chinese investment in Australia by industry 2015-2016



Source: KPMG/University of Sydney database.

Trends in Chinese healthcare investment

Even split between products and services investment

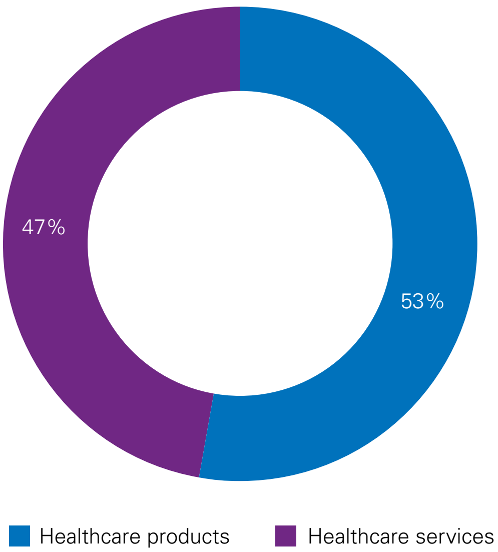
Chinese investment in Australian healthcare has targeted the two broad areas of healthcare products and healthcare services with a near even split between each in 2015 and 2017.

Chinese investment by state

Chinese investment in Australian healthcare has been primarily concentrated in New South Wales, Victoria and Queensland. Whilst most deals were completed in these three states, some of the target companies' operations extend to other states.

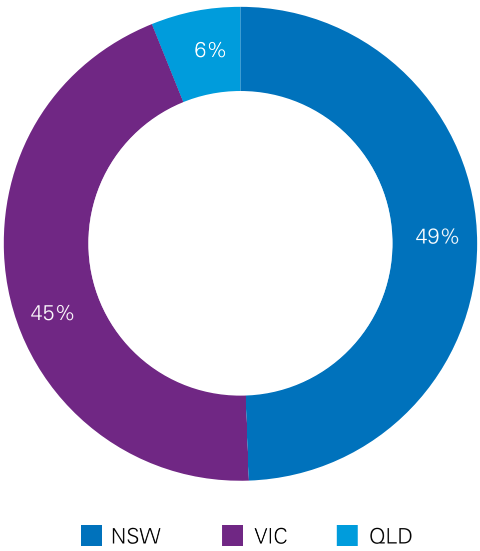
New South Wales has attracted 49 percent of Chinese healthcare investment between 2015 and 2017 to date, followed by Victoria with 45 percent and Queensland with 6 percent.

Chinese investment in healthcare sectors 2015-2017 (value)



Source: KPMG/University of Sydney Database.

Chinese investment in healthcare by state 2015-2017 (value)

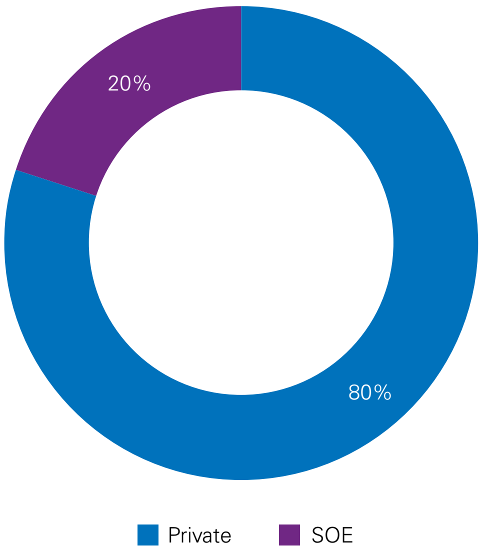


Source: KPMG/University of Sydney Database.

Chinese investment by ownership

Unlike investment into the resource and energy sectors, Chinese private companies are driving the investment into Australia's healthcare, accounting for 80 percent of the overall value.

Chinese investment in healthcare by ownership 2015-2017 (value)



Source: KPMG/University of Sydney Database.

Case study

Luye Pharma Group – repeat investment

Luye Pharma Group acquired Healthe Care Australia for AUD 938 million in 2015, followed by an investment in private hospital operator Pulse Health for AUD 134 million in 2016.

In 2015, Liu Dianbo, Chairman of Luye Group publicly stated, "*I strongly believe that Healthe Care will provide us with a platform upon which we can build a world class and highly successful healthcare services business not only in Australia and China, but also in many other countries of Asia where we see development opportunities exist.*[3]

"*An investment in Healthe Care positions Luye Medical to consider a range of opportunities resulting from the recent FTA agreement with China, and capitalise on the company's world class systems, patient care and operating standards.*"[4]

This was one of five repeat investments in the Australian healthcare sector by Chinese investors in 2016.

Chinese Luye Group's chairman Liu Dian Bo with Healthe Care chief executive Steve Atkins at Maitland Private Hospital.

Credit: AAP Image/Handout PR Healthe Care.

3, 4 Healthe Care Australia Pty Ltd, Media Release 6 December 2015.

Repeat investments and joint ventures

Chinese investors in the Australian healthcare sector are making repeat investments (i.e. after their initial investment). This was particularly evident in 2016 when 71 percent of deals were repeat investments.

Australian healthcare exports

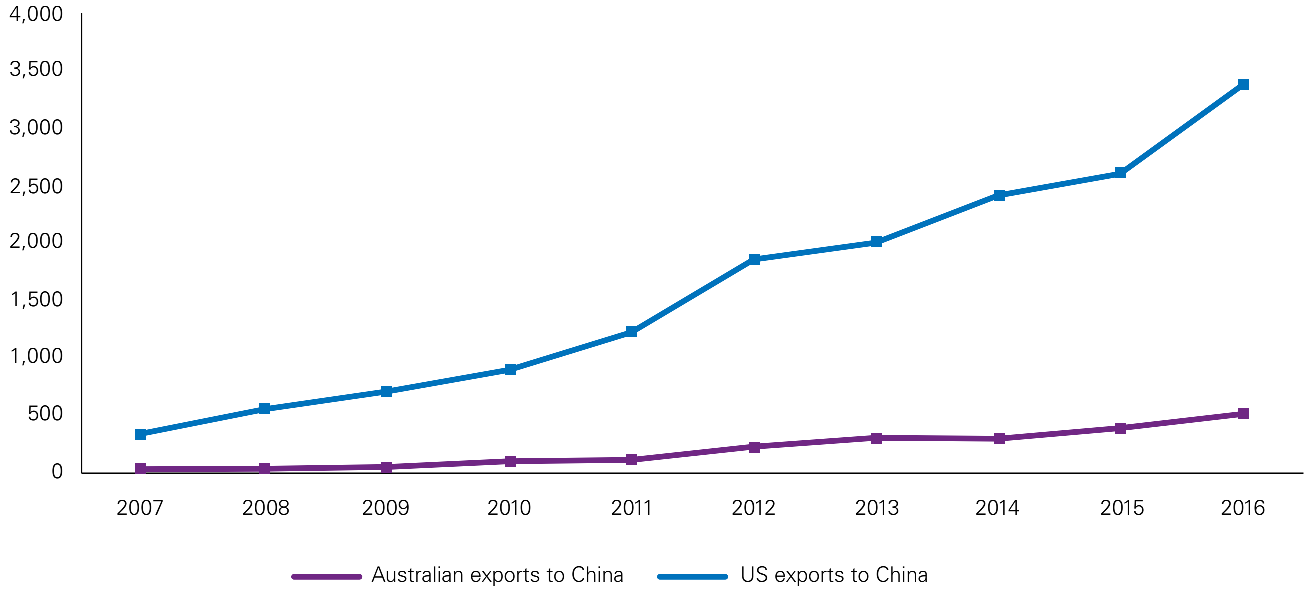
Chinese investors in Australian healthcare are increasingly looking at target companies that are exporting or capable of exporting to the Chinese market. Australian healthcare brands have a reputation with consumers in China for high quality products.

China's healthcare spending is expected to grow by 8.1 percent annually over the next 5 years. Changing conditions in China, such as rising incomes, wide-ranging reforms to public healthcare and new consumer preferences for the ageing all favour Australian exporters.[5]

While the Chinese Government is increasingly seeking direct investment in its domestic healthcare industry, Chinese investors have continued to show interest in Australian companies to grow their Chinese market share.

Companies such as Swisse help fulfil the Chinese Government's aim of 'safe, effective, convenient and affordable' healthcare as outlined in the National Health and Family Planning Commission's 'Healthy China 2030' plan, the country's first long-term strategic health plan.[6]

Medicinal and pharmaceutical products (USD million)



Source: UNCTAD Stat, 2017.

5, 6 Industry Report: Healthcare 2nd Quarter 2017, The Economist Intelligence Unit.

Case study

Australian exporters – Swisse Wellness

Following Biostime's initial AUD 1.38 billion investment in 83 percent of Swisse in 2015, Biostime invested a further AUD 311 million to acquire the remaining 17 percent of the company.

Biostime's investment came as Swisse officially launched sales in China through Alibaba Group's online retailer Tmall, allowing direct sales to Chinese customers. The use of e-commerce platforms for health supplement products is disrupting traditional distribution networks and lowering entry barriers for Australian companies.[7] Companies such as Swisse and Blackmores have exploited these avenues and become top 10 Chinese healthcare ecommerce imports.

Visitors walk past the stand of Biostime during a fair in Shanghai.

Credit: Zhou junxiang © AP.

Top e-commerce healthcare providers to China

Rank	Overall top 10	China top 10	Non-Chinese international top 10
1	Swisse	By-health	Swisse
2	By-health	CPT	Herbalife
3	Herbalife	Xiuzheng	Amway
4	Amway	Simeitol	GNC
5	CPT	Guozhen	Puritan's Pride
6	GNC	Conba	MuscleTech
7	Xiuzheng	Wanmei	Blackmores
8	Puritan's Pride	Difiney	MET-Rx
9	MuscleTech	Infinitus	Nature's Bounty
10	Blackmores	Yangshengtang	Usana

Source: Austrade, Complementary Medicines in China, 2017.

7 AT Kearney, China's Pharmaceutical Distribution: Poised for Change.

Healthcare reform in China

The 'Healthy China 2030' plan, launched by President Xi Jinping in August 2016 made specific reference to 'Big Health', 'digital health' and aligns China's health system with the UN 2030 Agenda for Sustainable Development.

The official framework for Chinese healthcare reform was formulated in the 13th Five Year Plan covering the period from 2016 to 2020 with medical treatments, pharmaceuticals, health supplements, health management services and aged care as the five priority areas.[8]

The plan comprises six policy areas:

1. Establishing a big data platform to integrate non-medical and medical health data to strengthen national fitness programs.
2. Prevention and treatment of chronic, non-communicable diseases such as diabetes, cancer, stroke and obesity.
3. Integration of traditional Chinese medicine into the health system, including at local levels, and in all aspects of medical services, including research.
4. Improving healthcare coverage by establishing a universal health insurance system, a health insurance management system and commercial health insurance.
5. Improving the drug and medical equipment supply system through traceability of prices, e-commerce channels and supply channels, better access to drugs through price reform and free provision.
6. Deregulation of the health industry through privatisation, foreign funded health providers, removal of state intervention, commercialisation of healthcare services, mobile application services, healthcare tourism, diagnostics centres; and fitness programs, leisure sport and fitness industry.

Improving public health reform is one of the cornerstone policies under President Xi. The Chinese leadership is facing strong public demand to reduce the health effects of environmental degradation, improve access to healthcare services and affordable drugs, and focus more on preventative care. The Government's reforms have brought a new commitment to open healthcare to market forces, including foreign commercial providers and health tourism.

8 https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2016/10/13fyp-opportunities-analysis-for-chinese-and-foreign-businesses.pdf

What Chinese healthcare investors told us

In September 2017, KPMG and the University of Sydney conducted in-depth interviews with executives from Chinese companies that are investing in the Australian healthcare sector. Some have already made investments and some are considering entering Australia.

Both private and state-owned enterprise were interviewed. The backgrounds of these companies are diverse and include medical and pharmaceutical groups in China, construction companies diversifying into healthcare, and private equity funds. One thing most have in common: existing footholds in the healthcare industry in China.

The Australia package is attractive

For Chinese investors, Australia is more than a destination for leading technology or care providing experience. The combination of transferable management know-how, high-level care service experience and state of the art technology are complemented by the ‘clean, green and healthy’ image of Australian products and the attraction of Australia for Chinese health patient tourists. The ‘Australia package’ is attractive to Chinese visitors who are keen to access reputable healthcare with an established track record.

Chinese investors interested in Australia's healthcare sector include private hospitals and clinics, specialised services such as oncology and radiology, pharmaceutical companies expanding into service provision, real estate companies specialising in health care facilities, private equity investors and potential finance and insurance providers.

Investing for specialised services

Our interviewees revealed that Chinese investment in Australian healthcare is driven by the motivation to specialise and target specific market segments in China.

Rather than general health services, Chinese companies seek to invest in specialist services such as oncology, radiology, ophthalmology, IVF and aged care. These services are replicable in the Chinese market and can be customised to fit the specific needs of China’s middle-to-high end consumer markets.

Chinese companies that invest in Australian healthcare products with a reputation for brand quality seek to gain an advantage in their highly competitive domestic markets by upgrading their technical know-how to international standards, improving service quality to Australian standards and developing management practices in line with Australian experience.

Australia-China cooperation is facilitating joint access to the higher value-added segments of the value chain, such as advanced capabilities in telemedicine and management and potentially financial services in health insurance and healthcare financing.

Synergies with China consumer growth markets

All interviewees emphasised that the synergy and strategic match of Australian assets with their Chinese operations is a key requirement when making investment decisions. One Chinese executive mentioned that any asset they acquire needs to have a 'China story' with a link back to Chinese domestic demand. They also pointed out coordination and integration with advanced Australian operations as important steps to fully capture first mover advantages in the Chinese market.

These requirements have implications for their investment strategies. All of the companies interviewed take a long term approach towards their Australian investments. None of them plan to exit the market in the short term. While all of the companies welcome partnerships, they prefer a controlling shareholder position, which gives them the flexibility to combine Australian resources with their Chinese operations. All of these companies were investing in Australia in order to expand their services in the Chinese domestic market. For Chinese companies it is therefore important to incentivise Australian management teams to work with their Chinese counterparts.

"Any asset we acquire needs to have a 'China story' with a link back to Chinese domestic demand. Coordination and integration with advanced Australian operations as important steps to fully capture first mover advantages in the Chinese market."

Chinese Health Company Executive interviewed by KPMG and The University of Sydney.

Digital and technology highly attractive

The digitisation of healthcare services is a major consideration for Chinese investment in Australian healthcare. Digital health and the use of big data is strongly encouraged by the Chinese government.

One Chinese company was interested in the technical capabilities of their Australian partners in big data processing and Artificial Intelligence, which enables them to better manage operations across their Chinese hospitals. For example in discussions with their Australian partners they found that they could use their joint expertise and access to domestic patient data to start a third-party imaging system for Chinese hospitals.

Management expertise and partnerships

Australian companies have taken up the challenge of cooperating with Chinese partners with remarkable speed. One recently listed healthcare group achieved significant expansion in China through a combination of Australian expertise and Chinese market know-how. The Australian advantage in this example was expertise in oncology and radiology, management expertise in care and experience in telemedicine for remote locations. The Chinese company provided pharmaceuticals, institutional know-how and capital to establish and operate new clinics in third tier cities in China.

Australia is not the only market

Australia is a preferred destination for Chinese healthcare investment, but Chinese companies are also looking globally to upgrade their expertise. The most frequently mentioned international markets are the United States, Singapore and Israel.

The list of reasons given by respondents for choosing to invest in Australia were:

- mature business services and technology
- Australia as an English-speaking country is ranked first among Canada, the UK and the United States
- small time difference with China (2-3 hours)
- stable political environment and low sovereign risks
- transparent regulatory environment
- long term stable economic return
- cultural diversity.

Case study

Expanding the healthcare value chain in Australia and China – ICON Group

ICON Group is a vertically integrated cancer care provider in Australia. The business is uniquely specialised in an array of medical oncology services, ranging from chemotherapy patient cancer care to radiotherapy, pharmacy services to oncology compounding.

In 2016, ICON entered into a joint venture agreement with China's Yibai Healthcare to deliver expert radiation oncology services across China.

The key driver for the ICON Yibai joint venture is the huge undersupply of radiation oncology services in China. China's healthcare market continues to expand rapidly, driven by an aging population, economic growth and the expansion of basic health insurance. Yet, in cities like Beijing with a population the size of Australia, there are only 20 linear accelerators for radiation treatment, compared with 140 in Australia.

Recent healthcare reforms in China have relaxed government regulation of private hospitals. Clinicians including those in cancer care services are no longer tied to specific hospitals. Hospitals that are able to provide services on a commercial basis face huge demand, but there is no experienced workforce for Chinese companies to run cancer care services. As a result, there is large unmet demand for training and management.

ICON's experience in offering high quality and specialised cancer oncology services made them an ideal partner for Yibai Healthcare, a major pharmaceutical company that has access to a large number of patients and local market knowledge in China.

ICON was attractive to Yibai because of its ability to run the full range of oncology care services, train and supervise staff, integrate Yibai's pharmaceutical products and share their experience from Australia where they provided oncology care from 1,200 km distance through remote medicine.

Using this experience ICON provides remote training and supervision with minimum time difference. This reduces the reliance on physical presence of doctors and personnel. As a result, ICON and Yibai are able to grow their joint operations to scale, currently envisaging setting up 20 centres and expanding to 50 in future.

Being based in Australia facilitates ICON's partnership with Yibai Healthcare. Australia has some of the best trained radiation therapists and medical physicists in the world. The Australian mode of operation is well respected in China.

This is a well matched partnership. Yibai is a private operation with doctors among their shareholders. They focus on third and fourth tier-cities which face huge unmet demand for specialised medical services and are able to expand without facing the established competitors who dominate in China's first and second tier cities.

ICON's Australian and Asian experience in Malaysia and Singapore make them an attractive partner who is able to bridge the cultural and technical divide. In particular, ICON's ability to remotely train and supervise staff has enabled Yibai to grow their operations to reach better economies of scale. There is a strong Australian element in this advantage: personal involvement of business partners with professional expertise, commitment to the cooperation rather than to a corporate brand, willingness to train and availability and readiness to communicate.

Sector analysis

Healthcare service delivery

The healthcare service delivery sector, comprised of private hospitals, medical centres and treatment facilities, has attracted significant Chinese investment since 2015.

China Resources Holding's AUD 382.5 million investment in GenesisCare was the largest Chinese healthcare investment in Australia and also the largest private equity healthcare acquisition in the Asia-Pacific in 2016.[9]

The GenesisCare acquisition is a great example of the industry's enormous growth potential. The 2016 sale price equated to an enterprise value of AUD 1.7 billion, a dramatic rise from the AUD 550 million value in 2012 when majority owner KKR & Co bought into the company. This growth is in part due to the realisation of the company's export potential.

Growth in Australia's healthcare service delivery industry is also underpinned by growing domestic demand from an aging population with increasing rates of chronic disease. Healthcare expenditure is estimated at 9.6 percent of GDP in 2016 and increasing.[10] Cancer and cardiovascular disease remain the leading causes of death in Australia at 30 percent and 29 percent respectively.[11] However, with the proportion of the population above the age of 65 forecast to grow from 16 percent today to 17.3 percent in 2021, Australia will also experience increasing rates of Alzheimer's disease.

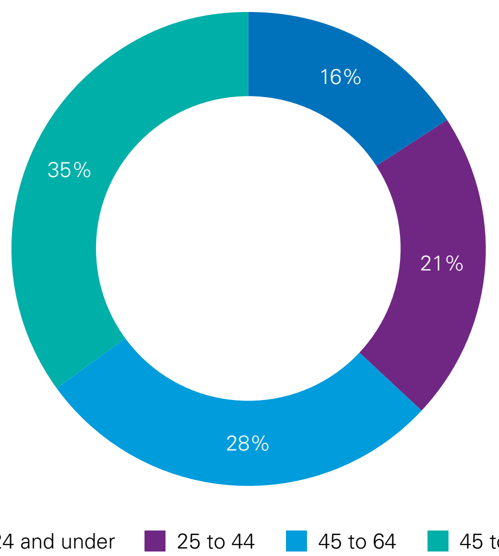
In recent years, Australia's demographic changes have combined with changes in private hospital provision to create significant opportunities for foreign investors to enter the sector. The number of private hospitals has risen to compensate for both the aging population and decreasing number of public hospitals.

With 32 percent of care in private hospitals funded by the Government, the Federal Coalition's 2016-17 budget allocation of an addition AUD 2.9 billion to hospitals should benefit private investors.

Between 2008 and 2015 the number of private treatments offered in public hospitals increased from 450 000 to 815 000.[12] 35 percent of revenue generated in health services is from patients over the age of 65.[13]

The quality of medical care demanded by Australian consumers has driven treatment providers to invest in high quality facilities and equipment. This has bolstered Australia's international standing as a leading treatment provider.

Australian health services revenue by age group



Source: IBIS, 2017 Australian Health Services, 2017.

9 Bain & Co Global Healthcare Private Equity and Corporate M&A Report 2017.
10 Industry Report: Healthcare 2nd Quarter 2017, The Economist Intelligence Unit.
11 Industry Report: Healthcare 2nd Quarter 2017, The Economist Intelligence Unit.
12 Independent Hospital Pricing Authority (IHPA), March 2017.
13 IBIS 2017 Australian Health Services: Products and market.

Health supplements sector

While demographic changes and awareness of preventative health factor into the demand for these companies, investment has been aimed at strategic exporters. That said, there are only a small number of Australian supplements producers with the current capacity to harness growing international demand.

Biostime made the largest investment in the sector in 2016, acquiring the remaining 17 percent of vitamin and supplement provider Swisse wellness for AUD 311 million. This followed its AUD 1.38 billion investment in Swisse in 2015. As a repeat investment in an exporting company, Biostime's acquisition was typical of Chinese healthcare investments.

Australian health supplements companies have benefited from high demand in both the domestic and international market. Australia's domestic market has experienced an annual growth rate of 7 percent for natural healthcare products. Nutritional oils, men's health and eye health products have been the fastest growing products in the domestic market.[14]

International markets present most exciting growth opportunities to the Australian health supplements sector. Australian companies are well positioned to capitalise on a growing international trend of marketing supplement brands rather than the ingredients within it.[15] Australian brands are seen by Chinese consumers to produce among the best quality supplements in the world. Australian products are manufactured to some of the highest standards in the world based on manufacturing standards and stringent therapeutic regulations maintained by the Therapeutic Goods Administration.[16]

The perception of quality is especially important due to the increasing self-direction of consumers seeking information online and purchasing health products on e-commerce platforms, rather than through a doctor or pharmacist. This has made supplements more accessible to consumers and allowed Australian companies to market their products directly to Chinese consumers.

For example, Swisse Wellness, which officially launched in China in 2016, offers Lung Health Support Tablets with ingredients from traditional Chinese medicine. With the world's highest smoking rate and some of the world's most polluted cities, the Chinese market offers unrivalled opportunity for such products.[17]

The availability of e-commerce platforms such as Tmall will transition the sale of Australian supplements away from existing Chinese traders shipping goods home from Australia. This opens up more of the Chinese market, but also presents a challenge for companies to differentiate their products online and maintain their reputation when competing with a much larger online market place.

14 Austrade, Natural Healthcare and Wellbeing, https://www.austrade.gov.au/International/Buy/Australian-industry-capabilities/health-and-wellbeing

15 McKinsey, Cashing in on the booming market for dietary supplements.

16 Austrade, Natural Healthcare and Wellbeing, https://www.austrade.gov.au/International/Buy/Australian-industry-capabilities/health-and-wellbeing

17 University of Sydney, Healthcare: the next boom industry for Australian businesses in China.

Pharmaceuticals and biotechnology sector

The pharmaceuticals and biotechnology sector did not record any Chinese investments over AUD 5 million in the period. The manufacturing capacity of the Australian pharmaceuticals industry is less developed than other international markets, with insufficient production to service the local market. High domestic demand has accentuated the oversupply of Australian-made pharmaceuticals and forced providers to import products. Australia is yet to establish itself as a major producer of pharmaceuticals despite its highly skilled labour and world class infrastructure.

The Australian pharmaceuticals market is the 12th largest in the world, accounting for 1 percent of global sales through 0.3 percent of the global population. In 2016, this equated to AUD 16.8 billion, growing 3.8 percent on the previous year.[18] To service domestic demand, Australia imported AUD 9.6 billion of pharmaceuticals, while exporting just AUD 2.3 billion.[19]

Due to the dominance of established multinational pharmaceuticals corporations in the manufacturing space, Chinese investors have been primarily drawn to the Australian research and development (R&D) market. Recent changes in Chinese regulations have enabled investment earlier in the R&D process. While these investments are riskier, they are potentially much more profitable than entering the market later in the process.

The availability of skilled labour and technology in Australia has seen the R&D market grow to 3 percent of global pharmaceutical R&D. To further expand the industry and capitalise on international demand, the Australian Government set up a Medical Research Future Fund in 2015 which is set to reach AUD 20 billion by 2020.[20] This will help give greater capacity to an industry which already outperforms in terms of innovation.

The Scientific American's 2015 Worldview Scorecard, which ranks the biotechnological innovation potential of 54 countries, ranked Australia fourth. This is the second time Australia has ranked fourth, up from tenth in 2012.[21, 22]

While the outlook is good for pharmaceutical exports to China, Australian companies should be cautious of overvaluing revenue projections in China. The balance of power across the healthcare value chain may change in future as governments and insurers take centre stage and push for the reduction of prices and demonstration of value from therapies. This will have mixed impact on Australian exporters depending on the products sold and the ways healthcare regulations develop.

18, 19 Industry Report: Healthcare 2nd Quarter 2017, The Economist Intelligence Unit.
20 Department of Health, Further information on the Medical Research Future Fund.
21 Scientific American, 2015 Worldview Scorecard.
22 IBIS World, Industry report.

Aged care sector

The aged care sector did not attract investments of over AUD 5 million from China in the period, despite continued growth and increasing demand for new and better facilities.

Chinese investors have shown greater interest more recently, with a focus on the opportunity for expansion in the Chinese market. The acquisition of Australian providers presents an opportunity to bring industry leading care processes to the Chinese market. This was seen in the joint venture between Victorian aged care provider Sapphire Holdings Group and Sungin, a subsidiary of Fosun group, signed in June 2017, to develop a new facility in the Chinese capital using Australian expertise.

While Chinese companies can acquire this expertise through recruitment rather than strategic investments, the Australian aged care market has the additional benefit of providing investors with Australian real estate assets. With significant commercial real estate inflows recorded in 2016, these assets are of clear value to Chinese investors.

The Australian aged care industry also requires investment to replace old facilities that are increasingly unfit for purpose. The average age of facilities in Australia is over 20 years, with many originally designed for 'low care' purpose. Such facilities are unable to accommodate residents with complex care needs. These are becoming obsolete as consumer preferences change rapidly, with little tolerance for multi-bed rooms and institutional-style buildings.[23]

23 KPMG 2017, Rising cost of residential ages care: Implications and actions.

Final word

The Australian healthcare sector is well positioned to continue attracting significant Chinese investment. The flow of Chinese capital into the healthcare industry has the potential to increase Australia's scale and increase the export potential and global reach of Australian brands.

The appeal of the 'Australia package' is increasing and many Chinese investors are making repeat investments and continuing to add more specialist services to their offering to meet rapidly changing Chinese demographic markets.

The need for specialist treatments in China has increased the value of Australian expertise. This builds upon existing synergies generated by Australia's advanced technology and management practices.

The introduction of Chinese policies to establish a public / private healthcare system built on 'big health' presents an opportunity for Australian companies to share their expertise and participate profitably in the industry's transition and growth. This support will be best provided through the continued use of joint ventures and repeat investments that build cooperation between both countries.

For Australian companies, Chinese investment presents an opportunity to access capital for expansion and new export markets and supply chains.

The outcome of increased investment will be a highly competitive Australian healthcare sector that can accelerate research and continue to improve technological advantages. Increasing the scale in the Australian healthcare industry will benefit both Australian and Chinese consumers into the future.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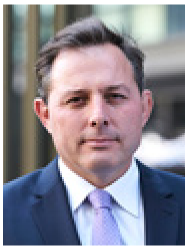

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