Focus on Eastern Asia

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Buddha Statue In Bronze
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China: Outlook on the Oral Healthcare Sector

In order to respond to the increased demand for health services and higher expenditure, at the same time reducing the widespread inefficiencies in allocation and use of health resources, the national healthcare reform was introduced in 2009 to improve the system at all levels, starting from insurance, to public health and management as well as the supply chain.

However, despite the efforts, the implementation of a system capable to provide basic healthcare coverage to over 1.3 billion people isn't an easy task, given the challenges the government has to face:

• **Distribution of healthcare resources is largely unequal,** with wealthier areas and cities benefiting for higher quality facilities, while rural and poorer cities lack not only sophisticated institutions, but even a developed network of primary care facilities.

• **Poorest households cannot even afford to seek medical care,** also given the high incidence of out-of-pocket payments, despite the efforts to expand the health insurance coverage.

• **The highly decentralized healthcare model implies that poorer provinces often pay doctors much less than richer provinces,** increasing the professional migration and therefore worsening the cross-country inequality in levels of care. This also happens with rural-to-urban migration of doctors, that leave many rural areas underserved, attracted by higher fees and better opportunities in larger cities.

• **The negative habit of over-prescribing drugs and tests** continues as incentives are given to doctors that prescribe them, even when it's not necessary.

Concerning oral healthcare, the same disparities that are present in the general healthcare condition are found among the Chinese population. According to the latest industry reports, in 2012 the dental equipment industry grew by almost 7% on 2011, totalling RMB 2.76 billion (approximately USD 450 million) and in the period January – October 2013, it jumped up to RMB 4.2 billion (approximately USD 690 million). This rapid increase adds up to the average annual 20% growth registered since 2006.

Despite the rising expenditure on oral healthcare, mirrored by the increased revenues of dental hospitals and clinics from RMB 2.37 billion (approximately USD 390 million) in 2006 to RMB 6.5 billion (approximately USD 1.07 billion) and the expansion of the oral health service institution network, there is still a wide gap between the size of the dental workforce and the need of the population, with only around 1 dentist every 10,000 inhabitants. The low penetration of sophisticated dental treatment such as implants, estimated at 200,000 per year against 1 million placed in South Korea, also reflects the challenge to make the complete range of oral healthcare services available to a larger share of Chinese population.

Nevertheless, the implant market is growing at a sustained pace, expected to reach 540,000 units by 2016. Part of the forecasted growth is expected to come from the ageing population and dental tourism; however, Chinese patients are becoming increasingly demanding for implant procedures and orthodontics.

Old Asian woman, Akha
Digitalpress / istock

Hong Kong: Small but interesting Private Market

The small region of Hong Kong is a main trade hub in the East Asian region. Despite its reduced area, it has 2,258 dentists, 344 dental hygienists and over 400 dental technicians, with per capita expenditure on health of HKD 12,724 (approximately USD 1,600), making it an interesting market. The need for dental treatment is high as oral health conditions aren't yet satisfactory among many middle age and elderly people suffering from caries, while children commonly suffer from gingivitis.

Dental care is mainly provided privately, in solo practices. As fees are not regulated, the price of dental treatment can vary sensibly.
The 230 public dentists mainly provide service to civil servants and their families and basic emergency care for the remaining population in special government clinics. In addition, there are about 40 non-governmental organizations providing dental services. Specialist and emergency dental services are available to patients recovered in or referred to public hospitals.

Local governments are putting efforts in creating a more competitive environment, strengthening the infrastructure and transportation network and in developing regional economic integration to increase the attractiveness for foreign investors.

Approximately 450,000 children aged 6 to 12 are also treated under the voluntary "School Dental Care Service" available in nine public clinics by paying a low enrolment annual fee. This service includes general preventive and restorative care, while orthodontics and other advanced procedures are excluded.
As regards elderly people, a Healthcare Voucher Scheme was introduced in 2008 and entitles people aged 65 to 69 to receive ten vouchers per year of approximately 6 US dollars value, to be used on medical or dental expenses. Despite the success of the program in helping elderly people access dental care, the total amount of the subsidy (60 dollars a year) is still insufficient to cover all their health expenses.

Southeast Asia: Socio-economic Overview and Healthcare Market

The Southeast Asian region has been the focus of international investors for several years now. It is indeed an area of sustained growth in domestic demand and GDP scores, having topped two-digit figures in the last decade and still on the rise although the international crisis has reduced its impetus.

In the period 2014 – 2018, the regional GDP is expected to grow by 7% annually on average, but what is more important is that its composition is diversifying and shifting from manufacturing to the services sector (particularly finance, business and ICT).

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Along this path, however, there are still significant challenges to overcome. The growth in recent years has outlined the structural weaknesses of many Southeast Asian countries which found themselves projected in an accelerating development lane, without exactly knowing how to manage the related changes.

While Malaysia, Brunei, Singapore and Thailand have reached upper middle income or high income status, the remaining countries in the Indochina peninsula and Malay archipelago (Vietnam, Cambodia, Laos, Myanmar, East Timor, Papua New Guinea, Philippines) remain lower middle income or even low income countries. Some of them, like Vietnam, Indonesia and Philippines are threatened by the so-called "middle-income trap", occurring when a country moves from a low-income to middle-income status quickly, boosted by commodity trade and heavy foreign investment and then fails to produce enough internal demand and develop more sophisticated industry and service sectors. However, it is worth mentioning that the whole area has a population of 610,000,000, making it a must for companies looking for new expanding markets to fully consider (or re-consider) their activities in this region.

The interesting fact about this datum is that it is a largely young population, with increased literacy rates and middle class growing overall. It is true that poverty rates remain high especially in the Indochina peninsula, but on the other hand, population living on less than $1.25 a day (at PPP) has declined from 45% to 16% between 2000 and 2010, and here are the fastest-growing economies too.

It is undeniable that a development gap exists between the so-called "ASEAN-6" (Singapore, Brunei, Malaysia, Thailand, Indonesia, Philippines) and "CLMV" (Cambodia, Laos, Myanmar, Vietnam), based on pre-existing economic disparities that deepened while regional integration progressed.

Among the main differences, there is religion (with Malay Archipelago countries dominated by the Islamic religion), grade of economy openness due to historical causes and the level of infrastructure development. It is however interesting to note that the more advanced ASEAN-6 economies have experienced slower growth than CLMVs, which are little by little moving towards closing the development gap (likely within the next two decades).

As far as healthcare is concerned, on general terms the whole region suffers from high mortality and morbidity rates, worsened by the impact of natural catastrophes (the latest having been the Philippines hurricane) that took a heavy death toll and left many in extreme poverty, at the same time raising severe disease outbreaks.

The general trend is to allocate the already low budgets for medical and hospital care rather than developing preventive services and the primary care network. Given the low funding for health and the consequently high rate of out-of-pocket payment, there is still very poor support for lower income groups in accessing healthcare services, whose quality is also much better in private facilities than in the public ones.

As regards the dental market, some data can be highlighted:

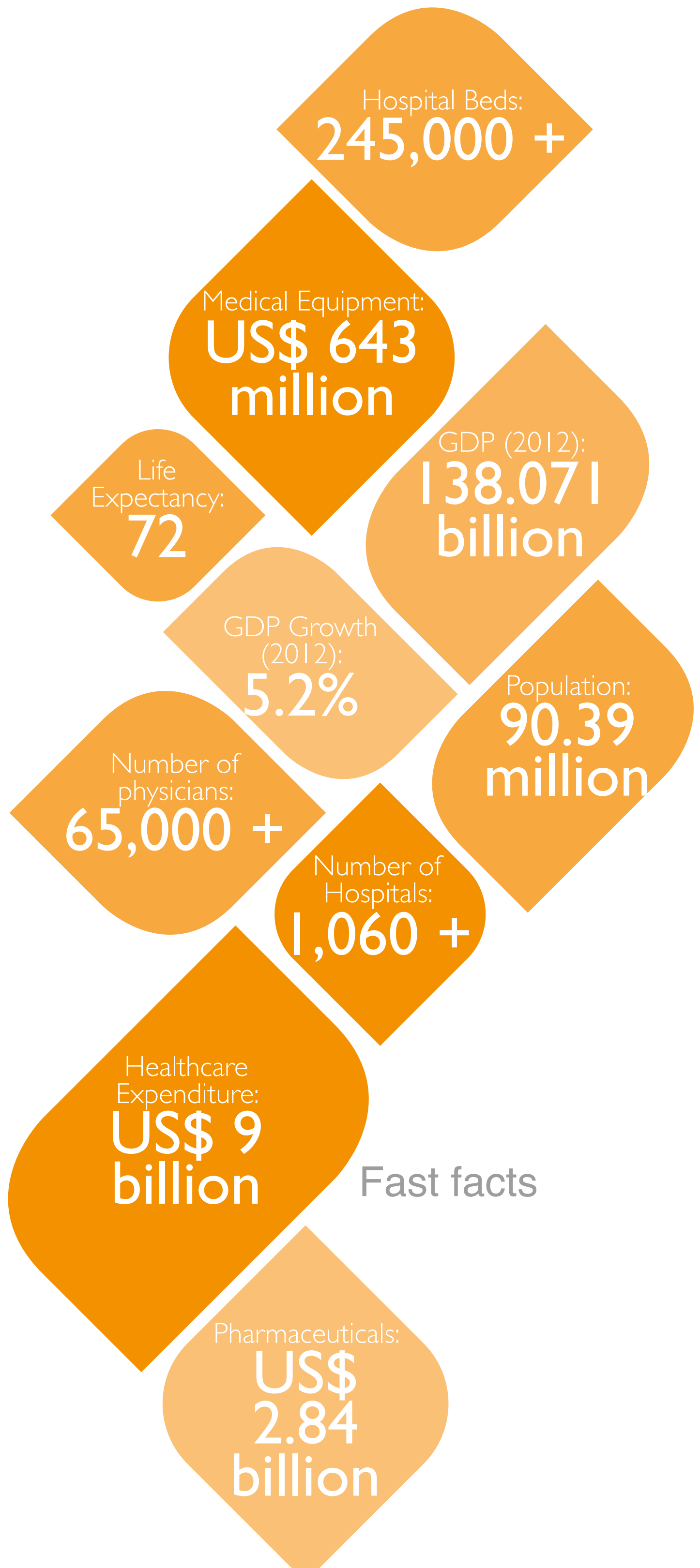
- The share of dental equipment and products is small in the public sector (below 1% of health funding in most Southeast Asian countries), but larger in private sector.

- The most promising markets in the short term is Malaysia. In medium term, the growing middle class in Indonesia and Vietnam (combined population: 320 million) is expected to significantly increase consumer base for dental services, especially as these two countries progress towards universal insurance coverage targets.

- Myanmar, Cambodia and Laos are still at an underdeveloped stage; in the long-term they will add up to the middle income country list, but current opportunities to enter the market at an early stage are still concentrated in corporate investment in hospitals including dental clinics and participation to development initiatives (e. g. World Bank, Asian Development Bank, private investment and PPPs).

- However, healthcare provision (including oral health) is becoming a priority even for poorer countries. Malaysia is especially focusing on assisting CLMVs in implementing oral health assessment and awareness campaigns. It is well positioned as starting base for future expansion into CLMV as these markets grow.

Southeast Asia: Spotlight on Vietnam



Economy - Vietnam, the world's thirteenth most populous country and sixth largest economy in Southeast Asia is rapidly developing. In 2012, the country's economy grew at an estimated 5.2 percent with private consumption accounting for approximately 68 percent of the gross domestic product.

According to Vietnam Briefing, one of the country's biggest successes in 2013 was the control of inflation and even though the GDP growth rate was lower than neighbouring countries, it resulted positive nevertheless, due to inflation reduction.
The government's macro-economic and monetary policy proved successful in stabilizing the exchange rate between the Vietnamese Dong and foreign currencies while increasing foreign currency reserves and it also managed to cut the interest rates, which particularly favoured domestic businesses production.

> Vietnam's healthcare market is valued around US$ 9 billion in 2012 with an expected growth rate of 12.6 percent, much higher rate of growth than the overall economy. Healthcare is expected to reach $ 15.9 billion by 2017. While lifestyles improve, the demand for healthcare services grows.

The banking sector is also continuing a process of restructuring and consolidation through mergers or dissolutions of weak banks and the equitization of four state-owned commercial banks. Recently Vietnam has increased the share of stake in a domestic financial institution allowed to foreign investors, from 15 to 20%.
As part of the economic goals set by the government, the same restructuring process will apply to credit organizations. Further measures include equitization of state-owned enterprises, shifting from processing and manufacturing to production; integrating deeper into the global value chains.

The service sector, accounting for 43% of the economy, led the 2013 sectorial growth by expanding 6.5%, followed by construction sector (5.43%) and agriculture (2.67%).

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Growing prosperity and a prioritization of the biotechnology sector by the Vietnamese government drive growth in medical consumption. In the meantime, non-communicable and cardiovascular diseases are on the rise.
As private hospitals gain an increasing share of the Vietnamese healthcare landscape, the demand for medical technology grows. Based on the industry's potential, healthcare service providers, medical device manufacturers, pharmaceutical companies and medical technology firms can tap a large market while helping Vietnam improve its healthcare system.

Dental Markets

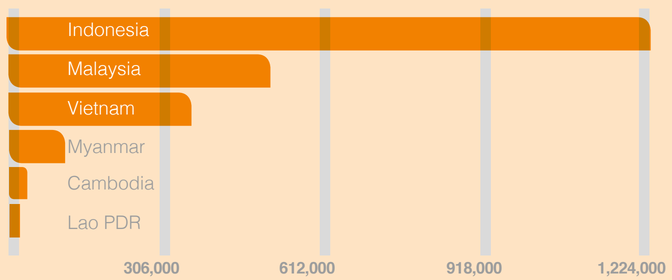
Southeast Asia

The six **Southeast Asian countries**: Indonesia, Malaysia, Cambodia, Laos, Myanmar, Vietnam share some common economic trends, including constant GDP **growth that has proven quite resilient through the financial turmoils of the last five years,** and a transition from low- to middle-income countries, although with wide variations and uneven progress among the different nations.

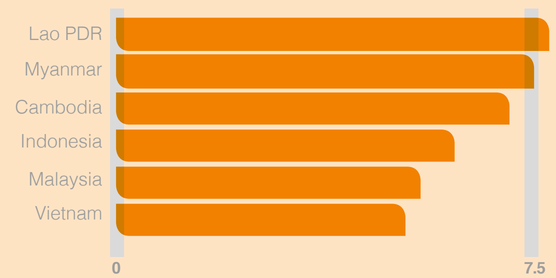
Foreign investment has increased together with the growing integration of Southeast Asian economies with the international markets, but issues such as corruption and imperfect removal of state monopolys are a deterring factor for some private players. On the other hand, the Southeast **Asian market, with over 600 million population,** rapidly growing middle class and insufficient provision of healthcare services to meet the overall demand, **offers a range of opportunities that are worth exploring.**

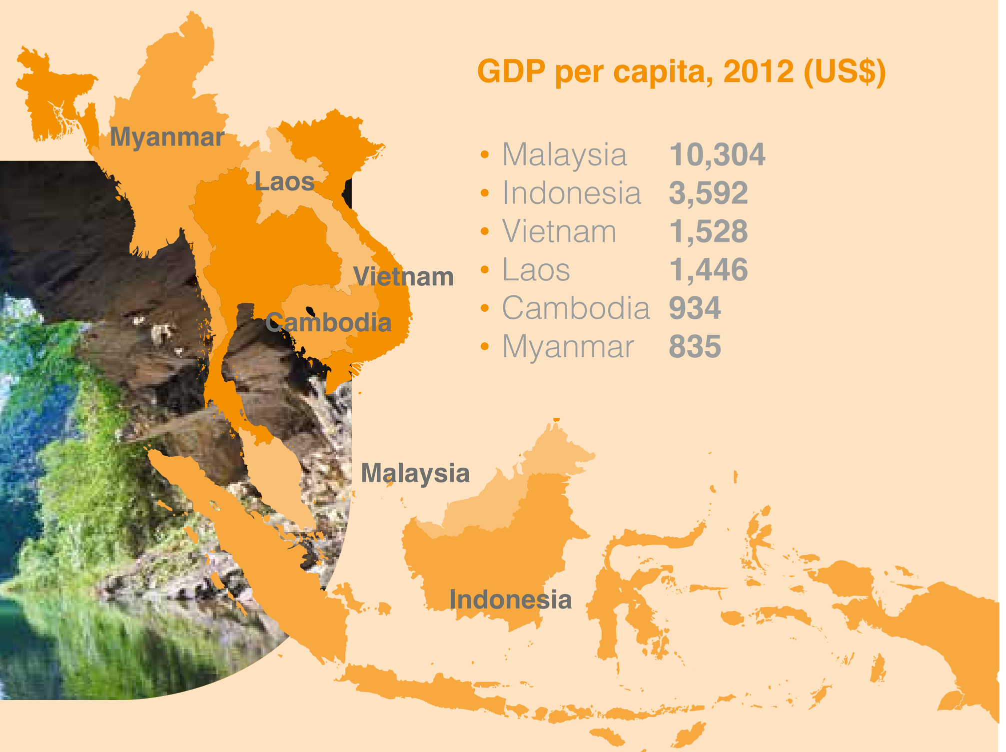
Economy - DDP Comparison

GDP at PPP (international US $million)



Real GDP growth, 2012



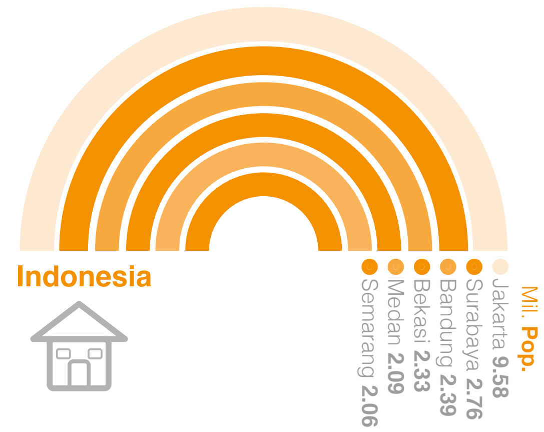


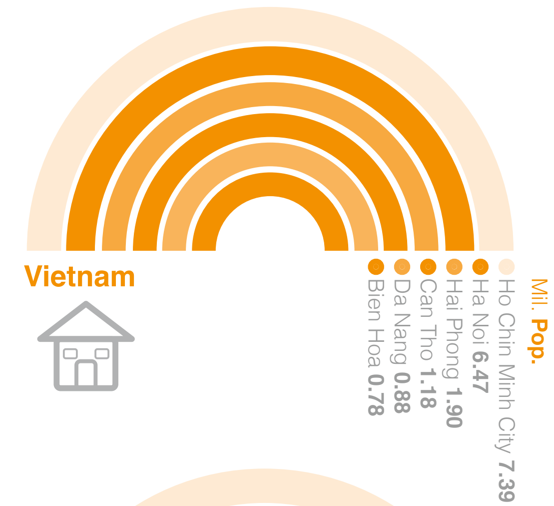
GDP per capita, 2012 (US$)

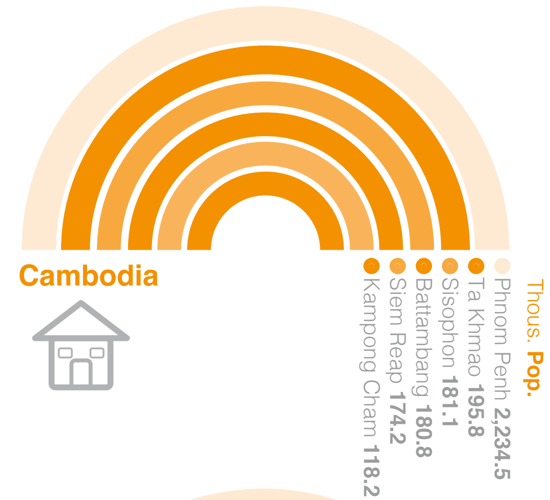
- Malaysia **10,304**
- Indonesia **3,592**
- Vietnam **1,528**
- Laos **1,446**
- Cambodia **934**
- Myanmar **835**

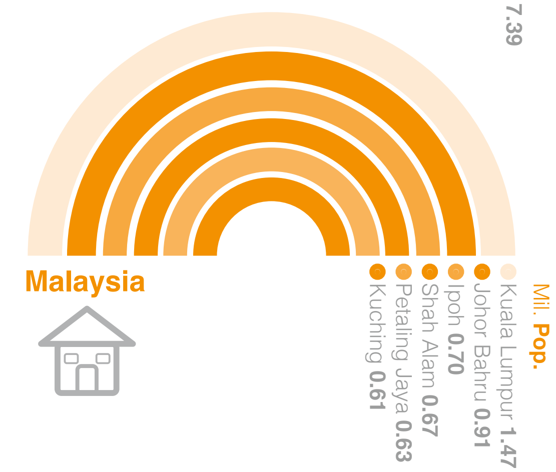
Main Cities and trade hubs

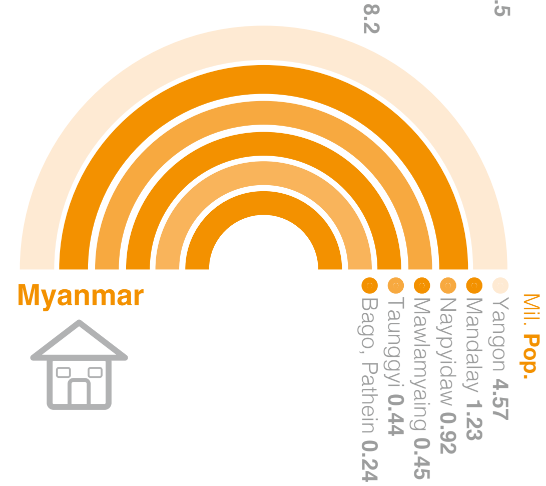
- **Indonesia - Malaysia** Jakarta vs Kuala Lumpur - Jakarta has 7 million more inhabitants, almost double GDP size ($56 billion) and faster-growing population; on the other hand, Kuala Lumpur boasts more international integration through business and administrative entities, lower taxes and lower population density and unemployment.
- **Vietnam** - Ho Chi Minh City concentrates over 20% of Vietnam's GDP, and about a quarter of total industrial production.
- **Myanmar** - Yangon and Mandalay are the most important trade hubs, but Yangon, the former capital, is the main commercial and financial centre.
- **Cambodia** - Phnom Penh, lying on the river Mekong with its port, accounts for three-quarters of the country's GDP and investments.

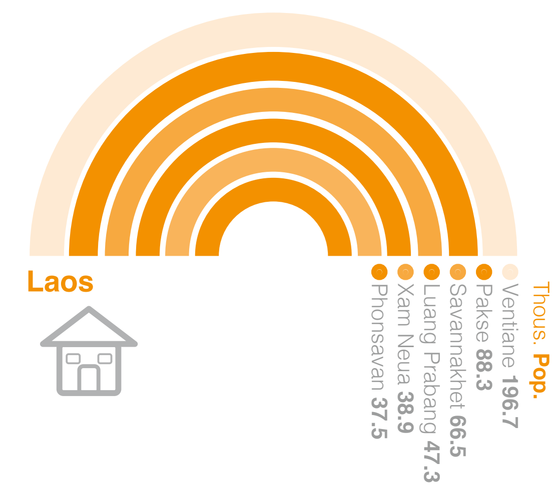












Workforce - Over the past two decades, basic literacy and numeracy skills have helped Vietnamese workers move from low productivity agriculture into higher productivity non-farm jobs. This has promoted rapid economic growth and poverty reduction.
Today, Vietnamese workers perform better in reading than workers in other countries, including wealthier ones. Looking ahead, continued strong economic growth will require increased labour productivity and a workforce with the skills to match the job market.

Despite impressive literacy and numeracy achievements among Vietnamese workers, many Vietnamese firms report a shortage of workers with the right skills. The skills gap is particularly acute among applicants for jobs in technical, professional and managerial positions, while a shortage in applicants is common among more elementary occupations.

Foreign Direct Investment (FDI)– From January to mid-December 2013, FDI inflow in Vietnam reached about USD 21.6 billion, up 54.5% from the same period of 2012. Compared to the expected US$ 13-14 billion, it is an impressive result. The main destinations of investment were processing and manufacturing industries, accounting for 77% of total registered capital. Manufacturing and distribution industries of electricity, gas, hot water, steam and air conditioning accounted for 9.4% and the remaining industries for 13%.

An interesting datum is the geographic destination of inflow, which has shifted from the long-standing Ho Chi Minh City, Hanoi and Binh Duong, to target new areas such as Thai Nguyen which attracted the highest FDI of the country, about USD 3.4 billion or 23.7% of total newly registered FDI. Other provinces were:

- Binh Thuan: nearly USD 2.03 billion (14.2%)
- Hai Phong: over USD 1.8 billion (12.9%)
- Binh Dinh: nearly US$ 1.02 (7.1%)
- Ho Chi Minh City: US$ 949 million (6.6%)
- Dong Nai: more than US$ 745 million (5.2%).

The main investors are:
- South Korea: USD 3.75 billion (26.3%)
- Singapore: USD 3.014 billion (21.1%)
- China: USD 2.28 billion (16%)
- Japan: USD 1.3 billion (9.1%)
- Russia USD 1.02 billion (7.2%)

High-quality and high-tech projects are receiving priority as FDI targets, due to the government strategy applied to shift from quantity to quality of attracted investments. According to this scheme, environmentally friendly, high-tech and high quality projects are prioritised. The implementation of this policy is made difficult by the risk of losing advantage in terms of labour resources and policies in favour of its neighbours, combined with the slow progress of infrastructure renewal and expansion and of administrative simplifications.

The Resolution 103 released by the Vietnamese government has targeted these issues by focusing on the improvement of the legal framework and incentive policies, introducing measures to encourage investment in the infrastructure sector, supporting industries and high-tech projects. Moreover, it finalised environmental regulations as well as foreign exchange, credit, land and housing rules.

The next step is to promote small and medium scale projects tailored on local economies and industrial conditions and smoothing the interaction between domestic and foreign enterprises.

Close up of a group of young Buddhist monks
BlueOrange Studio / shutterstock

In the meantime, negotiations between Vietnam and the EU are underway to establish a FTA by end 2014. The signature of such an agreement will require Vietnam to create a more transparent investment environment for EU businesses. Several issues on trade regulation and investment framework were already discussed and negotiations continue on critical points.

The labour market – According to Business Times, the Vietnamese labour market will see a 6-8% salary increase in 2014. The demand for skilled labour is rising fast and poses challenges to the ability of the Vietnamese educational system to form such human capital. The industries that are creating most of new job places continue to be automotive, healthcare, IT and insurance.

Around 30,000 wealthier Vietnamese per year seek quality treatments in neighbouring countries such as Singapore, Thailand, and Hong Kong, spending an estimated USD 1 billion: it is a potential opportunity for private investors who can provide services to this group in their own country.

Opportunities and challenges in the healthcare market – The rapidly emerging Vietnamese middle class is increasing its demand for medical care and the current provision is insufficient. Most public hospitals are large state-owned facilities offering basic services. They are concentrated in the urban areas of Ho Chi Minh City and HaNoi, and typically overcrowded by serving patients from both the local urban neighbourhoods and rural areas.

This creates opportunities for foreign investors, as private hospitals and clinics are expanding across the country and foreign ownership is allowed. Moreover, there is almost no domestic competition in the supply of high-end medical equipment and devices, neither are there import restrictions. Import duties range from 0 – 5%. It is also worth mentioning that incentives to invest include corporate income tax rate 10%, tax exemption over first 4 years of a project and 50% tax break afterwards.

In 2012, Vietnamese spent on average USD 100 or 6.5% of their annual income on healthcare. A new health insurance regulation introduced in 2010 resulted in over 90% of insured patients paying out-of-pocket between 5 and 20% for hospital fees depending on procedures and hospitals.

Around 30,000 wealthier Vietnamese per year seek quality treatments in neighbouring countries such as Singapore, Thailand, and Hong Kong, spending an estimated USD 1 billion: it is a potential opportunity for private investors who can provide services to this group in their own country. According to Business Times, the Vietnamese healthcare market is estimated to be worth USD 12 billion in 2013 and to reach USD 15.9 billion by 2017, with expected 75% growth. 50% of the 2013 expenses were direct out-of-pocket payments.

Private hospitals account for 8% of the total 1,184 hospitals throughout the country. Ho Chi Minh City alone concentrates 35 private hospitals. The room for new private players is wide; among the foreign investors that are already targeting the market to meet the rising demand there are the Singaporean Chandler Corporation, the Canadian Triple Eye Infrastructure Corporation and the Filipino United Lab to name only some recent.

However, there are some challenging factors:

- The regulatory regime is unclear, subject to lobbying and corruption, therefore market entry takes time and a certain amount of risk companies need to be aware of.
- There is shortage of qualified Life Sciences human resources.
- While the private market is growing and has great potential, its size is still limited and on the public side government spending on healthcare is also limited, with hospitals suffering chronic budgetary deficits
- Foreign companies cannot distribute their devices themselves, they must necessarily appoint a local distributor or agent.
- Newcomers are disadvantaged compared to early-2000s investors who could attract high numbers of good physicians drifting away from state owned schools, or invite leading experts to work for them, also supported by State incentives. Now, it is harder for new private hospitals to attract qualified and famous doctors.

The medical equipment industry – The Vietnamese medical equipment industry was estimated at USD 640 million in 2012. It is almost entirely supplied by imports, mainly from the US, Germany, and Japan. Local production is limited to low-end products, mainly disposables such as dressings, plastic gloves and syringes. There are, however, joint ventures with foreign manufacturers of more sophisticated devices such as x-ray, intravenous infusion kits and disposable syringes.

Oral healthcare conditions and provision – The latest available data about the oral health conditions of the Vietnamese population are quite outdated (National Oral Health Survey 2001), but they outlined some important trends:

- More than 85% of 6-8 year olds were affected by tooth decay.
- Adults had on average 8 decayed teeth.
- Most dental professionals were (and still are) located in urban areas: this means that most rural patients with tooth decay go untreated.

The dental workforce includes approximately 1,500 dentists, with one of the lowest dentist-to-population ratios among the Southeast Asian nations (1 : 60,000). Moreover, there is a worryingly high number of dental clinics and dental technicians operating illegally.

Halong Bay Tour
Gatsenko Alexander / istock

Southeast Asia: Further developments in Laos SME policy

According to recent news on Vientiane Times, the Lao government is boosting the special fund designed to support small and medium enterprises (SMEs) in view of ASEAN Economic Community (AEC) integration in 2015.

Since SMEs represent approximately 90% of business in Laos, they are crucial to the economic development of the country. More than 240 billion kip (USD 30 million) are expected to be allocated to the fund, also with the support of the World Bank and other financial sources. The Lao Finance Ministry has provided 16 billion kip to the Lao Development Bank since the fund was established in 2010. In November 2013, the Asian Development Bank (ADB) provided 120 billion Lao kip (USD 15 million) worth of low interest loans for the fund.

The program includes:

- Subsidized consultancy services for SMEs through a government Business Assistance Facility Fund supported by the World Bank.
- A credit fund to guarantee loans for businesses with good profit forecasts but insufficient assets to use as a guarantee.
- Seven SMEs centres run by both state bodies and business sectors to provide consultation and training to business owners.

Southeast Asia: Myanmar, the right frontier market to explore?

The political situation in Myanmar has long prevented foreign companies to target the market in a country that is also plagued by high incidence of poverty. However, the situation has changed with the significant developments occurred and the drop of sanctions.
An example of the different attitude is the opening of a Mercedes-Benz showroom, the first luxury automotive brand in Myanmar. It is not expected, of course, that the market transforms itself into a massive consumer of goods, especially luxury goods, in the short term. But with almost 60 million population and rising wages, the time has come for more risk-proven enterprises to try be an early-stage investor in the country.

It is, of course, a very hard task. Transparency and bureaucracy are still a big issue, but maybe the negative perceptions associated with past conditions prevent from directly experiencing if it's worth making some effort to be there. Currently, main investors come from South Korea, China and Japan, while things move slowly from Western countries. It is not wise, of course, to underestimate the bad conditions of infrastructure and energy supply across most of the country and even if wages are still lower than in China, productivity is lower as well. But considering literacy rates and incentive schemes introduced for productive workers, workforce skills are set to improve in a relatively short time.

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