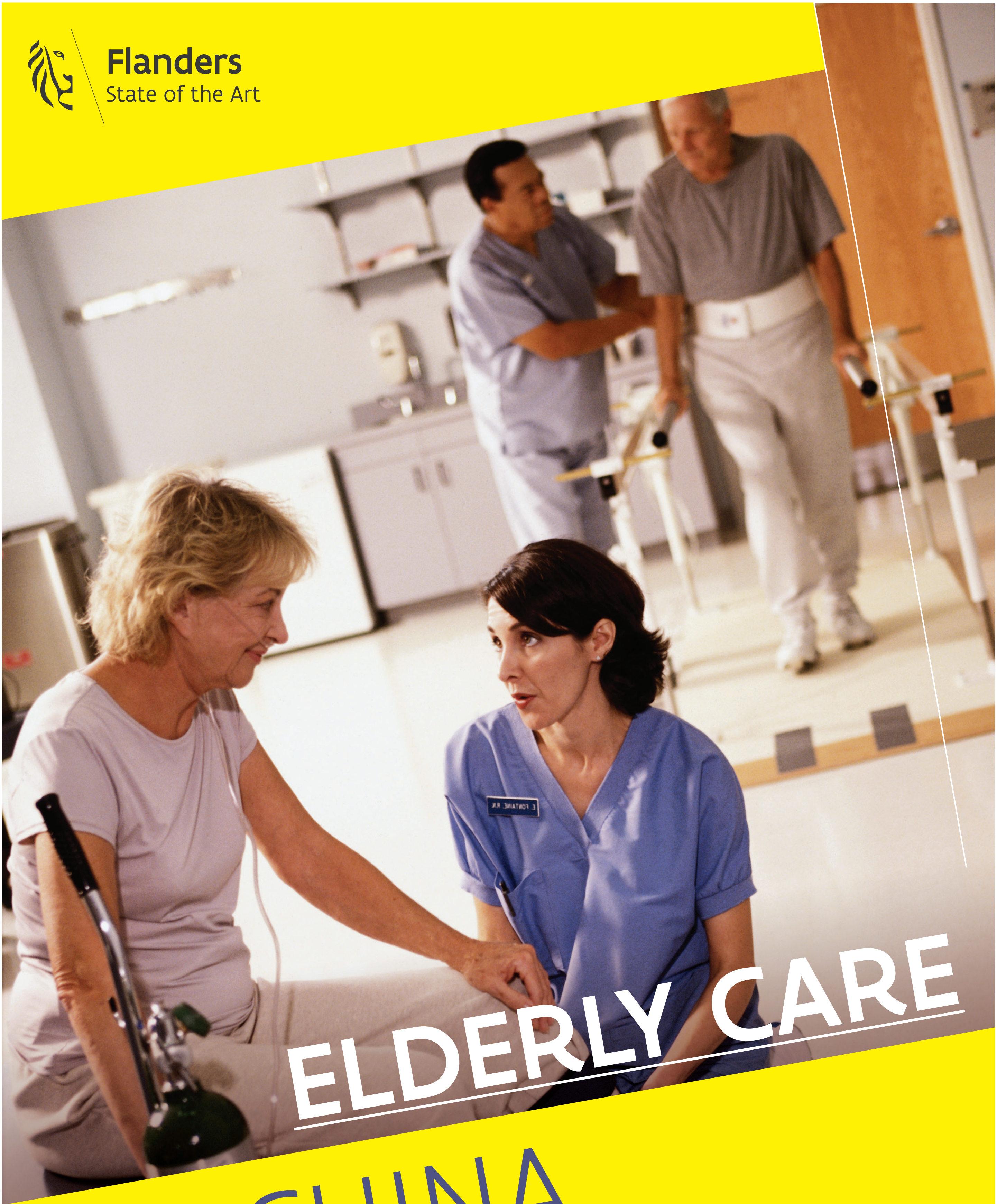
Flanders
State of the Art



ELDERLY CARE IN CHINA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

The Elderly Care Industry in China

Flanders Investment & Trade Shanghai

FLANDERS INVESTMENT & TRADE

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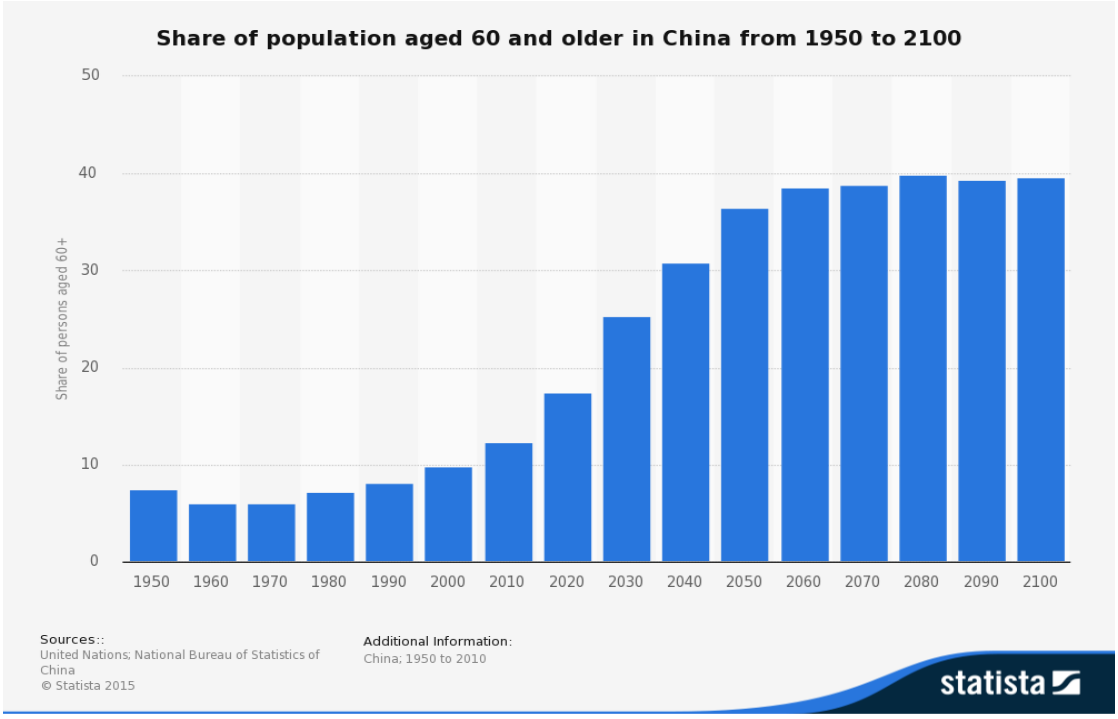
Executive summary

This report is aimed at building a basic knowledge of the elderly care industry in China. This report consists of factual data and various predicted outcomes for the industry in the future. Aspects including government interventions as well as barriers to enter and exit the market are included to give the reader a systemic bias as how to survive and strive in this growing field are briefly acknowledged. Outlining historical events that led to the shaping of the elderly care system are mentioned as well as, additional information that the reader might deem valuable about the industry is given.

The Elderly Care Industry in China



China is slowly becoming the country with what is considered the largest elderly population in terms of national population. As of the beginning of 2016, more than 185 million people are above the age of 60 years old. So far only just above 13% of the population is considered elderly, however by 2025 a study performed by the United Nations indicated that over 64% of the working population would be of ages 60 or older. This projects 33 for every 100 workers by 2050. The large influx of elderly individuals has resulted in a problem known in China as the 4:2:1 issue. The 4:2:1 issue shows that due to the one-child policy that was released in 1979, every working Chinese citizen has to provide for 2 parents who then have to issue care for 4 grandparents. It has been seen as a vicious cycle and in order to revert the process, the Chinese government replaced the one-child policy with a two-child policy.

A report given by the China Research Center for Aging from September 2014 shows that by 2050, the elderly care industry will be responsible for 33% of the GDP. Already today, at least 8% of the GDP (4 trillion Yuan) is conducted in the elderly care industry in some form.

This age gap has resulted in a potential thrive for the elderly care industry, especially with foreign adversaries. Even with the recent policy being released in early January of 2016, a gap of capable hands is to be foreseen in the next century for the Chinese people in terms of ability to care for the elderly population. The huge issue that has addressed itself in terms of sustaining the needs of the aging population is the consideration that family members have for each other, the honor of filial piety that envelops the family as a whole. Most fulfilling jobs take place in developed parts of China such as the cities or rich districts, and this causes the younger generations to follow the flow of money to these places. Unfortunately, in doing so, this has left the aged individuals trapped in their original rural locations. The opposite is happening too, lots of aged individuals are following their kids to the big cities in order to take care of their grandchildren, as their parents is too busy with their job. By the time of retirement, elders seek to be with their friends and family as well as in a place they feel comfortable in. Every player is doing their part to help focus the industry to a more attractive state, examples as followed;

- Shanghai is holding itself to unveil 8 billion RMB to promote the industry with forms of incentives
- Pilot programs in separate regions are being run such as in the Minghang District to create senior care communities which is primarily incentivized by the 30-50,000 RMB subsidy that is provided by the Chinese government.
- The State Council released a policy paper in 2013 encouraging businesses, governments, and other sectors to touch upon the newly required need to develop within the industry.

Not to be mistaken however, the creation of senior care facilities leads to big outlays and often mentions that the subsidies insured by the government, have been viewed as unappealing in comparison to the opportunity cost of entering another industry. Several existing senior care facilities have only just obtained normal profit after 2 years of operating which has caused ripple effect for other business potentially seeking to enter the industry. So far, the senior care industry is still proving to be at a stage in which governments and businesses are only testing the water rather than seeking immediate interaction. Foreign competitors still feel as if a lack of information is given about the elderly in China.

Much with many aging populations, age often leads to diseases and disabilities. An important manner to keep in mind when operating in China for the senior care industry is the fact that a substantial amount of the elderly require even more extensive care due to their disabilities and constraints. As of the end of 2015 more than 4.5 million elderly patients require long term assistance as well as extensive care initiatives.

The Process

In order to enter the industry as a profit driven foreign competitor, several stages of admission and process must be completed. A general overview of each stage is conferred below.

Stage 1 – Approval

Much like any form of Foreign Direct Investment, approval must be given by the Chinese government in order to enter. Materials to gain approval are required –

- Application form
- Intended business scope
- Articles of Association
- Board representatives
- Director appointment letters
- Statement from the State Administration for Industry and Commerce (SAIC) regarding company name must be previously approved
- Information on experienced working management team in senior care industry and/or of the foreign investor

After applying for the FDI, the provincial level commerce department will authenticate the documents and contact the applicant on whether an Approval Certificate will be accustomed. If the firm is seeking to enter one of the four Free Trade Zones in China, the applicant must then also apply for the ability to do so which should be done 30 days minimum prior to entering the market.

To obtain the 'Filing Certificate for Foreign Investment Enterprises', three documents must be ensured.

- The previously approved company name
- Filing form for Establishment, signed and sealed by authorized representative
- Certificate of the entity status of the foreign investor and the actual controlling party.

Stage 2 – Registering with the Industry and Commerce Authority (AIC)

To embark on the creation of an elderly care institution several articles must be retrieved and shown to the AIC.

- Identification document from the designated representative given through the function of an attorney
- Shareholder or Identity card for the individual applicant
- Legal representative appointment letter with identification form
- Executive, supervisor, and senior management appointment letter with identification form
- Residential contract or property rights agreement
- Application for approval of small/micro enterprise

Stage 3 – Senior care institution permit

Once the applicant has set up the enterprise in China, several indications of the establishment must be met.

- A minimum of 10 beds
- Capital available for operations
- All requirements legally are met (environmental, technical…)
- Official name and situated address.

Once these statements are complete, validity for a 5 year residential acceptance will take place. After this time period is exhausted, the firm must apply for another institutional permit. Take into account that the permit must be handed in a minimum of 30 days before unleashing business activities.

Stage 4 – Final approvals

When all prior steps have been completed, simple applications depending on what field the institution plans to operated primarily in. For all fields, a Medical Institution operating license must be completed by applying to the local health administrative bureau that will then generate a response in within 10 days' time.

In order to receive incentives based on the type of business that is operating, the firm must state the form of business they want to operate in (non-profit or for-profit). While non-profit will usually be provided with more influential incentives such as greater tax support, for-profit institutions can still acquire a select benefit in reduced administration fees, favored utility prices, and or VAT exemption. All forms of benefits can be employed, granted the conditions separate to the regions are met accordingly. Almost all conditions are naturally met such as providing life care services as well as accommodation and should therefore not prove to be necessarily strict.

Challenges that may arise

Before actively seeking to orchestrate a business strategy for a foreign company in the Elderly care market, it is important to oversee a few potential problems that are needed to overcome.

Firstly, medical teachings for the elderly is not a very popular practice in China and is not necessarily seen as a prestigious job to say the least. This means that there is a substantial small amount of professionals in the field who are able to treat senior citizens. Therefore a large abundance of human resources is visible in China normally leading many foreign practitioners entering the country to fill the need. While in most cases this wouldn't be an issue, a cultural and language barrier still prevents efficiency and incentives to do so.

Secondly, government policies tend to restrict business activity for the senior care industry. Several applications and qualification standards must be met since this form of commerce fits under medical services. A lack of clear understanding is what normally scares the Foreign Direct Investment investors back and is only truly made simpler with a joint venture from a Chinese firm.

Thirdly, asymmetric information given of the designated market segment can allow for costly changes in the future. For example, plenty of private facilities have been targeting wealthy individuals over the age of 80 since they require extensive care and medical services. This is to allow high revenue to manage the high costs. Others have issues for the elderly above the age of 60 who require no significant care models and thus resulting in low costing routines. Unfortunately, neither strategies from private investors prove to be significantly successful since matters of filial piety took over the initial construct plan of how operations were being held. The priority of seeing family members as well as receiving the care needed was not met resulting in low demand. Home care has been receiving a larger influx within the industry than privatized facilities.

Specific firms within the industry

In seeking Flemish companies in which to aid on the conquest of investing in the senior care industry of China, some specialized firms will often come to mind.

Vermeiren, a firm based in Antwerp on helping those with any handicap acquire simple solutions through medical equipment is portrayed as a major player in the world operating in 45 countries, mostly in Europe and Asia. Their company has been constructing products ranging from hospital beds, shell chairs, and wheelchairs to bathroom aids and ramps. This firm is noticeably popular with its ability to transform a basic concept to a finished product with ease.

AWG, specifically in Shanghai is undergoing construction of senior care facilities to meet the new prerequisite policies that are constantly introduced in China. This architectural firm is showing Flanders' influence in the market from their ability to provide sufficient care infrastructure for the industry.

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