

HEALTH CARE AS AN ENGINE FOR ECONOMIC GROWTH



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THE INSTITUTE FOR HEALTH POLICY AND SYSTEMS RESEARCH

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Welcome

Dr Geoffrey Lieu, Chairman, IHPSR

Welcome to the Institute for Health Policy and Systems Research conference on *Healthcare as an Engine for Economic Growth*.

As healthcare professionals we all know that good health contributes to social and economic well-being. And so goes the Chinese saying, “Health is Wealth”.

Today, we are going to explore the concept of healthcare as an engine for economic growth, a concept that is significantly different to health and its relations to productivity and, therefore, the capacity to create wealth. How to move from health to healthcare, and as an engine for society’s economic growth, is something that is both intellectually intriguing and professionally exciting. However, the path to success in this direction and how it works, viewing it from those economies and countries that have trod down this path, are not entirely clear.

We know our healthcare system has done a lot to improve and sustain people’s health and, if the creative energies of our healthcare professionals are properly released, can do even more to benefit Hong Kong’s own residents as well as those who come our way. Our healthcare system, however, stands in great contrast to the free-market economy of Hong Kong. It is probably one of the most socialistic systems in the world. It has been very much an inwardly oriented system, and rightly so for past decades, focusing on enhancing and maintaining the health of our residents.

If we are to crank up our healthcare system as an engine to economic growth, perhaps in the form of a medical hub for patients in the region or the Mainland, then we must make a number of changes. At the very least, we will have to embrace a market orientation into our policy, our thinking and behavior. These are things that will be challenging and perhaps controversial for some or many of us.

If we think broadly and globally, we will recognize that healthcare has become a service without geographic boundaries. International patients and medical tourists are familiar terms to most of the world’s renowned medical institutions, both in the

East and West. Twenty years ago, the teaching hospital that I managed in the US began treating patients who were prominent industrialists and national leaders of foreign countries. Somehow, Hong Kong today seems to lag behind our neighbors, such as Singapore, Thailand and even Malaysia, in attracting international patients and medical tourists.

As both a Hong Kong resident and healthcare worker, I am glad to learn that our Chief Executive, Mr Tung Chee-hwa, has, in his recent policy address, pronounced that our healthcare system can be further developed into an industry to serve people in the Mainland and elsewhere in Asia and that the Government will study how our immigration and related policies may support such development.

This morning, the honour of the presence of Mr John Tsang, Secretary for Commerce, Industry and Technology, to give us the keynote speech of this conference, is a steadfast indication of the our Government's interest in and support for developing Hong Kong's healthcare system into a regional hub to serve patients from both the Mainland and elsewhere in Asia. We shall be most interested to know how we should best position and align our energies and actions with this exciting development.

Keynote Presentation: Health Care as a Strategic Export Industry of Hong Kong

Mr John C. Tsang, Secretary for Commerce, Industry and Technology

It is my great pleasure to have been invited to speak at the Conference of the Institute for Health Policy and System Research. You may find it odd that I am speaking at this Conference instead of my good friend E K, but it is no accident. Healthcare can, indeed, be an engine for economic growth, and for an economy in transition like Hong Kong, healthcare can be the engine that we need to drive us into the next era of prosperity. And prosperity is part of my portfolio.

Healthcare as a driver of economic growth

I see many healthcare experts out there in the audience, and it is with a great deal of trepidation and humility that this layman wishes to share with you today his humble views on how healthcare could provide opportunities to drive our economic growth, in contrast to a commonly, but falsely, held perspective that healthcare is nothing more than a necessary welfare burden to our community.

No doubt, healthcare is one of the largest spending items in many households and, indeed, many governments around the world. In Hong Kong, it is one of our top spenders in terms of public expenditure. In fact, expenditure on the provision of healthcare services constitutes more than 15% of our total public recurrent spending in 2002-03. The sum of public and private expenditure on healthcare, standing at \$64 billion, represents 5% of our GDP in 2000-01. With such massive investment, you will not be surprised that our life expectancy at birth is a staggering 81.5 years, second only to Japan in the world league. Our overall mortality rate is only 5 per thousand population, and the infant mortality rate remains at a low level of 2.7 per thousand registered live births. These statistics compare favourably with most developed economies. They have been brought about by our excellent healthcare system, together with the rapid socioeconomic development in recent decades, resulting in the provision of better education, improvement in nutrition, hygiene and sanitation in our community.

Promoting healthcare services

Both public and private hospitals in Hong Kong are well equipped with modern facilities utilizing advanced technology to provide state-of-the-art medical services in specialized fields, including transplant surgery, microsurgery, laparoscopic surgery, endoscopic intervention and radiodiagnostic techniques. Hong Kong has an established international reputation in many areas of medicine, such as treatment of liver diseases, cancer, cochlear implant and skin grafting for severely burnt patients, among other things. The superb quality and professional standard of specialist care in Hong Kong are renowned and highly commended. Management of various diseases based on the most updated research evidence is widely applied. For the

quality assurance of clinical care, structured clinical audit procedures are standard components of our overall protocol. You will agree that we have put in place over the years a comprehensive, high quality healthcare infrastructure right here in Hong Kong.

These excellent fundamentals present enormous opportunities for Hong Kong to develop into a centre of excellence in healthcare for the entire region. With increasing economic integration with the Mainland, the improving transportation network, the rising affluence of Mainland people, the aging population, etc, Hong Kong is well positioned to play a larger role in terms of healthcare service provision. I have heard that there are tourist agencies that are keen to organize inbound health tours from Mainland cities to Hong Kong to take advantage of our excellent facilities. This is not surprising. Indeed, this would be the sensible thing to do for affluent Mainland residents, as well as those living in the other parts of our region.

The application of evidence-based Chinese medicine, complementing the use of Western practice, presents an additional attraction that is unique to Hong Kong. With the development of internationally recognized standards, we are paving the way to not only developing Hong Kong as the centre for Chinese medicine and practice, but also supporting the modernization and globalization of Chinese medicine. The ramifications are far-reaching.

Manufacture of Medical Equipment and Medicine

Another area with tremendous commercial potential is the development and manufacture of medical equipment and medicine. This presents another avenue for Hong Kong to export our healthcare expertise in the form of merchandise goods, such as drugs and medical equipment, and also to increase opportunities for technology transfer and commercialization. We have witnessed clear emerging potentials in terms of product design, key technology identification, testing and validation analysis.

In fact, Hong Kong has been the leading participant of many large-scale, international, multi-centre drug trials and has attracted handsome investments from international pharmaceutical firms. In the medical and healthcare equipment sector, Hong Kong's total export stands at HK\$7 billion in 2002. The Mainland market, followed by the US and EU, are the top three markets for Hong Kong's exports. Hong Kong enterprises' expertise and focus in product design and development, engineering, modelling, tooling and quality control have enhanced the competitiveness of their products and services.

Hong Kong's Strengths

The two medical schools in Hong Kong have established themselves as pre-eminent centres for biomedical and clinical research. A cluster of advanced research facilities, such as the HKU-Pasteur Research Centre on Microbiology and the Genome Research Centre, provide the focal platform for pioneering R&D activities. We have in our midst many of the world's top scientists and researchers in the biomedical field.

With a world-class research community, Hong Kong has the capability and capacity to push further the new frontiers, and investigate new diseases that transgress our peaceful existence. Still fresh in our memory, the research team in the University of Hong Kong was the first in the world to announce on 22 March 2003 the identification of a new variant of coronavirus as the infectious agent responsible for the SARS outbreak. This discovery was made at an unprecedented pace, 10 days after the World Health Organization declared the global alert and 5 days after the outbreak was named SARS. The excellence of our research community can be further demonstrated by their contribution to international peer-reviewed publications. I am proud to note that Hong Kong accounts for about half of the total number of scientific papers published on SARS so far.

To support the excellent work of our research community and to facilitate technology transfer and commercialization, we have established a portfolio of funding schemes to encourage applied R&D Projects undertaken by local research institutions and companies. The Innovation and Technology Fund alone has supported 68 biotechnology and Chinese medicine projects with a funding commitment of HK\$182 million. Projects funded cover a wide array of research areas, ranging from bioinformatics, molecular diagnostics and detection, drug/therapeutic discovery and development, and biopharmaceutical manufacturing platform technologies.

On commercialization of R&D deliverables, recent developments in molecular biological technology has yielded many inventions, including new and powerful tools for the detection and monitoring of diseases. These technologies, developed by academics in Hong Kong, have been licensed to large international companies as well as Hong Kong-based biotechnology companies for introduction to the commercial market. Examples of these technologies include non-invasive pre-natal diagnosis, and tool kits to detect liver cancer, nasopharyngeal carcinoma and stroke.

We also attach great importance to building up the technology infrastructure. Biotechnology and precision engineering, which are closely related to the manufacture of medical equipment, are amongst the technology clusters that the Science Park is actively developing. A consultancy study on the development of biotechnology clusters in the Science Park is being conducted. The results will point us in the direction that will take us to the next level of growth.

We have also established the Applied Science and Technology Research Institute, which pursues quality applied research and development for transfer to industry. The Institute has identified biotechnology as one of its research directions and will initiate R&D projects in this area. ASTRI's subsidiary, the Hong Kong Jockey Club Institute of Chinese Medicine, is tasked to strengthen our scientific and technological base on Chinese medicine, and to facilitate the commercialization of Chinese medicine-based products.

To enable all these activities to sustain themselves in Hong Kong, we need in place a robust regime for the protection of intellectual property rights (IPR). An environment where IPR would be seriously guarded is of paramount importance for

leading-edge R&D and high end activities to flourish. We protect IPR in Hong Kong through the application of a comprehensive legislative framework, rigorous enforcement actions, intensive public education and close cooperation with IP owners. Our Customs and Excise Department has one of the strongest dedicated enforcement teams, and probably one with the most successful records in the region. And I know that first hand. Our work on IPR protection is well recognized and highly commended by our major trading partners, including the US, and we have been regularly cited as the model for the rest of the region to follow. This regime will prove valuable to the maintenance of a successful healthcare service delivery network in Hong Kong.

Opportunities for Hong Kong

According to the World Health Report released by the World Health Organization (WHO), the world average life expectancy will rise to 73 years by 2025. The number of people aged 65 and over will increase from 390 million in 1997 to 800 million in 2025, making up 10% of the total world population. These trends give us a clear message: the demand for medical and healthcare services and products will increase. This will no doubt present tremendous commercial opportunities for Hong Kong.

We don't have to look far. The Mainland alone will provide an enormous market for Hong Kong. According to WHO statistics, total public and private healthcare spending in the Mainland grew from 3.9% of GDP in 1995 to 5.3% in 2000. Its medical device market is the 11th largest in the world, the largest in Asia outside Japan, and one of the fastest growing in the world. The potential is massive.

As the Mainland population becomes more affluent and health-conscious, the demand for high quality healthcare services and products will rise. Given our close economic ties with the Mainland, and our understanding of the market needs, Hong Kong possesses a unique advantage in tapping the Mainland market. This advantage is further buttressed by the Hong Kong-Mainland Closer Economic Partnership Arrangement.

Under CEPA, Hong Kong professionals will be able to provide medical, dental and Chinese medicine services in the Mainland. CEPA also gives our pharmaceutical products tariff-free access to the Mainland market. Co-operation between the Mainland and Hong Kong will also be enhanced to facilitate trade and investment in the Chinese medicine industry. Apart from the immediate effects of allowing direct market access for Hong Kong's healthcare services and products, CEPA has augmented the attractiveness of Hong Kong as a location for high-value-added manufacturing, and promotion of Hong Kong brands of high-end healthcare products to the Mainland. To take advantage of the CEPA benefits, a Chinese medicine company has recently relocated its production plant from Beijing to the Tai Po Industrial Estate. And we expect more to follow suit.

In summary, you can see that we have built up over the years our capability as well as our capacity in the healthcare sector, from facilities and infrastructure to technical know-how, leading-edge knowledge and robust protection of intellectual property.

The Government will continue to encourage and support research and development as well as technology commercialization, and provide a conducive business environment for the healthy development of the healthcare sector. With input from medical experts like yourselves, I have every confidence that our businessmen will seize this unique opportunity, paying recognition to the strengths of Hong Kong and the needs of the region, take the best possible commercial decisions in bringing together the right combination of expertise, and exploit fully the opportunity that presents itself. In so doing, provision of healthcare services will, indeed, become one of the principal engines for our economic growth in the new era of prosperity.

Section 1:

Health Care as a Business: A Socio-Economic and Medical Perspective

Chairman: Professor SH Lee

Health Care as an Engine for Economic Growth: Issues and Challenges

Professor Phua Kai Hong
Associate Professor of Health Policy and Management
Head of the Health Services Research Unit
Department of Community, Occupational and Family Medicine
National University of Singapore

From an economic perspective, health care and economic development are very closely linked. In a recent WHO report from the macroeconomic and health commission, investments in public health yielded returns in improved productivity, which contributed to GNP growth; every 10% improvement in life expectancy correlated to approximately 0.5% increase in GNP. While this relationship is contrary to previous research, this is conclusive evidence that health itself can drive economic growth.

Economic development leads to improved health status and increased healthcare spending. However, consumption of excessive high-cost medical technologies does not yield better returns, and is grossly inefficient. This can be seen in some developed countries, where there is excessive, wasteful spending and no correlation between the increase in spending and improvement in health status.

Professor Phua said that, based on economic models, the following economic conditions are required to develop an efficient healthcare market:

- No consumer ignorance
- Free entry and exit of suppliers
- No natural monopolies or barriers to free competition
- No external costs and benefits
- Minimal risk and uncertainty
- No divisibility and substitutability

However, health care is very different to other products and services, and it would be very difficult to achieve the above requirements in the real world. The government should have a role in balancing equity and efficiency in the healthcare market in terms of provision of service, financing and pricing, quality and safety regulation, and provision of information to reduce consumer ignorance and maximize usage of the healthcare system at the most cost-effective level.

Health Care in Asia

Professor Phua, drawing from his World Bank study, observed that there is a high level of private provision and financing of health care in the Asia-Pacific region. This is proportionately higher than other regions in the world. There is also a great deal of private financing in the informal, non-government sector involving traditional care. Consumers in Asia now have higher purchasing powers and are 'voting with their feet'. They are no longer happy with the low-quality care provided by the government. The government has no choice but to continue privatizing and deregulating their own services, to improve efficiency and quality and to encourage the healthcare sector to grow. There is also a lack of legal and regulatory framework, and very weak enforcement of laws and regulations. There is infringement of copyrights and intellectual copyrights; which is of concern to multinationals and potential investors. Lastly, Asian governments must take steps to ensure high quality and to reduce potential safety risks.

The projected consumer healthcare expenditure in Asia in 2013 is US\$600 billion, with Japan spending the most, at US\$400 billion. In addition, countries with national health insurance tend to spend more, between 5-7% of GNP. In comparison, countries with national health models (e.g. Hong Kong and Singapore) spend between 2-5% and get very good outcomes. Yet our health indicators are above some of those countries that overspend. In 2004, The Freedonia Group has estimated that US\$540 billion will be spent on health care in developing regions. This is expected to grow at an annual rate of 9% in the developing countries of Asia. Healthcare expenditure for Asia-Pacific nations, excluding the advanced economies like Japan, Australia and New Zealand, is now US\$207 billion, with China accounting for the largest contribution. Outpatient care will account for the fastest growth, with hospitals continuing to contribute the largest share of expenditure.

How Singapore is Facing the Challenge

Singapore's national health expenditure in 1999 was about S\$4 billion – 3% of GDP and half that of Hong Kong. Over the last 20 years, the government has restructured its healthcare financing and moved away from the subsidized British/Hong Kong model. Government healthcare expenditure is very low, just over S\$1 billion in 2000 due to savings, insurance and co-payment schemes. Before the regional crisis, it was clear that a regional medical hub was developing in Singapore in terms of inbound foreign patients. These patients were seeking high-quality care and were willing to pay for the quality. Professor Phua believes this trend to seek out quality care is increasing. Patients would also prefer to go to regional medical hubs rather than travel to the West.

Following the regional economic crisis, the Economic Review Committee (ERC, 2003) made several recommendations to boost the economy. Its aims were to:

- Attract one million foreign patients by 2012
- Grow the market share from 1% of GNP to 3%
- Contribute 2.6 billion dollars to the GDP
- Create 13,000 jobs.

Recently, in an effort to attract foreign patients back from Malaysia, the Singapore government invested S\$2 million per year on advertising.

Traditionally, the four pillars of economic growth in Singapore are tourism, trade, financial services and manufacturing. Now the ERC are developing new pillars, of which health care is one. The vision of the Singapore Economic Development Board (EDB) is to become a global medical hub providing a comprehensive range of world-class, value-added medical services in Singapore. Within the EDB is a cluster under biomedical sciences, which consists of the pharmaceutical industry, medical devices, equipment and supplies, healthcare services and biotechnology. By developing all of the services linked with health care, the end product will be more sustainable.

The government is committed to spending S\$2 billion in developing the biomedical/life sciences industry and will continue to attract big name pharmaceutical companies to Singapore to perform local R&D. High-level committees and international advisory councils are set up to support future developments and ensure a standard of excellence in terms of quality as well as legal aspects. Trends and issues in the biomedical/healthcare industry in Singapore currently include genome research, human stem cells, the move from research to business, global biotech investing, intellectual property rights, licensing and patent laws, and social and ethical issues.

Professor Phua cited the following as examples of the recent heavy investment into the biomedical/life sciences training and research institutes in Singapore:

- John Hopkins combined with the National University Hospital to establish an experimental centre for delivering health care
- The Singapore genomes programme, renamed the Genomes Institute of Singapore
- BioPolis Project, a multi-million dollar biomedical research project, will open this year.

Singapore is also researching the ethical, legal and socio-economic issues of new technology. It will also be important to ensure that these investments will be cost effective in terms of returns. Educating the key user groups to strengthen the links between the medical industry and healthcare sectors will also be vital.

Conclusion

Life sciences offer much potential for medical progress and the development of the biomedical industry. Health care has been shown to be a source of consumption or investment in economic growth, depending on how funds are utilized. The potential economic benefits of developing the healthcare industry must be balanced by the social costs. What is the impact on the local community? Will it drive up costs, or create inequity in the population? Lastly, evidence-based economic evaluation should be an essential tool to support this new growth in health care.

From Care to Profits: Whither Medicine?

Dr KH Lee
Honorary Clinical Assistant Professor
Faculty of Medicine
The University of Hong Kong

In the practice of medicine, caring for patients should come first, before profits. Dr Lee based his lecture on private practice in Hong Kong, as he believes that some of these doctors may be sacrificing quality of care for profits.

In ancient China, the medical doctor (or herbalist) was not a well-to-do person, charging a small fee for consultation and leading a humble life. Even in the first half of the 20th century, when medicine was very Westernized, doctors did not regard medical practice as a business concern and supplied good care. Later, when the economy was booming, private practice became popular. Doctors became very busy and spent less time with each patient and made more profit. Some doctors also started charging astronomical fees. As it is today, the Hong Kong government has never regulated fees. Only in 2000 did the Medical Council, a non-government organization, introduce a fee guideline, stating that a doctor should not charge or collect an excessive fee.

In the last 10 years, private doctors' profits have been eroded, due to a poor economy, over-supply in the private market, and more patients (nearly 93%) choosing the public sector. In an effort to minimize loss of profits, some private doctors have chosen to embark on undesirable practices; for example, unnecessary investigations or procedures, and over-prescribing of medications. Some doctors may suggest unjustified weight reduction, dubious laser treatment or use unnecessary alternative medicines. There are also unethical practices, which are specifically cited in the professional code of conduct:

- Advertising and canvassing
- Mislabelling of medicines
- Supply of a dangerous drug
- Untrue certificates for sick leave
- Associations with beauty parlours
- Improper financial transactions (fee splitting, rebates).

In 2001, the Medical Council received 236 complaints, of which 53 were considered unethical practices. There are also complaints about the HMOs, which tend to have low remuneration, a high administration fee and supply sub-standard care to patients.

Over the years, some doctors have shifted from providing good care and gaining reasonable profits to becoming more concerned about profits than care, which can sometimes lead to bad practices. While this is not entirely in keeping with the conference theme of making money from health care, it is a timely reminder for doctors that in their quest for profit, the standard of care must not be compromised.

Private-Public Collaboration

Professor PC Leung
Department of Orthopaedics & Traumatology
Chinese University of Hong Kong

Drawing on his many observations on healthcare provision in Hong Kong during his years of service in public hospitals, Professor Leung reviewed how the public and private sectors should collaborate to generate a medical hub in Asia. As it stands today, the public and private sectors operate independently.

The Current Healthcare System

In Hong Kong, health care is basically a charity system, relying totally on taxation for funding. There is no individual contribution and little health insurance. This is unreasonable because health care has become extremely expensive. Currently, the Ministry of Health is the major provider of healthcare services in the hospital (ie, specialist services) and the subordinate supplier in the primary health service (ie, family health services), but there is no policy on collaboration between the two arms. Recently, as the public sector has improved, it has come into direct competition with the private sector, which has upset many private practitioners. There is also competition between hospitals. The need for change – a move away from the charity-based system – is felt even more today than it was 15 years ago.

The Benefits of Collaboration

The Ministry of Health could re-define its role, not as the major service provider but as a regulator and purchaser, and position Hong Kong as a regional medical hub. The public hospitals and clinics should be reconstructed to allow for better collaboration and to provide more private practice, either alone or jointly. However, outsourcing to the private sector has been discussed for several years and yet, for various reasons, not practiced. Currently, the public primary-care sector has a large patient load requiring specialist care. As there are plenty of experienced specialists in the private sector, collaboration could improve the quality of care and medical teaching. These changes must take place if Hong Kong is to be considered a regional medical hub.

In Singapore, primary healthcare partnerships are being advocated, for example in elderly and dental care. Provision of health care in prisons, equipment sharing and health screening are other areas of cooperation. Professor Leung explained that by improving family health care in Hong Kong through private-public cooperation, the burden would be lightened on hospital services and financial savings could be made. Private general clinics should be encouraged to start a continuous family-care programme so that pre- and post-hospitalization connections could be established. Private specialists should also provide training to the public sector and post-internship graduates. Public sector doctors should also have the opportunity to work part-time in the private arm of medicine.

Hong Kong has an excellent medical training system that stands it in good stead to become the medical service hub. Compared with the Mainland, Hong Kong's medical students have two more years training and undergo specialist training through professional associations such as the Academy of Medicine. When the economy in China improves and mechanisms are in place, Professor Leung believes that Mainland medical students would come to Hong Kong to receive their specialist training. Furthermore, the hospital equipment and knowledge of specialist procedures in Hong Kong is, in general, far superior to that in most Mainland hospitals. Professor Leung suggested opening up courses, such as nursing, physiotherapy and occupational therapy, to China as a means to helping them progress.

Conclusion

Much action must be taken to establish a medical hub in Hong Kong, and one of the first steps should be private-public collaboration. This has been discussed many times in the past yet nothing has happened. Perhaps it would be easier to start with small-scale projects in the academic/private arm rather than doing more general pilot projects, which tend to be ruled by administration issues. Examples of small projects could be health checks for elderly people. Once these projects are initiated, they will become the norm. Mutually supportive and efficiently run private and public sectors of health care would promote Hong Kong's economy and encourage millions of visitors across the border to seek health care.

Section 1: Open Discussion

Comment – Dr Wong:

I would like to add that the Hospital Authority is actually doing what Professor Leung described. I will briefly describe to you the changes in training, research and service provision. We have been organizing to work with the universities under the Institute of Healthcare to provide training for both local and foreign healthcare professionals, in the areas of nursing, healthcare management and other healthcare related activities. The infrastructure to support research in the Hospital Authority has been strengthened substantially and we are involving universities. We are improving our research ethics and have standardized policies for the Research Ethics Committee. So we are well geared to accept business from, say, the pharmaceutical sector. With regard to service provision, specialty services in the public hospital sector, from private practitioners, and from public specialists practicing in the private sector are all directions that are currently being developed. With regard to primary and community health care, we also have a very strong development. Over the past couple of years, specialists in family medicine have been employed by the Hospital Authority to work, train and lead the services in the public hospital sector. More importantly, we are developing contracts for the movement of graduates from family medicine into the private sector. There are already examples of new graduates from family medicine going into the private sector as junior partners or employees. We are also working with the private sector in areas of elderly care and rehabilitation. We are heading in the right direction, but perhaps we have not been publicizing these activities enough.

Q – Dr CK Chan:

Health care as a business is a new concept for doctors in training. As Dr Lee rightly mentioned, we are trained to care rather than to do business. So if we regard health care as a commodity and we market it for economic growth, do we have to change our mindset both from the public and ethical point of view?

A – Professor PC Leung:

Personally, I don't think there is a contradiction between the two. I can follow the basic ethics of medical practice and regard medical service as a business because I consider myself a craftsman. Business groups, the government and HMOs take care of the economic side. If business is not good and prosperity is not sustained, the livelihood of all medical practitioners, as well as research and teaching, is affected. The Singaporean example is very important, as they are always timely to react and adapt to requirements while maintaining ethical principles.

Comment – Professor Phua:

Most of the former British colonies are facing the same problems now. How should they shift from a predominately public system that is financed by taxes, where doctors and healthcare workers are paid salaries? How do you develop incentives

for them to change their mind set? The finance system must be reformed. Health care cannot remain heavily subsidized and almost completely free, as quality will not be sustained. Where will the money come from, especially in light of the economic downturn and the ageing population? Users should be charged and doctors should have incentives, or bonuses linked to performance, not seniority, as high salaries cannot be sustained. Also there should be stronger enforcement of the law to ensure that all practices remain ethical during reformation. As more private practices develop, you have to regulate more tightly. So the governments' role therefore will change – it will need to provide more regulation, policies and guidelines.

Comment – Professor PC Leung:

I would like to add one more point I failed to make in my lecture. I was in China recently and heard about a media group that was rating which industries had the best chance of success in China. The top one, as expected, was land and premises, second was education, and the fourth was health care. This shows that as people are becoming more affluent, they have more consideration for good quality health care. This is the time we really need to be proactive in this market, if not in China, then in Hong Kong.

Q – Professor Grace Tang:

In terms of improving the economy of health, I would like to ask Dr Leung and Dr Lee, where are the hurdles? What are the hurdles for the private sector to import and export medical services like Singapore has done?

A – Dr KH Lee:

One of the hurdles is to decide which sector can be developed to cater for international patients. I believe that, in Hong Kong, the more advanced technologies are in the public sector, not in the private sector. As it is, the administration has no desire for developing the private sector because the private sector is largely left to its own devices. In only one or two of the 11 private hospitals can you say that the technology is on a par with the public sector, which is, of course, at international standard. The question of whether the medical hub in Hong Kong is to be in the public or private sector has not yet been answered by the government.

Section 2:

Regional Medical Hub: The Inner Experience from the Asia-Pacific Region

Chairman: Ms Alice Chin

Health Care as a Business in Asia: Trends, Issues and Lessons

Mr John Lee
Managing Director and CEO,
Samitivej Public Co. Ltd, Thailand

Many hospitals in Hong Kong are private but are non-profit making. However, in Thailand, Malaysia and Singapore, hospitals and healthcare corporations are now listed on the stock exchange and are making money. For example in Singapore, KPJ and Raffles were formed by groups of doctors and investors in the 1980s. Many of these new-style corporations were formed by doctors motivated to improve the provision of health care.

During the economic crisis of 1997, many hospitals had to downsize and divest. Eventually, through mergers and acquisitions, health companies grew again and created new opportunities for development. This past is a lesson for the present and a prelude to the future. Hong Kong can now learn lessons from other countries in Asia and avoid some of the pitfalls that were encountered elsewhere. It may want to follow Thailand's example. Thailand has a very open policy with respect to private medicine. In the evening, doctors working in the government sector are allowed to run their own private clinics, helping them to develop their business and clinical knowledge. Mr Lee believes that Hong Kong has the know-how to develop its private sector into a business, as other Asian economies have done.

There will be many opportunities to develop private health care in the future due to the ageing population, urbanization, the demise of the extended family and the increase in lifestyle-related diseases. There is also a shift from acute care to chronic illness management and holistic patient management. Quality of life rather than disease cure is more important now, for example with cancer or diabetic patients. Whoever is able to adapt to these changing patterns will be the ones who attract patients – this is the law of supply and demand. Specialist, hospital-based care will slowly shift to the primary-care setting using an integrated health delivery network. In Thailand's hospitals, many patients speak different languages and travel from afar. This can happen in Hong Kong. There will be major growth in China's economy in the future and people will be willing to travel to seek out better health care. Even though Hong Kong's health care may be more expensive than healthcare services in some other Asian countries, there are individuals who will be able to afford it.

There will also be a shift in terms of the financial risk of health care. Previously in Thailand, the patient paid for health care; then it was the responsibility of insurance companies/employers; now, the risk is shifting to the healthcare provider through taxation. Mr Lee believes this financial risk will be a motivation to be more efficient and creative. He added that there are some potential threats in exporting health care. Severity of illness and suitability for travel is always an issue. However, protecting medical practitioners is a more severe threat – licensing requirements and professional liability insurance coverage are areas that will need clarification.

Changes in health care will always bring both opportunities and threats but those who choose to be leaders will be able to anticipate change and act to take advantage of the opportunities. Mr Lee believes Hong Kong can grow into a real force as a medical hub.

Developing Bangkok as a Regional Medical Hub: Why and How?

Dr Surapong Ambhanwong
Executive Vice President, Medical
Prasit Patana Public Co. Ltd

Thailand is internationally renowned as a tourist destination due to the heavy promotion of its tourism over the last 20 years. Tourism is now increasing in China and the numbers of tourists should be looked upon as potential healthcare seekers.

Private hospitals in Thailand have been viewed as business organizations for 25-30 years. However, due to a 6-year downturn in the economy, 20-30% of private hospitals had to close down. It was during these years that Thailand started to 'sell' hospital services to foreigners. Since 2002, the private hospital business and Thailand's economy have been recovering. In that year, private hospitals treated more than 500,000 foreign patients. These patients came from five groups:

- Tourists who became sick while travelling
- Expatriates in Thailand and neighbouring countries
- Health tourism packages
- Customers seeking out specific treatments (check-ups, plastic surgery, cardiac bypass).

In 2003, health care was chosen as one product to accelerate the country's economy. The Thai Trade Representative office, Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Public Health, Tourist Authority of Thailand, and the Elite Card Management Company, all interact and cooperate with the Private Hospitals' Association, the Board of Trade of Thailand and the Chamber of Commerce of Thailand. The target of one million foreign healthcare visitors this year has already been reached due to the coordination of all of these bodies.

Reasons to Visit Thailand for Health Care

Dr Surapong cited several reasons why foreigners choose to visit Bangkok for health care:

- Peaceful, politically stable country
- Welcoming, caring, and service-minded
- No discrimination
- Low cost of living
- Best practice in:
 - medical service and healthcare delivery
 - hospital management and hotel services
 - information and electronic technologies
 - quality systems to deliver satisfactory services
 - cost vs. productivity, including internal and external satisfaction
 - combining traditional spa, massage and also alternative medicines.

To be successful, Hong Kong would need to customize its service to the patient and take into account their nationality.

Regional Collaboration is Needed

Dr Surapong noted that in Southeast Asia, Singapore, Kuala Lumpur, Bangkok and Hong Kong were all positioning themselves as regional medical hubs. He was concerned that there would be damaging competition between these countries. To maintain profitability and efficiency, he suggested that all countries should work together to set up a mutual goal via a committee, task force or an ad hoc committee. This group should define objectives and strategies for progress. It would also be important to identify the political and legal differences among the countries and work together to find solutions. Dr Surapong used rubber exportation as an example of successful cooperation. Instead of cutting prices of rubber exports to stay competitive, Thailand, Indonesia and Malaysia have formed a united holding company to export rubber to the international market as a single unit. Since then, the price of rubber has doubled.

The IHPSR should be a focus for collaboration between Singapore, Kuala Lumpur, Bangkok, Beijing and Hong Kong in terms of:

- Promoting scientific research into health systems management
- Advising authorities on health service development issues
- Educating the public regarding healthcare delivery
- Networking with other health policy and research bodies both locally and overseas.

The IHPSR should also help to define who should pay for the health care. Currently in Thailand there are five payment levels: a national healthcare plan (known as the THB30 plan); a social security plan; government subsidized care for government employees; private insurance; and lastly, the foreign customers who pay for themselves or through their private insurance. This could be applied to Hong Kong.

Customers for the Asian medical hubs would be sourced from all over the world through marketing and public relations strategies. For Asian customers, a free trade agreement should be applied. In summary, Dr Surapong stressed that for Asia to be successful as a medical hub, the lead countries should avoid wasting time and energy competing, and work together.

Developing and Sustaining a Competitive Advantage for International Patients

Mr Curtis Schroeder
CEO, Bumrungrad Hospital
Thailand

Before considering the steps needed to make Hong Kong a medical hub, one must to examine what the customer wants. Ten years ago, Thailand was not renowned as a centre for health care, but now, Bumrungrad Hospital has 7-8 years experience of taking care of medical visitors. Mr Schroeder reviewed why international patients visit Thailand for health care.

The patients are either:

- Tourists
- Resident expatriates
- Regional expatriates, eg, from Vietnam, Bangladesh or Nepal
- Thais living abroad who return for health care.

Why do Patients Travel for Health Care?

What makes a patient seek medical care outside of his own country? First, is unavailability of health care. For example, the Maldives has no open-heart surgery or cancer care. Second is perceived lack of quality, and this is happening in countries like Bangladesh and Nepal. Third is restricted access in the patient's home country, perhaps due to lack of supplies, government restrictions through the national health service, or long waiting lists. Holland, for example, has wonderful medical facilities but extremely long waiting lists. Finally, cost issues may influence where patients receive medical care. This is seen more in developed countries (eg, North America, Canada and Australia) and, in particular, for elective procedures such as cosmetic surgery.

Why do patients suddenly change their opinion about where to go for health care? Generally, there is a specific structural catalyst that causes patients to seek care outside their home countries. For Thailand, in 1997 the Baht became especially weak in comparison to other Asian currencies and health was a very cheap export. A local economic crisis in the healthcare system or a change in government reimbursement policy could also induce a shift of patients. In the UK, the government allowed patients to go Belgium, France or Germany in an effort to recover financial losses. After the September 11 terrorist attacks, there was a substantial increase in the number of Middle Eastern patients visiting Thailand, and the Iraq war made that even more pronounced. Thus, a catalyst, not marketing or advertising, induced the rise in international patients in Thailand.

Epidemiological patterns can also dictate where and why patients travel. When SARS was a problem in Taiwan, patients from the Middle East stopped coming to Thai hospitals as they thought Taiwan and Thailand were the same place. Hong

Kong patients started appearing instead. North African patients travel here to avoid HIV-contaminated blood in Africa. Travel logistics can also dictate migration patterns. When Air Maldives withdrew their direct flight to Thailand, the number of patients from the Maldives fell from 350 to two per month.

Word-of-mouth and personal knowledge also play a large part in a patients' decision making. If patients receive good quality care at a balanced price, they will tell their friends. A patients' perception of their experience is how the word is spread. Different populations also have different perceptions of what is 'good' – not all nationalities want the cheapest care, and this is important to remember.

Finally, there are third party endorsements, for example a country's government or embassy might give their official seal of approval. Thailand has direct governmental contracts with the United Arab Emirates, the Sultan of Oman, and Brunei to reimburse for medical visitors. Thailand has achieved a high profile with some embassies and international players due to international accreditation.

How to Ensure Success as an International Hub

Mr Schroeder highlighted the importance of meeting patients' expectations and explained how to ensure they return. The patient should receive good personal service – were they taken care of efficiently and in a caring manner or did they have to wait in a long line? Did the patient like the doctor and did they like the way they were treated? This perception is far more important than the facilities, restaurants or nurses. In addition, the patient needs to feel that the whole experience was worthwhile in terms of the quality and price balance.

Establishing the good reputation of the Bumrungrad Hospital was not easy, and many mistakes were made along the way, according to Mr Schroeder. Some completely incorrect assumptions about patients were made. It was originally assumed that all foreigners wanted the same thing, and that all patients wanted medical care fast and cheap. These were later recognized as two major mistakes. Understanding the individual needs of each of your customers is one of the key ingredients of success.

To ensure success as an international hub, the right product must be available. This is not a problem for Hong Kong; it has the technology, the expertise and the intellectual capital. However, it is important not to look at Hong Kong only in terms of how good the universities are and how well qualified the doctors are. How willing doctors are to service international patients is also crucial to success. The doctors need personal and economic incentives to want to adjust to the needs of foreign patients. This has been the stumbling block of many other countries wanting to become an international hub. In Thailand, many doctors were at first sceptical of having foreign medical visitors, but soon realized the financial incentive of having international patients when SARS and the Iraq war kept many patients away. In Hong Kong, the financial incentive may not be as great as in Thailand because private doctors already earn high salaries. Finally, the government has to support the change or at least let it happen.

The Bumrungrad Hospital has grown its international business substantially. In 1997, the year of the economic crisis, it catered to 100,000 international patients and, in 2003, this had grown to 303,000 patients originating from 178 different countries. This makes Bumrungrad the largest provider of international care in the world. Mr Schroeder believes that this is a unique opportunity for Asia and hopes that the perception of health care in Thailand has been significantly advanced.

An International Hospital Group and the Regional Medical Hub: How Does it Fit?

Mr Joshua Goh
General Manager, International Operations
Parkway Group Healthcare
Singapore

Parkway receives international patients from many places, mainly Indonesia (Sumatra, Jakarta, Java), Malaysia and Thailand, but also Brunei, China, Vietnam, Hong Kong, Taiwan, Myanmar, Bangladesh, India, Eastern Europe, the Middle East, and North and East Africa. Experience with international patients in Singapore started before the early 1980s and reached its peak in 1996-1997, before falling during the economic crisis. This demonstrates clearly that economic events have a large impact on the consumption of health care outside ones' own country.

When asked why they choose to come to Singapore, patients say that Singapore is a first-world country that is clean, efficient and disciplined. It has a high standard of living and a reputed healthcare system. Patients also have confidence in the healthcare staff and they perceive Singapore to have state-of-the-art technology and facilities. Singapore also has the advantage of easy accessibility, good quality accommodation and tourist facilities.

Parkway cared for 73% of all the overseas patients that visited Singapore in 2002. In the mid 1990s, when fewer hospitals/healthcare corporations were equipped to accept foreign patients, Parkway's share of the market was 82%. Last year was severely affected by SARS, but patient numbers have now returned to normal. Patients continue to come to Singapore even though less expensive countries like Thailand and Malaysia are also becoming regional destinations for medical services.

Parkway Group Healthcare is a premier, fully integrated healthcare provider. It has a complete range of services, including outpatient, managed care and tertiary acute care. It is one of the region's largest networks of hospitals and healthcare services. In Singapore, Parkway enjoys 67% share of the private healthcare market. The company began in property development and, in the early 1980s, expanded into health care. Gleneagles Hospital, the group's first hospital, was originally established by a consortium of offshore companies who needed a medical facility to care for their expatriate communities. Parkway developed its portfolio of healthcare facilities and, before the turn of the century, divested its property interests to become a pure healthcare company.

Parkway has the three main hospitals in Singapore: East Shore Hospital (157 beds), Gleneagles (380) and Mount Elizabeth International Hospital (500). Services covered include primary health care, dental services, diagnostic services, radiology and laboratory, managed care, clinical research, evacuation medical assistance, procurement for medical equipment, healthcare information technology services, homecare and rehabilitation. Parkway also provides consulting for hospital development and hospital management, and maintains some residual property business investments. Parkway Group also has hospitals in Malaysia, (Gleneagles

Medical Center in Kuala Lumpur and Penang), Brunei (cardiac care focus), India (joint venture with the Apollo Hospital Group) and Indonesia (four hospitals).

Parkway is investor owned and public listed, therefore, it is profit making. By buying and selling shares in the company, investors generate the funds for the hospitals and expect a 20% return. This means that for every dollar provided, the hospitals have 80 cents to spend, and therefore need to maximize efficiency. Mr Goh illustrated this using the case of a patient asking for a quote for open-heart surgery. Normally, a 10-day 'care package' price is quoted, including surgery and after-care costs. This would be approximately US\$12,000 in Singapore, and is considered as fixed revenue. By improving efficiency and quality of care, and by reducing the turnaround time on blood results, for example, the patient may stay for only 8 or 9 days, even though 10 days has been paid for. Thus, the hospital saves the cost of 1-2 days of care. If patients perceive that they are paying for a quality service, then they are satisfied and are likely to tell their friends.

Establishing Singapore, and Parkway, as a regional medical hub has allowed other players to become involved in the international market. Mr Goh believes that having high values of 'professionalism, development and growth' keeps Parkway ahead of the competition. If medical professionalism is lost along the way to developing into a regional hub, patients will lose trust and stop using your services. Quality of care should not be compromised to improve profits, and discipline and efficiency should be maximized to maintain patient confidence.

Section 2: Open Discussion

Q –

It was extremely instructive to listen to speakers who could draw from their own experience. It seems that each country can essentially brand itself, such as Singapore, which is squeaky clean and professional. Each hospital then brands itself. From the presentations, it seems that a strong, robust private sector is essential if Hong Kong is to become a regional medical hub. Hong Kong does have a good reputation as a country and a strong medical professional community, but it does not have a strong private sector, the major part is our public sector. Can you suggest how Hong Kong can put the drivers in place to make it become a dominant player?

A – Mr Goh:

For Parkway, it was easy as we were probably riding on Singapore's reputation. However, I have a lot of admiration for Bumrungrad, who basically had to do it all on their own. Even if you don't have a robust private sector, you already have the key factors in place in Hong Kong, which are skilled medical professionals and facilities, and so forth. Public-private collaboration is also taken for granted in Singapore. When more competitors arrived in Singapore, we actually improved our communication with the public sector. I have just been involved in working closely with the governments of India and Singapore to share experiences. In terms of identifying barriers, we collaborated with the government over the kinds of challenges Singapore faced as a whole, rather than specific barriers. We shared experiences and faced challenges together with similar institutions, most of which were smaller than us. I think it came to the point where we hardly had to use the words 'barrier' or 'problems'.

A – Dr Surapong:

I absolutely agree with Mr Goh. For Hong Kong, the government has to reform and have a policy to stimulate the economy, using health care as a leading product. Secondly, both public and private sectors have to reorient to share the vision. You have to be flexible, adaptable and customize your service together in order to win foreign customers. Word of mouth, PR, marketing and sales must be applied for success. Lastly, you have to work together to look for opportunities, but don't let problems be your obstacle – solve them together. If you have a real vision, work together and get support from the government, it is easy to be successful.

A – Mr Schroeder:

I would say necessity is the mother of invention. Before 1997, Thailand hospitals were in a passive phase when it came to looking at international patients. It was not the top business plan of any major hospital; most were concentrating on the local market. The necessity came with devaluation and lack of demand from domestic patients. We saw a general economic decline, loss of benefits and loss of

government programmes. Seeking international patients was the only way of survival. This was our catalyst, and I'm not yet seeing a catalyst in Hong Kong.

Being in the public sector doesn't necessarily exclude you from being part of the medical healthcare hub. As you know, Singapore is actively trying to persuade government hospitals to take care of international patients. They are ready to start with a 200-bed unit. This will be in direct competition to its own private sector.

Q –

We seem to equate health care with hospital-based surgical inpatient care. Can you comment on what is the growing trend now in Asia as far as outpatient delivered care?

A – Mr John Lee:

We do see an increasing trend of people coming into our hospital just for day care or day surgery. But, as some patients have to travel, they have to find a place to stay. We are not saying that international care is limited to a hospital stay. Some prefer to stay in the hospital, and others stay in a hotel. We do have patients who come in just for consultation.

A – Mr Schroeder:

Ten years ago when we designed our hospital, we designed 550 beds and aimed for 3,000 outpatients a day. Now my outpatients are over 3,000, but my beds are not full yet. Clearly, there has been a significant change. We are doing a 250,000 square foot expansion to go to 6,000 patients a day to fill our campus. But we have to add more services. We have a 175-room hotel that we now operate next to the hospital for people who don't need to be admitted but are seeking care. I would say 47% of our revenue is outpatient, compared with 30% 8 years ago.

Q – Dr Sammy Sou:

I have a specific question on operational efficiency and hospital size. I noticed under Parkway's group many of your new hospitals are around 300 or 150 beds. When I was in the US, I learned that there was a nationwide, 10-year survey of operational efficiency and hospital bed size. It was found that in hospital practice, you need 100 to 300 beds to economically accommodate an MRI or CT scanner. With more beds than this, operational efficiency would decrease, because of bureaucracy or communication problems. But international friends say this is only applicable in the US because they have a staffing ratio of about 8:1. What about Asia, and particularly in Hong Kong, where many public hospitals have 2,000 beds?

A – Mr Goh

Don't make the mistake we made in Calcutta where we have a 328-bed hospital that should be a 600-bed hospital. At 328 beds, the efficiency was not maximized. It had to do with cost structure and how medicine was practiced there.

Q –

Firstly, as a player in the private market, do you really need a good home environment before you venture into international patients? Secondly, have you ever been afraid of the change in government policy and the threat of the public sector? For example, in Hong Kong, our private sector always accuses the government of being too good to the public sector. If the public sector goes into private practice, they will eliminate all the public hospitals in Hong Kong. Have you ever been afraid of this change in government policy?

A – Mr Goh:

I will start with the second question. Dr Surapong is correct. In health care, you can't afford to compete. Health care is expensive, capital intensive and labour intensive. When you compete, there will be duplications and a waste of resources. We are fortunate in Singapore that we have a government that thinks like us. When you work together as a group, you have a market share that grows for Singapore. This growth is more than if you did this individually. I welcome Dr Surapong's suggestion of Singapore, Malaysia, Thailand and Hong Kong getting together and talking about regional health care. The Far East could have medical excellence with collaboration. Let us all pull together to bring back medical excellence to Calcutta. The citizens of Calcutta are going to other cities, to Madras, Delhi, the UK and Singapore for medical services. They don't need to; now they have it all in Calcutta. And if they stay there, everybody will have their share of the pie. It will be a win-win situation for all.

A – Dr Surapong:

We would be very willing to help you with the government policy if we could. If you are afraid the government will change its policy and you don't do anything, nothing can happen. If you are going to do something without public/private understanding or cooperation, you may face bankruptcy. So work together and let us tell the Western world to go to the East for health care. Hong Kong should be one of the gateways to China. You must work together with the government and the public sector to reorient health care so it can accept an international market.

Q –

I am from the Phoenix Hospital Group in China. Among all the tourists that go to Thailand and Singapore, the biggest portion is from China. Do any Chinese patients seek health care in your hospitals in Thailand and Singapore?

A – Dr John Lee:

Yes. For example, in Bangkok, Pattaya and Phuket we have quite a few in our group, from all over China, but mainly in the south.

A – Mr Schroeder:

Of our top 10 nationalities, Chinese and Taiwanese combined are the 5th largest group that we treat.

A – Mr Goh:

For Parkway, Chinese patients are the 3rd largest group.

A – Dr Surapong:

Chinese and Taiwanese constitute the 8th or 9th group for us.

Section 3:

Private Hospital and Healthcare Business in China

Chairman: Professor Peter Yeun

Experiences of Phoenix Hospital Group in Exploring the Healthcare Market of China

Madam Xu Jie
CEO & President of Phoenix Hospital Group
China

History of Phoenix Hospital Group

When China underwent reforms and opened up to the outside world, the economy moved to that of a market economy. With a revised constitution in April 1988, a new wave of private hospitals began to emerge in the Mainland, preparing for the future birth of the healthcare industry. In May 1988, Phoenix Hospital Group (PHG) opened its first private hospital in Jilin. Since then, it has developed a trans-regional operation of five comprehensive hospitals in Shenzhen, Dalian, Wuxi and Beijing. Currently, PHG boasts 1,152 standardized patient beds, 1,400 employees, a building area of 90,000 square metres and tangible assets of RMB380 million. PHG has now developed into the most vigorous hospital industry group with considerable brand impact in Mainland China.

Lessons Learned by Phoenix Hospital Group

During the last 15 years, PHG has learnt many lessons from its struggle in the China healthcare market. To succeed in the Mainland healthcare industry, it is necessary to:

1. Understand the national conditions in China.
 - The social and economic background against which China underwent a transition from planned economy to market economy.
 - The government drove this economic transition.
 - The consumption psychology and demand of Chinese residents in the Mainland.
 - The healthcare industry still remains in the early stage of development since the state-funded hospitals predominate in this market.
2. Have a comprehensive knowledge of the policies.
 - Know how to operate within the legal limits. Many problems must be guided and directed by the policies issued by the Chinese Communist Party and government at all levels.
 - Policies to note are:

- The decision on perfecting the reform of the market economy system passed in the 3rd plenary session of the Sixteenth Central Committee of Chinese Communist Party.
- The revision of Constitution by 9th National People's Congress defining that the privately run economy is an important part of the socialist economy.
- Suggestions on regularizing the system change of state-owned enterprises presented by Commission of State Assets.
- Policies concerning the large-scale withdrawal of state-owned hospitals.

These policies have a huge impact upon the developmental direction and progress of the Chinese healthcare industry and deserve special attention from future investors. The think tank of PHG is organized for studying and compiling property-rights system reform of Chinese hospitals and a green paper on the health industry development of China so that research results can be provided without delay.

3. Conduct market research and target the correct market, especially as the government exerts a profound influence on the healthcare industry.

For example, PHG purchased New Century Hospital, but when applying for the scope of business, the key leaders of Dalian Bureau of Public Health demanded that this comprehensive hospital with 400 patient beds be changed to a hospital of plastic surgery. Even though this was completely inappropriate, PHG had no healthcare admission rights and had to run the hospital under this category. PHG experienced a heavy loss of over ten million yuan. Later, thanks to written instructions from Mayor Bo Xilai, the hospital resumed as a comprehensive hospital. Thus, proper market positioning is vital.

4. Control yourselves in a proper manner.
 - Remain cool when facing the encouragement of government officials to make more investments.
 - Ask Chinese healthcare experts for advice but handle your investment in a cautious way.
 - Avoid making unrealistic expansions. PHG has adhered to the strategy of “being a half-step quicker” and “walking fast in small steps”.

Based on the experience of PHG, “three eyes” are needed. The first eye is focused on any government policy changes; the second eye is directed at the market to have a clear understanding and establish a correct position; the third eye is concentrated on in-house activities to maximize personal abilities, cultivate team spirit, shape the core capacity and enhance the operating and management ability of the healthcare industry.

Impressions and Suggestions

For domestic and overseas investors, many experts believe top priority should be given to the laws and policies in China before making investments. However,

Madame Xu recommends following the famous words, “don’t wait till everything is ready for you to invest or you will miss all the opportunities”.

The healthcare market in China promises huge potential. Invariably, the optimal period for investment is in the growth phase, however, it is not easy to identify this phase in China’s healthcare industry. In 2000, China issued new regulations about the management of classified hospitals. For-profit hospitals could make profits and a few courageous entrepreneurs invested millions to construct international hospitals. In 2002, the new hospitals were complete and prepared with advanced healthcare equipment. Yet, 1 year later, many were confronted with losses and no guaranteed profits. Their failure could be attributed to incorrect positioning of the hospitals, lack of operating teams suitable for the Chinese domestic market, and blindly following others. Madame Xu hopes that future investors conduct market research and feasibility studies, make scientific decisions and act according to the market laws so that their investment can ensure ultimate success.

Since the healthcare industry of China must experience a gradual growth, it will take several years to adopt the international standards of operation and achieve the internationalization of hospitals. The aim should be to train a professional management team with an intimate knowledge of the healthcare market in China, as well as the international rules and regulations. This can be considered a potential bottleneck to the future development of health care in China; therefore, investors must take into account this key issue: how to find the most suitable professional management team for Chinese hospitals. In addition, cultural differences must be handled properly in China. Values such as emotion, reasoning and law should be considered in that order of importance in China, whereas in countries with a Westernized, modern market economy, the order of importance is reversed. Unselective introduction of Western culture and modern hospital management will give rise to conflicts sooner or later. Drawing on its own experiences, PHG has compiled a hospital management model and serial book of hospital operation and management for professional directors of Chinese hospitals. In addition, PHG has launched 20 training programmes targeted at hospital directors, and would like to develop a broader range of exchange with management partners from home and abroad.

Developing and Managing a US-Listed Hospital Group in the Mainland: Lessons Learned

Ms Roberta Lipson
CEO and President
Chindex International Inc. (United Family Hospitals and Clinics)
Beijing

Ms Lipson discussed the operational environment for private health care in China and reflected on some of the challenges facing both Hong Kong and China in the future.

Mainland Government Policies

It is common to hear investors in Beijing talking about private health care being the key to revitalizing healthcare delivery in China. Although the public health authorities have said it is time for the government to take a step back from healthcare service provision to allow this to happen, the actual regulatory environment is still very restrictive with regard to foreign investors, and not much different to the situation 10 years ago.

From 1949 to 1989, there was no private investment in health care, either from abroad or locally, although regulations were issued in 1989 to permit this. At the same time, wholly foreign-owned enterprises were forbidden to invest and foreign partners could not own 100% of a healthcare institution. In 1997, the government stipulated that 30% of a joint-venture healthcare scheme had to be Chinese investment, the chairman of the board had to be chosen by the Chinese partner and the minimum investment was RMB20 million. The period of cooperation was also restricted to 20 years. In 2000, additional temporary regulations were issued and joint-venture hospitals were not allowed to establish branches, which limited their development. Further, in 2003, the Ministry of Foreign Trade placed the import of medical equipment on the restricted list thus removing the duty free status on imported medical equipment for joint ventures in health care.

However, Ms Lipson believes that the government has finally recognized the importance of health care in economic development, especially after the financial damage caused by SARS. The government has also recognized the serious under-investment in health care. Although healthcare expenditure as a percentage of GDP grew from 1991 to 2000, the increase was very small, and the level of expenditure on health care is still insignificant compared with more developed countries. Furthermore, the percentage of healthcare spending by the government is now decreasing.

Even so, there is increasing enthusiasm in healthcare investments in China, along with the belief there has been a major improvement in the investment environment. This perception may be due to a combination of the impact of general post-WTO accession psychology and the impact of SARS. An indirect benefit from the WTO commitments is that China will allow foreign private healthcare insurance 3 years after accession. Furthermore, the government is going to allow the private sector to

play a larger role in the development of healthcare services. Thus, there are regulations allowing hospitals to divide themselves into private and public, for-profit and not-for-profit. This division will be one of the most significant tools that will be used in the reform of health care in China.

The Beijing United Family Hospital

The Beijing United Family Hospital was 6 years in the making and opened in 1997. It is a small, 50-bed, high-quality hospital that serves international patients (70%) as well as private-pay Chinese patients (30%). International patients include expatriates living in Beijing, travellers or patients from elsewhere in China. The entire institution is run on a multilingual basis, with patients originating from 50 different countries and physicians from 8 different countries. There is a full range of high quality services and the institution is internationally renowned. The hospital's mission is to be a pioneering, international-standard healthcare organization in China providing comprehensive, integrated healthcare services in a uniquely warm and caring environment in the spirit of service to our patients and family. The administrative structure is similar to that of any of the JACO-accredited organizations around the world. There is a full committee structure with cost-based budgeting – all of which are new concepts in China. The United Family Hospital Group will be opening its second facility in Shanghai in 2004.

The Challenges of Privatization

How will the government achieve extensive privatization? One way would be to value the assets of public hospitals and sell them to private investors. Alternatively, the public hospitals could start public/private partnerships with outsourcing and contract management. However, there is significant opposition to these proposals in the government. Some people believe China is not ready for these changes and that for-profit health care is diametrically juxtaposed to good medicine or ethical healthcare service provision. Ms Lipson believes these perceptions can be overcome.

However, there are some real issues that must be addressed. There is the danger of misappropriation of government assets. Who will get rich quick as a result of the sales of these assets? How will state-owned enterprises be privatized? There will be a lack of clarity of ownership in some cases. There is also a lack of experience in independent governance in China. There is also no concept of social responsibility. Furthermore, there is a lag in the proper accreditation process. The ISO or JACO standards are not widely known or applied in China, and the government accreditation process itself remains very much an asset-based process.

Private hospitals will face many challenges in China. Private health care is perceived as low quality, because private healthcare providers have traditionally been very small, sometimes traditional Chinese medicine providers or dentists with street stalls. Secondly, there is not a huge cadre of trained hospital managers or enthusiastic medical providers.

In the short-term in China, there will be major cross-cultural challenges arising from a diverse patient base and multicultural staff. Additionally, there are the challenges

of the quickly changing political, economic and social issues. Hong Kong will face similar challenges if it is to become a regional medical hub. Previously, the structure of public hospitals in China was over-simplified and the government was the policy setter, regulator, investor, and the third-party payer. Now, private hospitals in China will face a much more complex environment involving different external parties, as the government's role shrinks to policy-setter and regulator.

In the past, doctors graduated from medical school and worked in the hospital system until retirement. Now labour markets are more complex, doctors can travel and foreign doctors can practice in China. Medical training is now more heterogeneous. Patients are also more mobile and travel to different cities for health care. Academic institutions are also becoming more proactive – for example, the Chinese Hospital Association has now become an accreditation body and some of the other medical associations are becoming licensing bodies. Insurance providers now deal with both domestic and international insurance companies and the social welfare scheme is becoming involved in payment processes.

Conclusion

The environment in China is becoming tremendously more complex and will provide a huge opportunity for private health care. Ms Lipson expressed her pride in the renowned reputation of the Beijing United Family Hospital throughout China, despite the small size of the institution. However, this exposure brings great responsibility, as it is one of the first models of private health care. Privatization, in an ordered and responsible manner, will do a lot to raise the overall level of healthcare delivery in China.

Mr Roco Chiu
Managing Director
Health Maintenance Medical Practice (HMMP) Ltd
Hong Kong

HMMP is a medical group in Hong Kong comprising 500 clinics, 30 laboratories and around 20 dental clinics. Smart Health Medical Clinic in Beijing is their first private venture in China, and more clinics in Shanghai and Guangzhou are planned. Many people view the healthcare industry in China as a gold mine; however, success is not easy. Mr Chiu discussed the practical issues involved in setting up a healthcare business in China, focusing on issues involving patients, staff and the regulatory system.

Patient Issues

Patients at the clinic in Beijing are from two groups: expatriates and local Chinese. The local Chinese are very price-sensitive and commonly ask for discounts. Without a discount, many patients will choose to seek treatment elsewhere. Often, patients may say that the price is reasonable; however, they often don't really believe this and may use an alternative healthcare provider. Mr Chiu believes that, contrary to reports in the press, most local Chinese cannot afford high prices.

Mr Chiu has also found that the attitudes of some local patients differ from those of Hong Kong patients. He quoted one example of a patient who had received treatment 9 months previously, returned expecting a free treatment for a completely unrelated condition. Her reasoning was that she had already paid a lump sum for her first treatment. Because she was also the wife of a government official and a compromise was reached. Similar situations often arise in some of the large public hospitals in China.

Patients in China also do not have as much respect for doctors as they do in Hong Kong. Generally, they feel that doctors' prices should be similar to the charges in public hospitals. Many private practices in China have to increase the price of drugs and laboratory tests to make a profit. In contrast, in Hong Kong the doctor's fee is the most expensive portion of the consultation charge.

Staff Issues

Staff in Hong Kong are very automated. However, in China there tends to be a division of labour. For example, Mr Chiu's clinic has had to employ an O&G specialist to consult with the patient as well as a ultrasound specialist to perform and interpret ultrasounds, rather than using one specialist to perform both roles, as is common in most countries. Different ways of working in China can cause conflict if they are not recognized and handled appropriately. There may also be problems with misunderstanding requests so staff need to be carefully instructed to avoid confusion.

Regulatory Issues

Mr Chiu said that there were vast differences between the regulatory systems of China and Hong Kong. In one example he gave to illustrate some of the problems he has encountered, the Bureau of Commerce insisted on reviewing the clinic's in-house promotional materials during a routine inspection of businesses. The Bureau's inspectors insisted on explanations of any words they disagreed with – a practice never seen in Hong Kong. Furthermore, the Inland Revenue Department (IRD) is very powerful in China and can query even legitimate transactions that they are not familiar with, for example, bank deposits that are not referenced as income from the clinic. Great care must be taken in preparing accounts to avoid spending months providing supporting documentation to the IRD.

Conclusion

The healthcare industry in China has a lot of potential. It is not an easy market, but it can provide a great deal of job satisfaction despite its many challenges.

Mr Robert Wong
President
United Premier Medical Group Limited
Hong Kong

United Premier Medical Group (UPMG) provides a premier medical service in China using localized services and personnel. The founder was Dr Herbert Wong, who introduced high-quality medical technology, training and hospital management expertise from the United States. The headquarters in Hong Kong provides overall coordination and management. The strategy of UPMG is 'small is beautiful', with a focus on building small, specialty hospitals aimed at affluent Chinese or expatriates. UPMG does a lot of brand management in China, and has developed partnerships with first-class US medical institutes.

Healthcare Opportunities in China

The Chinese healthcare market has grown from RMB89 billion in 1991 to RMB500 billion in 2001. China spends 5.3% of GDP on health care, compared with 13% in the United States – so there is much opportunity for growth in the China market. Chinese hospitals were traditionally non-profit and state-owned, but now the trend is towards for-profit organizations – primarily clinics and outpatient facilities. However, most of the general or community hospitals, especially maternity and children's hospitals, remain government organizations.

There is also a growing demand for higher quality services as the Chinese population becomes more affluent. Competition has increased since the market opened up to foreign investment in 2000. With the introduction of medical insurance, people can now choose which hospital to visit, which generates more competition between hospitals. Many are now looking towards privatization and new for-profit hospitals are being established.

Issues and Challenges

A major challenge is to raise healthcare delivery to international standards; this will be especially important to keep up with China's fast economic growth and development. Although the government has introduced a policy to open up the industry, it will take many years to become established as a healthcare organization, especially in Beijing. Shanghai or Guangzhou may be easier locations, although every city seems to have a different system of approval.

Unfortunately, there is a great deal of misunderstanding in the growing healthcare market. Many new hospital administrators and investors believe that bigger is better, and do not recognize the difficulty of recovering the cost of building large establishments. Many new hospitals are investing in too much state-of-the-art equipment, wrongly believing that the equipment will generate profits. Some are concentrating on large acute-care hospitals and employing retired doctors who are ill equipped to be hospital managers. There is also a misconception that famous branding, like Johns Hopkins, will bring instant profits. Mr Wong tries to explain to these investors that quality must be instilled throughout the organization, not just by

a plaque on the wall or a piece of paper. A shift in attitude is needed before US and JACO quality standards can be applied to many of the institutions in China. Cultural differences and a lack of understanding of quality of care and correct procedures also need to be addressed. Currently, there is no standardization for medical practice and no means to measure quality – the service patients receive is very variable.

What is Needed?

Management training will be required in these new hospitals, as most of the directors are doctors and have not received any formal training as hospital administrators. Training and implementation of information systems is needed to enable weekly strategic planning and reporting. Furthermore, the concept of training support staff does not exist in China. The standard of nursing is also poor and needs to be raised to international level. A total quality management approach must be adopted if China's healthcare delivery is to be perceived as internationally acceptable.

Conclusion

Working in China is not straightforward. Although UPMG has brought Johns Hopkins and a lot of investment to China, it is not enough. They have had to work together with the locals to slowly change the theory of practicing medicine, while tuning into the Chinese mentality. The right business model, a good local partner and sufficient training are the basic requirements for success in China.

Section 3: Open Discussion

Q –

We have just recently established a joint venture in Beijing with a local partner. To a large extent, we can reinforce a lot of the issues spoken about today, particularly the importance of getting a strong local partner. One other area of importance we found was the whole issue of contract administration, agreement and management. We have actually used Hong Kong as the basis on which all agreements will be enforced. Also, there are so many things going on in Beijing and China, and people sometimes go in very naively. They are short of funds and don't have enough capital. There is so much hype going on currently. I'm not saying there's no market; it's certainly a huge market, but very complicated and difficult. We must all separate the hype from the reality of doing business. So, how do you actually give people key ideas without them going in blind-sighted?

A – Mr Robert Wong:

I totally agree with you. Contract management is very important. Also, there is a lot of hype in China, and people should focus on starting small, not by building a 2,000-bed hospital. Start with something you know and go step by step; many steps are better than one big leap.

A – Ms Lipson:

I actually want to make a comment about your idea of finding a strong partner. There is nothing wrong with a strong partner, as long as you are willing to either give up management control, or that strong partner is willing to cede total management control to the foreign investor. A strong partner who is interested in management can really be a recipe for disaster.

A – Madame Xu:

Choosing the right product is the most important thing. Secondly, choose a very good partner and thirdly, build a strong team.

Q – Professor Phua:

Before I ask my question, let me just declare my interests. I'm helping WHO do a project for the Ministry of Health in China regarding the reclassification of your hospitals into profit and non-profit. Let me ask – we have a good picture of the government hospitals, but we don't have feedback from the private hospitals, especially the foreign hospitals operating in China. What would you like to see, in terms of the regulatory perspective? What about some of the financing issues, like taxation, pricing, subsidies, incentives, the payment methods to doctors? What would you like to see for China in terms of the Ministry of Health regulating some of these profit, not-for-profit, or privatized hospitals?

A – Ms Lipson:

Part of the problem is that, traditionally, the Ministry of Health is an organization without teeth. Hopefully, now, with Wie at the head of the organization, they will

have more power to implement rules and regulations that match the policies. For example, I mentioned that in 2003, the minister of the Ministry of Health said how important foreign investment in hospitals was and how they would like to encourage it. They just took the importation of medical equipment off of the list of duty-exemptible products from private-investing enterprises. So I'd like to see at least consistency with the taxation policies and the lip service that's paid to encouraging private investment. Secondly, I think that a lot of the elements you mentioned need to be deregulated for private hospitals; you have to deregulate salaries for doctors and hiring-firing policies, for example. Thirdly, there needs to be at least an even playing field in some of the restrictions placed on foreign investment. For example, if a Chinese hospital wants to be established with private investment, the minimum investment is RMB5 million; for foreign-invested hospitals it is RMB20 million. Chinese hospitals, be they public, private or for- and not-for-profit are allowed to establish branch operations under the original license; foreign-invested hospitals are not. There are many issues to discuss. Just for your information, the Chinese Hospital Association, Beijing branch, has just established an association of non-government hospitals. If you're interested, we'd be glad to invite you to a meeting and you could hear everybody's comments on it.

A – Mr Chiu:

To answer that, I will just use two words: less regulation. I totally agree with Ms Lipson that there are too many regulations for foreign investments in China.

A – Mr Robert Wong:

One word: transparency.

A – Madame Xu:

Ms Lipson has just explained further the difference between for-profit and not-for-profit hospitals in China. Our government issued a policy in 2000 that separated hospitals into for-profit and not-for-profit. There are three major differences between these hospitals: pricing, taxation and return on the investment. Now is a very good opportunity to invest in China either in the for-profit or not-for-profit hospital. If you want to invest in the not-for-profit hospital, you can gather your return on your investment through the management fee of the hospital.

Q –

The WTO agreement and the CEPA both provide for the more liberal rules on medical and dental investments, but yet, nobody has applied to the CEPA at all from the healthcare sector. Does anybody have any insight as to whether this is real or not?

A – Ms Lipson:

Regarding the WTO, the commitment seems to be more restrictive than regulations that exist today, except for health insurance. Under CEPA, it seems that doctors have more liberal licensing and they can get licenses for longer times than other

foreign nationals. But in fact, foreign nationals just have to pay a little bit more licensing fee and they get their licenses renewed anyway. So frankly, I don't see any improvement under the CEPA regulations, unless I missed something.

A – Madame Xu:

For potential investors in the healthcare market in China, the most important thing is to find the best local partner.

Q – Dr Geoffrey Lieu:

Do you think that the potential development of Hong Kong as a regional medical hub will be supported by medical professionals in China or will it be seen as a competition for the Chinese market?

A – Ms Lipson:

Mr Lieu asked me a similar question at lunch, and also asked if we were interested in expanding outside of the borders of China for our own medical travel business. In fact, the answer to both questions is the same; the China market is huge and is growing very quickly. I think there's plenty of room for all of the major players to share that market, including Hong Kong and some of the high service institutions in China. We would appreciate more support from Hong Kong. From time to time, we transfer patients to Hong Kong, Thailand and Singapore, because these hubs can offer services that aren't available locally. China will continue to develop its own services and also the economy will continue to develop. So, already we see medical travellers coming from all over China to Beijing to access services that meet their demands. I think, eventually, if you could solve the immigration problem and get a common language growing, it is definitely a potential market for Hong Kong and I don't think any of us are worried about running out of patients.

A – Mr Chiu:

Right now, Beijing is the regional medical hub for the Northwest area, whereas Shanghai covers the Wa Chung area and Guangzhou covers the Southern area. Definitely, Hong Kong could be one of the regional hubs for China. We have been a provider from Hong Kong for the past 6 months and have referred patients from our clinic in Beijing if they need further medical support.

Section 4: Panel Discussion

Hong Kong as a Regional Medical Hub: Possibilities and Challenges

Chairpersons: Mr Raymond Wong and Dr Susan Fan

Our first question is: Is it worthwhile to develop Hong Kong as a regional medical hub? Why? What are the caveats?

Mr Michael Chan:

The role of medical insurance in society is to create purchasing power for medical services. Currently, people are not willing to buy sufficient coverage because they receive good services from public hospitals. They buy only a preliminary type of medical insurance. In addition, we receive many queries about the cost of certain procedures that we are unable to answer. So, people are not that willing to buy medical insurance. From the provider point of view, we agree that Hong Kong has created a very good branding of medical services to professional standards. We see there is a decreasing trend of people going back to Mainland China to get treatment, especially chronically ill patients.

Dr Gabriel Leung:

Hong Kong should be exporting its medical and health services. But I think there are a few pre-conditions for success, not least of which are immigration policies, in terms of visas for attracting Mainland or any other patients coming into Hong Kong. Also licensing of our medical graduates and other healthcare professionals overseas needs to be addressed. Under CEPA, we have a 3-year provisional licensing, but we need some sort of reciprocal recognition. I think we need to break down these barriers of entry for providers and for consumers both in and outside of Hong Kong. On one hand, I'm very happy to say that the current market realities are not bad enough for people to seriously think of proactively engaging the Mainland market. But on the other hand, perhaps we need to shock people out of the current inertia to create more impetus towards that direction.

Mr Thomas Yiu:

It would be worthwhile to develop Hong Kong as a regional medical hub. In his recent policy address, the Chief Executive mentioned that, in view of the very high quality of Hong Kong's medical care, we should develop our medical services as a medical capital to serve people in the neighboring regions, including China. We see the potential for development lying in the private sector, because the public sector is already overloaded. The government should be a facilitator as well as a setter of policies to complement the development of private practices. For more than 2 years,

we have been trying to pull together the Hong Kong Trade Development Council and private hospitals to promote our services in various cities in China. With CEPA, I think there is a lot of potential.

There is also a role for government in facilitating quality assurance in the private sector. For example, the Director of Health has encouraged all 12 private hospitals to go into accreditation systems and he has developed a code of practice for quality assurance. Private medical practitioners would all agree that continuous professional education is very important. If there were a consensus on how this should be pursued, government would be willing to facilitate this. We would also be willing to review ideas on immigration policies.

Professor CH Leong:

Hong Kong's public medical service cannot exist through public funding alone. We need a third-party payment system and I am always pushing insurance to get involved. However, the public sector is so good nobody wants to take out personal insurance policies. Also, I do not see a good working partnership between the insurance industry, the healthcare profession and the patient. I think this is very important, but I don't think it will ever materialize. Furthermore, the Secretary of the Health, Welfare and Food Bureau has always been prompting the insurance industry to come up with a new product, to encourage everyone to buy an insurance policy in spite of the good public healthcare services.

I think Hong Kong should and must become a medical hub. But the reason for this is not simply for the economy; Hong Kong should use the position of being a medical hub to push for even higher medical standards. What about the capability? Firstly, we have a world-recognized training programme and, secondly, there are areas of medicine, eg, liver transplants and orthopaedic surgery, for which Hong Kong is world-renowned.

I think our clients will be worldwide but we have the great advantage of having a mother country with a population of 1.3 billion. Hong Kong's proximity, language, and historical ties with China give us a competitive edge over healthcare providers in other parts of the world.

I think the private and public sectors should develop it together. If they do not do it together, there is no doubt that we will lose out. For example, currently, the private sector could not do a liver transplant without cooperating with the public sector. So I think there has to be a very good public/private sector collaboration to push this hub.

Stumbling blocks? Why are we not as good as Thailand, Singapore or Malaysia in promoting our hub concept? There are a few reasons. Firstly, Hong Kong can be more expensive than other parts of the world so we have to control prices somehow. A lot of people go to India, for example, for heart surgery because they have good training, European medical standards and a good price. We do not package enough. Medical groups in Thailand and Singapore are doing a great deal of packaging to

attract people for treatments. Hong Kong has the standard and the capability; I think we should move in this direction.

We are already behind other places like Singapore and Thailand but, by making all these changes, we could catch up. Transparency, good packaging and government-granted special permits to allow Mainland Chinese to come to Hong Kong for treatment are needed. It would be good for the economy in general, not only for the healthcare service.

Hong Kong could also take a lead in traditional Chinese medicine. The whole world is moving towards the concept of using alternative, traditional medicine. Hong Kong is being recognized as the first place to produce a good model to regulate the practitioners and the medicines. If we take all these steps together, Hong Kong will be prepared and succeed as a medical hub.

Mr Michael Mak:

I mostly agree that Hong Kong is well prepared to be a regional medical hub, but there are aspects that need to be improved first, especially in the private sector. Our public sector is overwhelmed by high usage with an inpatient occupancy rate of 94%. Most Hong Kong people do not use the private service, so the opportunities are in the private sector. It will need to develop as a high quality service to gain the confidence of our general public, and people from the Mainland and overseas.

Audience Comment – Dr Nelson Wong:

I would like to instill a dose of reality while we try to aspire to be the medical hub. The reality is based on my experience in dealing with international employers. Large airlines regularly send people to the United Kingdom and Australia for procedures. I think there's a great deal of cost consideration here. Off-pump cardiac surgery in India is 10% of the cost in Hong Kong; in Thailand, it's one-third of the price and, in Singapore, it's 50% of the cost.

In terms of public sector or private sector providing the services, it is quite difficult for the already overstretched public sector to take up this challenge. At the same time, if we try to develop this business, the public and the legislative councilors would react, because they would perceive this as an erosion of patient benefits. Furthermore, I think private hospitals are not sufficiently marketing-orientated; there is little coordination of PR, marketing and sales. You only have to visit the web sites of most hospitals and compare them with those of Singapore hospitals, for example. We are certainly very behind. These are the challenges we have to face.

Professor David Fang:

In answering your question, should we develop as a regional medical hub, perhaps I could address some of the concerns about the private sector. There is a lack of transparency in private sector charges. The private sector is reorganizing itself, so for procedures like arthroscopic and laparoscopic surgery, I think we will be competitive on price. We are trying to upgrade ourselves in private hospitals, but we

need the cooperation of the insurance industry as well. For instance, when we say that a person can have an arthroscopic reconstruction and go home the same day, the insurance companies will need to cooperate; currently they are refusing to reimburse unless the patient stays for at least one evening. The insurance industry must keep up with us. I think we can team up with the insurance industry and we can cater to the Mainland market. If you offer policies hand-in-hand with the private hospital system in Hong Kong, I believe you will have many potential clients in the Mainland.

We have the necessary reputation to act as a medical hub, or center of excellence. But we are not well positioned for that; we lack the organization. For instance, the information that you can access on the Internet about our private hospitals doesn't compare with Singapore because we are not positioned for this kind of market yet.

The private sector's occupancy is 60% or below, so we have plenty of potential and manpower. We could organize ourselves to do liver transplants because we have the necessary expertise. We simply don't have the necessary resources or the organization of those resources. You could come to Hong Kong and have open-heart surgery in quite a few of the private hospitals. I think private hospitals need to do much more than having transparency of their fee structures. Private hospitals are weak in clinical audit, for instance, and in certain ways are still weak in clinical governance. In all these aspects, we are improving. But we must catch up with the concept of marketing to Mainland China within the limits set by the Medical Council for promoting professional services.

Dr Patrick Ko:

There is potential to sell our services to regional areas. We have the potential, the track record and an edge, because most of our specialists are recognized internationally. I think the private sector needs to be competitive if we're going to open up Hong Kong as a medical hub. Market forces will direct us that way.

In terms of development, I believe we should not be content with only providing check-ups. We have great potential to develop minimally invasive coronary interventions – for the past 15 years, Hong Kong has been exporting training expertise to Singapore, Mainland China, Taiwan and Japan. We have very good imaging services and many private centres offer excellent services. Other areas of development could be cancer diagnosis, radiotherapy and treatment. Each hospital, either in the private or public sector, has to develop its own expertise and niche.

Dr Donald Li:

We need to be more focused on what we can offer and not just on opening a medical hub. Establishing continuity of care and working in partnership with existing medical providers is also important. This will provide the patient with alternative opinions and encourage the patient to return, without threatening other medical providers.

Secondly, one must look at the culture and expectations of the patient. Many patients are satisfied with medical care in Hong Kong because we are ethical, have a good quality assurance system and good practice management. We must make sure our clients know the strengths of Hong Kong's medical services.

Mrs Alice Chin:

From the perspective of the pharmaceutical industry, I want to offer a larger view in terms of positioning health care as an economic driver. I firmly believe we need health care as one of the pillars for our economic growth engine.

There are two reasons. To become a compelling regional hub, we must have excellent supporting biomedical research. Singapore had this vision many years ago; the two go hand in hand. Medical service delivery alone may not sustain the hub in the long term. Research institutions would enable physicians to do research work to keep up to date and continue to innovate. Customers want a differentiating service and they get continuous innovation in Hong Kong. Secondly, let private hospitals do research work and enable stronger patent protections. The enforcement of intellectual property rights for pharmaceuticals is still very weak in Hong Kong. To have a conducive environment for business, there should be transparency in the entire process.

Audience Comment – Dr Ares Leung:

I want to remind everyone here, particularly those who can influence policy makers, if you try to sell a medical service to the rest of the world, particularly China, you must find out why the Mainland Chinese would trust Hong Kong. If the Hong Kong population does not use the private system in general, then why would Mainland citizens come to Hong Kong and pay for the travel and treatment? We have to revitalize the private sector for locals before we can consider exporting.

Mr Michael Mak:

Hong Kong people are mostly confident in the services provided by the two sectors. One weakness in the private sector is that it lacks quality assurance in terms of the service and fees. Unfortunately, the private sector had some bad luck with the economic downturn, and it just needs to regain the confidence of the people.

Professor CH Leong:

I'm in private practice and also involved in organizing the public service. I would say there are problems with the private sector, but it is now geared up to improve.

From the 1960s to 1980s, private hospitals were resting on past laurels. Now that the Hospital Authority has started to build its image, private hospitals realize they need to act. One of the main reasons that people in Hong Kong are not using the private sector has to be that the public service is providing good-quality care at a low price. Transparency also has an important role. Many patients are worried about hidden charges in private hospitals. Furthermore, private hospitals are not providing

confidence through proper clinical audit and management. Not many private hospitals examine the credentials of their practitioners, for example. The public knows this is important and wants to see standardization in private hospitals.

As an extension to our second question –

Who are our customers? – I would like to ask whether Hong Kong people would feel they have to compete with foreigners for medical services, especially if the visitors are willing to pay a high price for the services that the local population has enjoyed?

Professor David Fang:

I don't think the local population will feel threatened. Currently, we are catering to our own population as well as a substantial expatriate community. I believe they are satisfied with the private medical and hospital services available, and we still have a lot of spare capacity. On the other hand, I think the medical profession does feel threatened by limited opportunities for training in the Hospital Authority and limited opportunities to renew their contracts after they finish their first 3+3 years of service. So, they only have private practice left as an option. We must continue the training and provide opportunities for them to practice. Our target population should be Mainland Chinese.

Dr Patrick Ko:

Public hospitals may have a problem with developing areas of expertise, for example, liver transplants. If you offer a transplant service to other people, Hong Kong people will complain if they have to wait longer. Other areas of expertise are less likely to be a problem for private hospitals.

Dr Donald Li:

I don't think the public would worry about Hong Kong doctors providing medical services to overseas visitors; they truly understand the 'fee for service' arrangement in Hong Kong. As long as the public resources or subsidized services are not used or offered at a discount, I don't think there would be a problem.

Mrs Alice Chin:

Retail pharmacies have been very happy since tourism increased from the Mainland. There is a perception that products in retail pharmacies in Hong Kong are of better quality than in China. Physicians would be very happy if this perception was transferred to them.

Audience Comment – Dr Geoffrey Lieu:

This morning we were reminded of the development of Singapore as a regional medical hub. After the economic crisis hit Asia, many patients left to seek services

in a lower cost area, including Thailand and Malaysia. I think we must be very mindful, therefore, of this change in the region. Singapore is positioning to double its healthcare spending in GDP share. We also heard of the activities our Thai colleagues have been implementing to attract patients to Thailand.

When we talk about developing ourselves as a regional medical hub, we are talking of a very different level of interaction. We are interacting not only with local or regional people, but also with international patients. We need to look at this in a broader scope and perhaps go beyond some of the modalities through which we provide healthcare services. We need to put ourselves in a much more distinguished marketing position. We spoke of collaboration, but this requires that we have something different to offer. Mr Robert Wong mentioned the excellent doctors from the Mainland who can perform procedures others cannot; we need to interact. My question is: are we just trying to attract more patients with our excess capacity or do we have something more to offer?

Professor David Fang:

From a more macroscopic point of view, we need to develop the medical supporting industry, such as the pharmaceutical and biotech industries. The chief executive has advisory committees thinking about biotech in Hong Kong, and he has been advised that we will lack the core nucleus necessary to fire up this industry. Some time ago, I tried to gather up experts to start a pharmaceutical manufacturing industry in Hong Kong, but it was not competitive so it was set up in the Mainland instead. Although we have the necessary expertise, we still need very strong financial support from the government if we are going to develop a medical industry, not a medical services industry.

Professor CH Leong:

I think we ought to take this in two steps. The first step will be providing healthcare services to our closest neighbour, the Mainland. The second is moving into something even bigger, for example traditional Chinese medicine. The first is just as important, because Mainland Chinese are becoming more affluent and are more willing to seek out health care abroad. As an example of a niche market, Hong Kong does not have a one-child policy and many people want to undergo vasectomy reversal.

Audience Comment – Dr CK Chan:

One reason for becoming a regional medical hub is to provide customers in China with medical services. We need to know what these customers actually want. If we want to be positioned as a medical hub, we need to adopt a national policy to improve our services to meet the customers' demands. We also need to look at a wide range of healthcare products, not simply the technical type of service provided by some doctors.

Our third question is: From where (private sector, public sector or both) should we draw the medical and healthcare expertise to establish and sustain Hong Kong as a regional hub?

Dr Gabriel Leung:

Let me just go back to the policy address paragraph 33. This says there are two industries in Hong Kong that should be exportable: health care and education. The medical schools are the best of both worlds and I think they are our most easily and readily exportable form of service. We could attract foreign medical students, interns, residents and other postgraduate trainees and charge them full fees. We could do this right now.

Additionally, we shouldn't be offering all sorts of services. We need to select conditions or procedures that stand a reasonable chance of success. We must re-fashion our private hospitals or public hospitals into what some have called focused factories. We should aim to be doing particular things better than the rest of the world, for example, breast surgery or knee arthroscopy.

We also need to think about exporting industries allied to health care, for example back-office operations. The Hospital Authority is spending HK\$400-500 million over the next 4-5 years preparing an electronic information reporting system for communicable diseases as a response to SARS. These are the things Hong Kong is very good at. All we need is to encourage our IT professionals to team up with our healthcare professionals to deliver this service to hospitals in China and other colleagues in the region.

The market is still wide open on the insurance industry. Whatever the bureau decides to do with healthcare reform in Hong Kong, the insurance market share is bound to go up. Only 30% of our population is covered by medical insurance. Of that, 90-95% is linked to some other form of insurance, like life insurance. About 1% of the population has pure medical insurance. I think we really need to closely examine what we have to offer and how we can win in that situation.

Michael Chan, do you think that the insurance industry has a role to play in terms of promoting and repackaging the services in Hong Kong and sending it either overseas or to Mainland China?

Mr Michael Chan:

If we are going to offer medical services outside Hong Kong, first we need to encourage Hong Kong people to use the medical services more. Hong Kong people are not very willing to buy private medical insurance. So, no matter how we package it, it will be difficult for us to push insurance outside Hong Kong. We have tried to create a medical package for Mainland Chinese. However, they are not that

keen to buy insurance coverage that will enable them to come to Hong Kong for medical care; middle income people like to stay in Mainland China.

Dr Donald Li:

I think something else that makes Hong Kong very attractive to the Mainland is psychiatric consultation and counseling. This area is still taboo for Chinese, but the Hong Kong medical profession is well positioned because it has the Western influence and yet it really understands the Chinese culture. Having said that, the insurance industry is not supporting this therapeutic area. However, we are seeing a lot of Mainland Chinese with multiple, psychosomatic problems.

Audience Comment – Dr Surapong:

To have health care as an engine for economic growth, you need to also include the pharmaceutical industry, medical equipment services, traditional medicine, research and development, medical conferencing and exhibitions, human resources, insurance, hospital management and information technology. Team up as a region; not just one or two players. We have to stick together and not compete with each other. The public and private sector must collaborate; otherwise, you will not progress.

Audience Comment – Professor Phua:

One important issue you are missing is that the mindset and values will have to change in Hong Kong before you can be an international hub. I don't see that changing very much in Hong Kong. The healthcare systems and the training systems are still very colonial-like. How are you going to compete internationally to attract foreign patients with your values and the elitist attitudes of your doctors? If you don't open up to other cultures, you are not going to be customer-focused. In Thailand, we are very tolerant of other cultures and stay service-oriented and customer-focused.

Audience Comment:

I represent a non-doctor-based private group trying to make a business out of health care. I think this is what is missing so far. The basic problem in Hong Kong is the attitude in the medical industry, even the dental industry. Medicine is a profession; it is not a business. As Dr Lee has pointed out, we are now competing in an international environment. We are competing with the United States, even for Hong Kong patients. We have leading cancer and diabetic centres and now have the largest private dental network in greater China. But it's very frustrating because you can't have a good business in Hong Kong, primarily because most of the professionals want to work for the Hospital Authority. You cannot compete with the Hospital Authority in terms of benefits and compensation. You cannot survive as a private group. If you look at the US or Singapore, they are all big public companies. The private hospitals are not really competing for the international market; they are basically medical groups, not businesses. So, I think there's an attitude problem,

there's a policy problem and we're not recognizing the fact that if you want to compete to become a medical hub, you have to treat it differently.

Our fourth question is: what must be overcome to assure success? What is the first step we need to take?

Mr Thomas Yiu:

I would like to make two points. Firstly, we need to ascertain what our neighbours need and what services we can offer them. I understand discussions between the private healthcare sector and the Trade Development Council are taking that track. Secondly, we should develop a better partnership between the public and private healthcare sectors. We have been pushing the Hospital Authority to work towards that direction. Hopefully, the private hospital sector in Hong Kong can develop to pave the way for success in the international market.

Dr Donald Li:

One: better organization, packaging and establishing a brand name are very important. Two: relations; we really need to understand our potential clients' existing medical services so we know how to supplement them. As I mentioned earlier, continuity also needs to be established.

Mr Michael Chan:

We need somebody to knit together the collaborations between the insurance, private and public medical sectors and the pharmaceutical industry to help develop Hong Kong's medical system. The developments so far have been slow and minimal.

Professor David Fang:

Fundamentally, we need to reorganize the financing of healthcare in Hong Kong. If the public side is to flourish, there must be some long-term, sustainable financial model for public healthcare services. Currently, we have a social welfare system that our low taxation certainly cannot sustain. Let's improve the financial organization to better position ourselves as a medical hub.

Dr Patrick Ko:

It is clear that we need an alternative way of financing health care. Also, we need some form of affordable medical insurance programme to provide a better healthcare service to those who will be able to afford it. For that, we look to government leadership and help from the medical insurance sector.

Mrs Alice Chin:

If we want to shift Hong Kong to become a knowledge-based economy and provide high-value jobs, the first thing to do is cost restructure to encourage investment. Merck has just invested US\$400 million in Singapore and we are very interested in coming to Hong Kong to tap into the capabilities and brainpower of Hong Kong before it becomes a commodity.

Dr Gabriel Leung:

My philosophy is that if you build a good enough health service and reorganize the private sector, patients will follow. For the private sector to have the resources to achieve this, it needs to have a larger local market share. We have to better direct subsidies to the poor and the medically indigent, which means that we must scale back on coverage for people who are able to pay.

Mr Thomas Yiu:

To develop a long-term sustainable healthcare financing system is high on our agenda. Actually, we raised it a couple of years ago and also made proposals for discussion with the community.

Mr Michael Mak:

I have great confidence and optimism. I firmly believe in the competency, capability and excellence of the professional healthcare service. We have to keep the engine moving by collaboration. The various stakeholders are private sector providers, public sector providers, insurance agencies and the government. We have to maintain our qualities so as to improve the image of Hong Kong as a regional medical hub.

Concluding Remarks

Professor Peter Yuen, IHPSR

The conference attempted to explore whether or not health care should be an engine for growth in Hong Kong and, if so, what needs to be done? The government, through Mr John Tsang and Mr Thomas Yiu, believe this is worthwhile pursuing. We also heard ideas about the philosophical concepts of profit and care. It is not a straightforward relationship. More profit could lead to better care, but may also lead to worse care. We have heard success stories from Thailand and Singapore. Their main secret is customizing their service, which we don't do very well here in Hong Kong. We also heard about opportunities in China, as well as the problems of running private healthcare in China.

The answer from the panel is very clear; we want healthcare to be an engine of growth for Hong Kong, because we have the capacity and the competitive edge in

terms of education and expertise. In fact, we have excess capacity right now in terms of medical graduates, other healthcare professionals and beds in the private sector.

It is less clear whether the public or the private sector should become the hub, although many people believe that both sectors and the universities have a role to play in collaboration. I think it would be easier for the private sector to start the process. The public sector will be complicated, because we need to address the question of equity; we must ensure that patients currently under the care of public hospitals continue to receive good quality care.

Greater transparency in the private sector is required in terms of pricing. We also need to build trust and develop some kind of branding to help promote our services overseas. Focusing on areas such as cardiology, oncology, breast surgery, psychiatry, traditional Chinese medicine, reverse vasectomy, hernia operations, and healthcare management and education will help to give Hong Kong's medical service a competitive edge. Collaborations with the supporting industries, eg, pharmaceuticals, IT and health insurance should be strengthened.

As in Singapore, the government needs to take the lead, although there have been some reservations about whether this would make the process too slow. We need to set up immigration visas, licensing and tax incentives. We should undertake market research on our potential customers, their needs and the types of services we are best at providing. We also need to change the mindsets of our administrators and healthcare providers to become more customer-focused and service-oriented.

Partnerships with Mainland health providers was another idea, perhaps with Phoenix and the United Family Group, or with our regional colleagues in Singapore and Thailand. Unless we tackle the problem of healthcare financing and make reforms, we are probably not in a good position to start new initiatives. Cost restructuring is vital to make our service competitive.