AGED CARE INVESTMENT IN CHINA
An overview of age care opportunities arising from the China-Australia Free Trade Agreement

DECEMBER 2015
On 17 June 2015, Australia’s Minister for Trade and Investment, Andrew Robb and Chinese Commerce Minister, Mr Gao Hucheng signed the China-Australia Free Trade Agreement (ChAFTA). The agreement, effective this month, is expected to open substantial opportunities for both Australia and China. In a first ever commitment for a free trade agreement on aged care services, wholly Australian-owned hospitals and aged care institutions can be established throughout China.

The ChAFTA presents significant opportunities for China, a country facing impending challenges associated with the support of its rapidly expanding aged population, and also Australia, who’s largely consumer driven aged care sector has application in international markets.

In an effort to facilitate dialogue between Australian and Chinese enterprises, the Australia-China International Aged Care Summit was held on 16-17 November 2015. The Summit saw 600 participants coming from Chinese government, peak bodies and institutions and almost 150 delegates from Australia representing 75 organisations.

In this edition of “In a Nutshell”, Ansell Strategic discusses the current aged care environment today and the opportunities presented as a result of ChAFTA.
DEMOGRAPHICS

Currently, China has a population of 1.38 billion people and comprises of the largest ageing population in the world. There are currently 209 million people aged 60 years and over and 22 million people aged 80 years and over. While the total population of China is expected to stagnate, the proportion of people aged 60 years and above will rise from 15.2% to 36.5% while people aged 80 years and over is expected to increase from 1.9% to 8.9%. The rapid shift in the country’s demographic composition will present itself with a number of challenges in the future.

CHINA AT A GLANCE

POPULATION SNAPSHOT

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population</th>
<th>Population Over 60 Years</th>
<th>Population Over 80 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.38 billion</td>
<td>209 million</td>
<td>22 million</td>
</tr>
<tr>
<td>2030</td>
<td>1.42 billion</td>
<td>358 million</td>
<td>41 million</td>
</tr>
<tr>
<td>2050</td>
<td>1.34 billion</td>
<td>492 million</td>
<td>120 million</td>
</tr>
</tbody>
</table>

Source: Population Estimates, United Nations Department of Economic and Social Affairs

TOP 10 COUNTRIES & AUSTRALIA WITH THE LARGEST POPULATION AGED 80 YEARS AND OVER

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.0</td>
</tr>
<tr>
<td>France</td>
<td>3.7</td>
</tr>
<tr>
<td>Italy</td>
<td>4.9</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>3.6</td>
</tr>
<tr>
<td>Germany</td>
<td>4.6</td>
</tr>
<tr>
<td>Japan</td>
<td>9.8</td>
</tr>
<tr>
<td>India</td>
<td>13.0</td>
</tr>
<tr>
<td>United States</td>
<td>16.6</td>
</tr>
<tr>
<td>China</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Source: Population Estimates, United Nations Department of Economic and Social Affairs

DRIVERS OF AN AGEING POPULATION

Implications of the one child policy (1978 – 2015)

One of the largest drivers of China’s rapidly ageing population has been primarily attributed towards the Government’s recently abolished one child policy. The population control policy has greatly impacted fertility rates, which has remained below the population replacement level of 2.1 births for over two decades.

Improved life expectancy

In China, life expectancy has drastically increased from 44.6 years in 1950-1955 to 76 years in 2015-2020.
Although the demand drivers for aged care services is strong in China, the sector is in its infancy. There are currently 40,000 aged care institutions with approximately 5.7 million beds, representing approximately 27 beds per 1,000 elderly people. By 2020, the Chinese State Council plans to reach a target of 35 to 40 aged care beds per 1,000 elderly people, representing a significant shortfall. The Council expects an aged care workforce to be in excess of 10 million by 2020.

Government run agencies comprise of the largest operators in the market. Access to these services is difficult with entry eligibility based on care, social and financial welfare needs. Prospective residents are required to join long waitlists. Charges are generally based on an accommodation rental model and are relatively low. Most institutions provide services to residents that only require minimal assistance with daily living and who are relatively capable of living independently.

During the Australia-China International Aged Care Summit, Ansell Strategic and other delegates had the opportunity to visit a number of established aged care and retirement living sites. Details can be found [here](#) and our observations are summarised as follows:

**STRENGTHS**

- An emphasis is placed on meals, resident interaction and comfort. Meals reflected traditional home style cooking.
- Developments are usually large scale and capable of generating service efficiencies.
- Room/Units offer a variety of accommodation options offered in a range of preferences and budgets.
- Innovative designs implemented into fixtures to promote resident independence.
- Upcoming developments aim to integrate the wider community (child care day therapy etc.).
- Affordable and efficient building construction capabilities.

**ISSUES**

- Key aspects of many developments appear institutional and austere.
- Building layout and rooms are often not functional for clients with mobility issues and advanced dependency levels.
- Many have inadequate natural lighting in common living areas and recreational facilities.
- Often poor integration between retirement and aged care services.
- Even by Australian standards, user pay services are relatively expensive, often exacerbated by low occupancy.
The Chinese State Council has, in recent years, encouraged more private investment to meet the growing needs of the ageing population. As the sector is still in an infant phase, privately run institutions do not receive any funding from the government, operating in an extremely challenging market. With no fully developed successful service models for aged care, there is a large variance in the type and quality of services offered by privately run organisations.

In 2013, the State Council reported that approximately 2.3 million beds were vacant, representing a significant mismatch between current services supplied and market demand. These combined factors have resulted in many privately run organisations struggling to generate a positive return.

"OUR OBSERVATIONS INDICATE THAT AUSTRALIAN MODELS ARE NOT EASILY TRANSFERABLE TO CHINA. FAMILY VALUES AROUND FILIAL PIETY AND VIEWS ON INSTITUTIONAL CARE WILL GRADUALLY GIVE WAY TO THE REALITIES OF A RAPIDLY AGEING POPULATION."

GOVERNMENT STRATEGY

China’s Five-Year Plan sets out the Chinese government’s overarching strategy and targets for economic and social development over a five year period. For China’s 12th Five-Year Plan (2011-2015) the government outlined the “9073” or “9064” framework to support its ageing population. The strategy aims for approximately 90% of the population aged 60 years and above to age at home and be cared for by their families, 7% or 6% receiving support from community based care, and 3% or 4% requiring residential aged care.

“9073” STRATEGY CONTAINED IN CHINA’S 12TH FIVE-YEAR PLAN

Source: The Twelfth Five-Year Plan for National Economic and Social Development of People’s Republic of China (2011-2015), Central Committee of the Communist Party of China
CHALLENGES

China’s ageing population will present significant economic and social burdens to China. These include:

SOCIAL AND CULTURAL EXPECTATIONS
As with other Asian cultures, there are traditional and social expectations that the children/family will care for elderly Chinese. With a rapidly ageing population, the ability for children to fulfil these expectations will becoming increasingly difficult. Ramifications of the Government’s one-child policy has resulted in the emergence of “4-2-1” family structures (a single child requiring to support their two parents and four grandparents) placing a heavier burden on children to be able to support their parents/grandparents. China’s robust economic growth has also facilitated urbanisation (younger people relocating to larger cities to work), reducing ‘traditional’ family structures (parents living with/being cared for at home with children).

MARKET ACCEPTANCE
Currently, there are still perceived negative connotations associated with moving into an aged care facility in China. Older Chinese citizens were brought up during a tougher time and are generally more frugal and conscious of their money. The option to move into an aged care facility is not appealing to those who have concerns about money and expectations that family will be available to care for them at home.

DEVELOPING MARKET/LACK OF ESTABLISHED SERVICE MODELS
While seniors housing and independent/retirement living concepts and models are commonplace throughout the west, the concept is relatively new to China. As such, China has not yet developed its own unique service models and while China may be able to draw from international experience from countries with more developed aged care markets, it will need to establish a service model that takes into account social and culture elements.

LACK OF SKILLS/KNOWLEDGE QUALIFICATIONS
The supply of experienced and skilled resources that are able to develop and service aged care and retirement village services will be highly sought after in the new Chinese market.

DECLINING ABILITY TO SUPPORT ELDERLY/ HIGHER LEVELS OF DEPENDENCY
Over the next 20 years, the ratio of workers to retirees will drop from 5:1 to 2:1. A shrinking working population combined with a rapidly ageing population will create additional pressure on the Chinese government to support the elderly. The Chinese government understands that it will require private investment into the aged care market to support its population in the long term.

“THERE ARE MANY LESSONS TO BE LEARNT FROM THE CHINESE IN THEIR RESPECT FOR THE AGED AND WE BELIEVE THAT THE SERVICE MODELS FOR BOTH AUSTRALIA AND CHINA WILL EVOLVE TO BALANCE CLINICAL NEED AND CONSUMER VALUES. THIS IS WHERE THE OPPORTUNITY LIES.”
Although China faces a number of challenges ahead with their ageing population, there is enormous potential and opportunities for both Chinese and Australian aged care businesses. The emergence of China’s middle class continues to grow as a result of the country’s robust economic growth, resulting in higher levels of wealth and subsequently higher levels of life expectancy. At the moment policy makers are looking at a range of international aged care models used in America, Japan, Taiwan, Australia and Europe to draw from in developing a sustainable model for China. With an established and previously highly regulated aged care industry, there will be a variety of opportunities for Australian organisations to participate in China’s aged care industry.

Areas we are currently exploring include:

SERVICES AND OPERATION
- Development of new models of care specific to China (e.g. home monitoring & care delivery, traditional Chinese medicine (TCM), integration & smart home design)
- Brief preparation, feasibility planning & design guidelines
- Project financing & financial modelling
- Legislative frameworks, regulatory advice
- Funding models
- Facility commission, operations & management
- Provision of standards/accreditation framework
- Facility standards, assessment & quality assurance
- Recruitment services.

PROVISION OF NEW WORKFORCE SOLUTIONS & TRAINING/EDUCATION

INFRASTRUCTURE AND DESIGN
- Architecture & interior design
- Project management
- Cost management & quantity surveying
- Equipment, technology & fitout.

TIPS

While there are plenty of opportunities for Australian organisations within the aged care market in China, there are also many challenges for early adopters (as some organisations are currently experiencing). In seizing these opportunities, we must accept that it will simply not be enough to directly duplicate our skills and models into China. Below are some recommendations to consider when exploring opportunities:

DO YOUR RESEARCH
Research is vital. China is a large country with subtle nuances and differing social/cultural dynamics, even within each province and city. Undertaking your research will be critical in developing a service model and understanding your target market will contribute towards the overall success of the project.

DEVELOP A UNIQUE SERVICE MODEL
Similar to above, developing a service model that meets the needs of the local community you are operating in is important. While the knowledge and experience gained from Australian service models will be useful, they should not be replicated identically. An open mind to service development will benefit Australian and Chinese models with shared learnings.

ESTABLISHING (THE RIGHT) PARTNERSHIPS ARE IMPORTANT
Finding a local partner with a sound knowledge of the local community and aged care market will ensure that you have an enhanced understanding of the operating environment and help in reducing the risk of operating in a foreign environment. Understanding business practices and conventions will also be essential in finding the right partner. For example, many Chinese enterprises are eager to sign a contractual agreement (e.g. Memorandum of Understanding), which are usually not legally enforceable. Contract law has different connotations and working with State Owned Enterprises involves complexities that require local advice.

CONCENTRATE ON YOUR AREAS OF STRENGTH
Leveraging on your comparative advantage will allow you to maximise efficiencies, (particularly in a partnership) benefits and outcomes.
It is an exciting time for both the Australian and Chinese aged care industries. With continued deregulation, the Australian aged care sector is moving towards a more consumer driven model. Although our aged care and retirement living markets are established, service models are developing and becoming more sophisticated and innovative. The aged care sector in China is changing rapidly and presents significant potential. The development and knowledge of culturally specific service models will be as useful in Australia as it will be China.

While there are a number of opportunities for Australian organisations in China, there will be an equal number of challenges/difficulties to navigate through. A long term commitment and investment in resources will be necessary in order to develop relationships and participate in China's aged care market.

Ansell Strategic works in partnership with Shinewing, China's largest domestic accounting firm with 20 offices across Asia. Our initial projects with ShineWing are focussed on sustainable aged care and retirement village models that draw from contemporary models from Australia, the United States and New Zealand. With growing interest among our Australian and New Zealand client base, we expect to see many exciting opportunities in the years ahead.

For further information on:
- China and the China-Australia Aged Care Summit 2015 please go [here](#).
- Aged Care in China (ABC Late line) please go [here](#).

**CONCLUSION**

It is clear that the listed aged care providers have had a year of significant portfolio growth. The three companies have strategies in place to continue this rapid growth via acquisition, brownfield and greenfield development. Estia has a particularly aggressive growth strategy in place, with the aim of acquiring 500 to 1,000 beds per year through single site acquisitions.

With a number of mergers and acquisitions taking place in recent times, the industry is becoming less fragmented. However, with larger providers still looking to expand and, with less homes becoming available to acquire, the market is getting very heated. In this environment, more providers are turning to greenfield developments to realise their expansion targets. Low interest rates and deregulating funding models are improving development incentives for providers.

We expect the next year to produce a huge spike in developments across the country and this will create competitive pressure on existing homes that do not meet consumer expectations. This will be the subject of our next industry report in November 2015.

This is proving to be a very exciting time to be in aged care!