China Investment Roadmap: the Elderly Care Industry

P.04  Golden Years: An Overview of China’s Elderly Care Industry

P.06  Investing in China’s Elderly Care Services Industry

P.10  Challenges Ahead for Investment in China’s Elderly Care Market
In the coming few years, China's health care sector and its related industries will be one of the largest business sectors of the Chinese economy – possibly even larger in size than property. While property investment has dictated the last 10 years of whopping development in the Chinese economy, health care is set to take the helm in the next ten years, or certainly be one of the top three drivers of China's economy.

Within health care, the elderly care industry is one of the most dynamic areas of investment. There are currently more than 220 million senior citizens in China, and this amount is expected to balloon in the next few decades, reaching 400 million, or one third of China's population, by 2050. With its domestic institutions largely unable to cater to the increasing demand for elderly care services, and with a developing incentive framework in place, opportunities for foreign investment in elderly care abound.

As with most emerging industries in China, however, investing in the country’s elderly care services doesn't come without challenges. Unique cultural considerations, an immature labor pool, and an unclear standard for FDI create a near perfect storm of risks that can easily cripple a foreign business before it gets off the ground. Conducting a thorough due diligence is unquestionably essential prior to market entry.

In this issue of China Briefing magazine, we present a roadmap for investing in China's elderly care industry. We provide the latest market research, detail the procedures and benefits for foreign direct investment, and examine the main barriers and risks that foreign companies are likely to encounter when entering the market.

With kind regards,

Adam Livermore
Table of Contents

P.04
Golden Years: An Overview of China’s Elderly Care Industry

P.06
Investing in China’s Elderly Care Services Industry

P.10
Challenges Ahead for Investment in China’s Elderly Care Market

This Issue’s Topic

China Investment Roadmap: the Elderly Care Industry

Online Resources from China Briefing

- China Investment Roadmap: The Medical Devices Industry
- Hiring Disabled Workers in China: Incentives and Challenges
- China’s Commercial Healthcare Insurance Industry on the Fast-track
- Going Organic: Investing in China’s Growing Health Foods Market

Online Resources on Emerging Asia

- Market Entry Strategy Services
- Singapore’s Social Security Requirements – What a Foreign Employer Should be Aware of
- Choosing an Investment Model for India’s Medical Devices Industry
- Emerging Opportunities in Vietnamese Healthcare

Annual Subscription

China Briefing Magazine is published as 6 Issues and 4 Special Editions per year. To subscribe, please Click Here

This publication is available as an interactive PDF and ePublication with additional clickable resource icons below:

- Strategic Advisory & Commentary
- Professional Services
- Regulatory Framework & Updates
- Legal, Tax, Accounting News
- Cross Region Comparisons
- Industry Studies
- Magazines, Guides, Reports
- Podcast & Webinar

Asia Briefing Ltd.,
Unit 1618, 16/F., Miramar Tower 132 Nathan Road, Tsim Sha Tsui Kowloon, Hong Kong SAR

Credits
Publisher / Chris Devonshire-Ellis
Managing Editor / Samuel Wrest
Editors / Jake Liddle, Alexander Chipman-Koty and Qian Zhou
Design / Jessica Huang & Belén Rodriguez
Design Assistant / King Lu
A myriad of factors have contributed to a rise in need for elderly care services in China. The Middle Kingdom’s gender imbalance, low birth rate and average increase in life expectancy, combined with a series of family planning regulations, have created a rapidly aging population. Data provided by the National Statistics Bureau show that China’s over 60 population – the age at which it-classifies an elderly person – reached 222 million in 2015, accounting for 16.1 percent of the overall population. This rate is now predicted to grow by three percent year on year, resulting in the proportion of elderly citizens exceeding that of those aged 14 and under by 2030, and one in three people in China being aged over 65 by 2050.

These projections have been further exacerbated by China’s now recently abolished one-child policy, which created what is referred to as the “4: 2: 1” problem and heaped pressure on the country’s traditional family-centric model of elderly care. The 4: 2: 1 problem is a common occurrence in China wherein four grandparents and two parents are cared for by a single person, or eight grandparents and four parents are cared for by a couple. Maintaining care only within the family is especially unfeasible for China’s urbanizing citizens, who on average leave 50 percent of their family in the rural areas that they move from.

Largely as a result of this situation, China’s attitude towards elderly care services is changing, with more elderly citizens willing to live in elderly care centers. When considered alongside China’s rising per capita disposable income levels, which have increased on average from RMB 10493 in 2005 to RMB 31195 in 2015, the market for elderly care services has become particularly attractive. Elderly care is expected to surpass real estate as China’s largest industry within 13-15 years, and is estimated to be worth RMB 1.8 trillion by 2020 and RMB 7.6 trillion by 2050.

That said, China’s elderly care industry is still in its infancy and lacks the experience, expertise and infrastructure that exists in other more developed economies. Statistics show that an additional 3.4 million nursing homes will be needed in the next five years to keep pace with growing demand. Government funded elderly care services are unable to provide for this increase, with state institutions currently only able to service two percent of China’s elderly population and 18 percent of its disabled elders. The private sector comprises the majority of premium elderly care facilities in urban China, dominating the majority of recent growth in the industry, but there are only around 42,000 facilities operating in China, and waiting lists are very long. A massive gap therefore exists in China’s urban high end market for elderly care, and it is this gap that foreign investment is best placed to fill.
China’s Elderly Care Industry at a Glance

Percentage of population aged 65 and over by country in 2010

This data, put together by the UN’s Population Division, highlights which countries in the world had the oldest population in 2010. Japan ranks first, with 23 percent of its population aged over 65, but based on current predictions, China’s over 65 population will make up 33 percent of its population by 2015.
A distinct lack of expertise has hampered China’s domestic private care sector’s ability to provide high-quality elderly care services, despite the huge market potential that exists in the country. This has made the industry particularly suitable for foreign investment, resulting in predictions that elderly care services in China will soon be the recipient of large inflows of FDI from international companies and private equity funds.

There are several models that foreign entities can utilize to access China’s elderly care industry, but the most direct method is by setting up a for-profit foreign invested elderly care institution that can provide the kind of services that domestic institutions lack. In this article, we examine how foreign companies should structure their investment for this model.

Market entry
Market entry into China’s elderly care industry is notably simpler for foreign entities than in other medical care sectors, such as child care. The Chinese government classifies foreign investment into the industry as encouraged, allowing companies to set up a wholly foreign owned enterprise.

In addition to its attractive market entry policies, the government has streamlined the set-up procedures of for-profit elderly care institutions. Here, we outline the necessary steps that foreign companies must take.

Primary Regulations Concerning FDI into Chinese Elderly Care

- In September 2013, the State Council released the “Opinions on Accelerating the Development of the Elderly Care Industry and Pension System (Guo Fa [2013] No.35),” which contains the general policy on encouraging foreign investment in the elderly care industry.

- In 2014, the Ministry of Commerce (MOC) and Ministry of Civil Affairs (MCA) jointly issued “Circular on Various Issues on Foreign Investment in For-Profit Senior Care Institution” (MOC and MCA Announcement [2014] No.81, “Circular 81”), which states that foreign investors are encouraged to set up either wholly foreign-owned for-profit elderly care institutions or joint ventures with Chinese partners. Additionally, foreign investors are permitted to make related investments in elderly care in China, which allows them to establish large-scale, chained operations. However, it should be noted that foreign entities are prohibited from offering services paid through residential house discounting.

- The “Catalog of Industries for Guiding Foreign Investment”, released by the Ministry of Commerce in 2015, shows that FDI into elderly care is classified as encouraged. This affords foreign investors the same status as Chinese domestic investors.
Step 1: Obtain foreign investment approval

To set up a for-profit elderly care institution, foreign investors need to obtain FDI approval from the provincial level commerce department, where the following materials are required to be submitted:

- An application form
- Intended business scope
- Articles of association
- List of board members and director appointment letters
- Pre-approval Notification of Company Name from the State Administration for Industry and Commerce (SAIC)
- Information on working experience of the foreign investor, or information on the employment of a management team with elderly care service experience

Within 20 days of the application, the provincial level commerce department will verify the documents and notify the result to the applicant. Upon approval, an Approval Certificate will be issued.

It’s important to note that, if foreign investors want to set up elderly care institutions in one of China’s four Free Trade Zones (FTZs), the abovementioned approval process will be replaced by a simpler filing process. After receiving pre-approval, foreign investors can use an FTZ’s counter acceptance platform to fill in and submit an establishment form, and should do so at least 30 days prior to the intended market entry date. The application should be processed within three working days.

After receiving an application receipt, applicants will then have to submit the following documents to obtain a “Filing Certificate for Foreign Investment Enterprises”:

- Pre-approval Notification of Company Name (photocopy)
- The “Filing Form for Establishment” signed and sealed by the foreign investor or its authorized representative
- Certificate of entity status or identity document (photocopy) of the foreign investor and the actual controlling party

Step 2: Register with the AIC

Within one month of acquiring an Approval Certificate for Foreign-Invested Enterprises, foreign investors are required to complete registration with the relevant industry & commerce authority (AIC). Under the “three-in-one” reforms, which stipulate that established companies in China must apply for a single integrated business license rather than three separate certificates, companies only need to submit one set of documents to the AIC and can then receive their license within approximately three days. For foreign investors wanting to set up elderly care institutions, the following materials need to be submitted to the local AIC in charge:

- An application form
- Power of attorney and an identification document for the designated representative or mutually entrusted agent
- Articles of association
- Certification of shareholder or Identity Card of Individual (photocopy)
- Appointment letter and identification document of the executive director, supervisor and senior management
- Appointment letter and identification document of the legal representative
- A housing lease contract or certificate of property rights
- A pre-approval Notification of Company Name
- Application letter to be qualified as a small/micro enterprise

Step 3: Apply for elderly care institution establishment permit

After completing registration, companies must apply for an Elderly Care Institution Establishment Permit, for which the company must meet the following conditions:

- Have an official name, address, a sound management system and complete articles of association
- Meet the environmental protection requirements and other technical standards stipulated by relevant laws and regulations
- Have professional and technical personnel
- Have over 10 beds
- Have enough capital to sustain operations
Investors are also required to submit the following documents to the local MCA:

- An application form
- Proof of the applicant’s legal authorization
- The company’s official name and articles of association
- A housing lease contract or certificate of property rights
- The names, health certificates and identification documents of all management personnel and professional and technical personnel
- The approval of relevant authorities such as the health and quarantine department and fire department
- Capital verification certificate

The application will be processed within 20 workdays. The Establishment Permit that the foreign company receives will be valid for five years. Importantly, if the elderly care institution changes its registered address or wants to set up branches, a new Establishment Permit must be obtained.

Step 4: Additional procedures for providing healthcare services

In order to include medical care in a foreign company’s business scope in China, additional application procedures are required, including obtaining a Medical Institution Operating License.

According to the latest regulations (Min Fa [2016] No.52), elderly care institutions which plan to set up clinics or nursing stations are required to apply to the local county-level health administrative bureau for establishment approval and operation registration. The process involved is significantly more efficient than the general medical institution application, with the health bureau in charge typically deciding on approval within 10 days of receiving the application.

Preferential tax & other incentives

China’s elderly care institutions can be divided into those that are for-profit and those that are non-profit. While non-profit institutions are eligible for greater tax support, for-profit institutions are also entitled to a range of different incentives. Here, we take a closer look at the main preferential policies.

Value added tax (VAT) exemption

As of May 1, 2016, elderly care services provided by elderly care institutions can be VAT exempt under the following conditions:

- The elderly care institution is established according to MCA Order No.48, meaning that it provides accommodation and life care services;
- Services provided include those specified in MCA Order No.49, such as life care, rehabilitation nursing, and entertainment services.

Reduced administrative fees

According to Cai Shui [2014] No.77, the administrative costs accrued during the establishment of a for-profit elderly care institution can be reduced by 50 percent, including the following fees:

- Land reclamation fee, idle land fee, farmland cultivation fee, and land registration fee collected by the land and resource authorities;
- House registration fee;
- Termite control fee collected by the housing and urban-rural development authorities;
- Fee for the construction of a fortified basement (a requirement in China for large buildings), collected by civil air defense authorities;
- Administrative fees related to elderly care institutions imposed by provincial level authorities.

In addition, the administrative fees imposed on elderly care services can be exempted or reduced to a certain extent, as decided by the provincial level authorities in charge.

Favorable utility prices

Fa Gai Jia ge [2015] No.129 states that the power, water, gas and heating used by all elderly care institutions will be charged according to the residential standard, which is much lower than the industrial or commercial standard. For example, the power price in Shanghai for residents is around RMB 0.6/KWH, while the commercial power price is around RMB 1.2/KWH.

In addition to the national tax incentives and other preferential policies mentioned above, local governments in China may also provide certain incentives for the construction of elderly care institutions. Foreign investors are advised to consult with relevant local professionals before structuring their investment in order to ensure that none of these policies are missed.
## China’s Main Supportive Policies for the Elderly Care Industry (2011-2016)

<table>
<thead>
<tr>
<th>Document No.</th>
<th>Effective Date</th>
<th>Main Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016: Latest supportive policies in elderly care services industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cai Shui [2016] No.36 Appendix III</td>
<td>2016.05.01</td>
<td>Elderly care services provided by elderly care institutions are exempt from value added tax.</td>
</tr>
<tr>
<td>Min Fa [2016] No.52</td>
<td>2016.04.08</td>
<td>Streamlined set-up procedures for medical institutions that provide elderly care services, and for elderly care institutions that provide healthcare services.</td>
</tr>
<tr>
<td>Yin Fa [2016] No.65</td>
<td>2016.03.21</td>
<td>Guidelines on financial support and subsidies in the elderly care industry, including listing and financing.</td>
</tr>
<tr>
<td>2015: Increase in policies that encourage foreign companies to invest in elderly care services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fa Gai Ban She Hui [2015] No.992</td>
<td>2015.04.22</td>
<td>Further encourages foreign companies to invest in China’s elderly care services industry</td>
</tr>
<tr>
<td>Min Fa [2015] No.78</td>
<td>2015.04.14</td>
<td>Guidelines on the financial support framework in place in the elderly care industry</td>
</tr>
<tr>
<td>MOC Order No. 22</td>
<td>2015.04.10</td>
<td>Classifies nursing homes in the encouraged investment category</td>
</tr>
<tr>
<td>Min Fa [2015] No.33</td>
<td>2015.02.03</td>
<td>Detailed measures on encouraging foreign firms to engage in the home-based, community-based, and institution-based elderly care services industry</td>
</tr>
<tr>
<td>Fa Gai Jia Ge [2015] No.129</td>
<td>2015.01.19</td>
<td>General policies on deciding which items and services should be charged in private elderly care institutions</td>
</tr>
<tr>
<td>Cai Shui [2014] No.77</td>
<td>2015.01.01</td>
<td>Policies on exempting and reducing administrative fees on elderly care and medical institutions</td>
</tr>
<tr>
<td>2014: Standardization of land use in the elderly care industry; entry barriers broken for FDI; start of talent cultivation in the industry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MOC, MCA Announcement [2014] No.81</td>
<td>2014.11.24</td>
<td>Policies on encouraging foreign investment in elderly care services</td>
</tr>
<tr>
<td>Fa Gai Tou Zi [2014] No. 2091</td>
<td>2014.09.12</td>
<td>Notice on accelerating the construction of healthcare and elderly care service projects</td>
</tr>
<tr>
<td>Jiao Zhi Cheng [2014] No.5</td>
<td>2014.06.10</td>
<td>Opinions on accelerating talent cultivation for the elderly care service industry</td>
</tr>
<tr>
<td>Min Fa [2014] No.116</td>
<td>2014.05.28</td>
<td>Notice on promoting the construction of urban elderly care facilities (the third time in 2014)</td>
</tr>
<tr>
<td>Jian Biao [2014] No.23</td>
<td>2014.01.28</td>
<td>Notice on improving the planning and construction of elderly care service facilities</td>
</tr>
<tr>
<td>2013: Standardization of the administration of elderly care services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Min Ban Fa [2013] No.23</td>
<td>2013.12.27</td>
<td>Notice on developing comprehensive pilot programs in elderly care services</td>
</tr>
<tr>
<td>Guo Fa [2013] No.35</td>
<td>2013.09.06</td>
<td>Opinions of the State Council on accelerating the development of the elderly care industry, clarifying the development goals and main tasks</td>
</tr>
<tr>
<td>MCA Order No. 48</td>
<td>2013.07.01</td>
<td>Detailed measures on set-up licensing in the elderly care institutions</td>
</tr>
<tr>
<td>MCA Order No. 49</td>
<td>2013.07.01</td>
<td>Detailed administrative measures on elderly care institutions</td>
</tr>
<tr>
<td>2011 – 2012: Preferential policy framework launched for China’s elderly care services industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Min Fa [2012] No.209</td>
<td>2012.11.06</td>
<td>General opinions on supporting social elderly care services by utilizing developmental finance</td>
</tr>
<tr>
<td>Guo Ban Fa [2011] No.60</td>
<td>2011.12.16</td>
<td>The State Council announces its initial preferential policy framework to develop China’s elderly care industry</td>
</tr>
</tbody>
</table>
Challenges Ahead for Investment in China’s Elderly Care Market

By Alberto Vettoretti
Editor: Alexander Chipman-Koty

Success in China’s elderly care industry is far from assured, even though the country’s aging population and increasing wealth would assume near automatic profits. Cultural outlooks, unclear policies and regulations, and high operating costs are significant barriers. As such, investors will need to be equipped with a comprehensive long-term strategy to overcome the industry’s obstacles and cement themselves in the Chinese market.

Filial piety and Confucianism
While it is true that more people in China are willing to look at private care institutions for elderly care, the filial piety of Confucianism still currently acts as a barrier in the market. Traditionally, caring for the aged has not been the government’s responsibility, but the responsibility of the individual family unit. Consequently, there is a stigma attached to sending the elderly to a nursing home for long term care, as children who do so are often seen as unwilling or unable to look after their parents, therefore lacking filial devotion. Contrary to their broad acceptance in Western countries, in China elderly care institutions are customarily seen as charitable organizations that tend to the aged and disabled who do not have any family to provide for them.

Despite Confucian respect for the elderly, Chinese consumers prioritize investing in the young rather than the aged. Since 2009, the baby care industry has grown 55 percent per year, in contrast to just six percent for the seniors’ industry.

Lack of Human Resources
In addition to these cultural perceptions and preferences, elderly care professionals and nurses are generally not considered prestigious jobs in China and are often disparaged. As a result, there are few university and vocational programs supporting the field, and insufficient qualified labor. Of China’s approximately 220,000 caregivers, only nine percent are certified and qualified for their jobs. The majority of caregivers are maids over the age of 40 with little education, particularly when it comes to treating chronic diseases, injuries, and other health problems. This lack of training partly explains why residents at elderly care institutions frequently complain of rude, impatient, and unhelpful caregivers, and leads to much publicized horror stories of maltreatment and elderly abuse.

To tackle these issues, the Chinese government has created a unique discipline in universities and colleges for “elderly care service and management”, with the goal to increase the labor force’s skills and improve the discipline’s image.

Hard implementation of government regulations
While the government offers several incentives to attract foreign investment in elderly care, they can be difficult to qualify for and their benefits unclear. One reason for this is a lack of consistency between different government agencies and administrative bodies. While the Ministry of Commerce (MOC) and the Ministry of Civil Affairs (MCA) are promoting greater foreign investment, other related authorities are less receptive.
For example, in February 2015 the MCA issued “Implementing Opinions Establishing a Framework for Private Investment in Elderly Care” (Min Fa[2015] No.33). However, the State Administration of Taxation did not endorse them, thereby creating confusion on as to how incentives and taxation would be enforced. Similarly, medical services in China are under the jurisdiction of the National Health and Family Planning Commission, which has its own complex regulations. There are also regional variations in application procedures and qualification standards, further complicating matters.

The lack of a clear, comprehensive standard for foreign investment makes investors uneasy, as incentives that appear inviting on the surface may not apply in practice. For example, in addition to an Elderly Care Institution Establishment Permit, an Approval to Establish a Medical Institution and Medical Institution Operation License may also be required, depending on the services offered. In practice, a foreign investor might therefore need to form a joint venture (JV) with a Chinese investor, even though wholly foreign owned entities (WFOEs) are allowed on paper. Certain regions also enforce stronger restrictions and still require JVs with Chinese partners, even when medical services are not offered.

Finding a Chinese partner for an elderly care JV can be a challenge. Recently, many Chinese developers have taken advantage of a loophole, buying property from the government at discounted rates on the condition that they develop senior housing and care facilities. Developers then set up elderly care facilities without any intention of managing them, instead flipping the property or otherwise developing it. Not only has this practice further damaged the industry’s reputation, but it frequently results in disagreements when Chinese investors are not upfront about their intentions with foreign partners.

Selection of correct entry model

While government-run institutions are in high demand and have long waiting lists due to their affordability, most private facilities operate far below capacity. Many have employed a rental model aimed at wealthy seniors over 80 who need consistent care and medical services. Another prevalent model is selling retirement community property to younger seniors who do not require constant medical care but benefit from support services. However, due to high rental and operational costs and the preference to live at home, neither model has experienced consistent success in China.

In the short term, high-end care facilities offer the safest market potential. Although not yet at full capacity, wealthy seniors generally are more willing to pay a premium for high quality living conditions and state of the art care. However, many in this demographic prefer to pay for the comfort of home care rather than a permanent move to a facility, which presents intriguing alternative options for creative investors.

In the long run, the greatest potential for growth is in the massive but underserved middle market. Most customers in this market live in cramped facilities and share rooms with other seniors, making long term occupancy unattractive. Despite its immense potential, however, the middle market remains elusive, with high operational costs, quality of life, and price points major issues.

For success in this industry, investors must recognize China’s long-held elderly care beliefs and complex regulatory framework. Spreading awareness of their brands, services, and the lifestyles they promote may gradually change perceptions, reversing the image of seniors in care having been rejected by their offspring. With the right investment model, investors can capitalize on the massive potential of elderly care in China and become forerunners in an industry waiting to break out.

Dezan Shira & Associates is able to produce reports that contain a Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis of China’s elderly care industry. For more information, please contact us at market.intelligence@dezshira.com.
Our Client Services

Pre-Investment, Market Entry Strategy Advisory
Corporate Establishment, Licensing and Compliance
International Tax Planning
Payroll and Human Resource Administration
Internal Control Advisory and Solutions

Asia Business Model Comparisons
Accounting and Financial Reporting
Transfer Pricing
Legal, Financial, IT and HR Due Diligence
Information Technology-based Solutions

Business Strategy & Operations Advisory
Tax Advisory and Compliance
Cash, Treasury and Payment Administration
Audit and Financial Review
ERP Advisory and Solutions

Our Offices in China

Beijing
beijing@dezshira.com

Dalian
dalian@dezshira.com

Dongguan
donnguan@dezshira.com

Guangzhou
guangzhou@dezshira.com

Hangzhou
hangzhou@dezshira.com

Ningbo
ningbo@dezshira.com

Qingdao
qingdao@dezshira.com

Shanghai
shanghai@dezshira.com

Shenzhen
shenzhen@dezshira.com

Suzhou
suzhou@dezshira.com

Tianjin
tianjin@dezshira.com

Zhongshan
zhongshan@dezshira.com